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Public Joint Stock Company Best Efforts Bank

# IFRS Financial Statements and Independent Auditor's Report

for the period ended 31 December 2018

**Moscow | 2019**

# Public Joint Stock Company Best Efforts Bank

## Financial Statements

## Prepared in Accordance with IFRS

## for the Year Ended 31 December 2018

## and Independent Auditor's Report

Moscow, 2019

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# Independent Auditor's Report [Translation from Russian original]

To the Shareholders

of Public Joint Stock Company Best Efforts Bank

and other parties

## Auditor's Report Based on the Audit of the Financial Statements

### Opinion

We have audited the accompanying annual financial statements of Public Joint Stock Company Best Efforts Bank (hereinafter – PJSC Best Efforts Bank), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, cash flow statement and statement of changes in equity for the year then ended, and notes to the financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of PJSC Best Efforts Bank as at 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Financial Statements* section of our report. We are independent of the audited entity in accordance with the Rules of Independence of the Auditors and Audit Organizations and The Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter

We draw attention to Note 1 of the financial statements, in which the Bank discloses the fact that it joined FATCA (Foreign Account Tax Compliance Act) as a Participating Foreign Financial Institution and arranges its operation as a qualified intermediary (QI).

Our opinion is not modified in respect of this matter.

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## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Measurement of financial assets held for income generation or for sale – Notes 18, 28 of the financial statements

We believe that it is a key audit matter due to the significant amounts of investments in financial instruments being securities of various issuers and due to the application of subjective judgements by the management to develop models for the measurement of the fair value of financial instruments. The current financial markets are affected by various external and internal factors and are volatile, that is why measurement of financial instruments may have a significant effect on the Bank's financial performance and financial position.

In 2018, the Bank carried out transactions with securities and other financial assets classified as at 1 January 2019 as financial assets held for income generation or for sale. The Bank's investments in securities are mainly represented by financial instruments traded in active markets (Level 1).

To measure the fair value of financial instruments, the Bank uses observable and unobservable inputs of various levels. Measurement of the fair value is disclosed in Note 28 of the financial statements.

In respect of this key audit matter our audit procedures included:

- Review of the Bank's internal regulations on measurement methods for their compliance with IFRS and the regulations of the Bank of Russia, as well as sources of material assumptions used to measure the fair value of financial instruments;
- Analysis of internal control and control environment in terms of the market risk management policy, including risk limitation, differentiation of powers when accepting the market risk, the market risk monitoring by the Bank's management bodies;
- Detailed testing (on a sample basis) of significant financial instruments to check methods used to measure the current fair value;
- Assessing sufficiency of disclosures made by the Bank in the notes to the annual financial statements about the fair value of financial instruments.

Based on the results of the procedures applied, we found the position of the management related to measurement of the fair value of financial instruments to be appropriate.

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## Other Information

Management is responsible for the other information. The other information comprises the information included in the quarterly issuer's report of PJSC Best Efforts Bank for the fourth quarter of 2018 and the quarterly issuer's report of PJSC Best Efforts Bank for the first quarter of 2019, as well as in the Annual Report for 2018, but does not include the annual financial statements and our auditor's report thereon. The quarterly issuer's report of PJSC Best Efforts Bank for the first quarter of 2019 and the Annual Report for 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the annual financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We have nothing to report in regard to the quarterly issuer's report of PJSC Best Efforts Bank for the fourth quarter of 2018. When we read the Annual Report for 2018 and the quarterly issuer's report of PJSC Best Efforts Bank for the first quarter of 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Other Matter

The annual financial statements of PJSC Best Efforts Bank for 2017 were audited by ACG RBS JSC. Following the audit of the financial statements ACG RBS JSC expressed an unmodified opinion on the financial statements of PJSC Best Efforts Bank for 2017. The auditor's report is dated 26 April 2018.

## Responsibilities of Management and Members of the Board of Directors for the Annual Financial Statements

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance IFRSs, and for such internal control as management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Members of the Board of Directors of the Bank are responsible for overseeing the financial reporting process.

## Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,

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they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the audited entity's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the audited entity;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the audited entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the audited entity to cease its ability to continue as a going concern;

e) evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors of the audited entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors of the audited entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors of the audited entity we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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# Report on audit according to the requirements of Federal Law No. 395-I dated 2 December 1990 "On banks and banking activities"

Management of the Bank is responsible for compliance by the Bank with the mandatory requirements set by the Bank of Russia as well as for internal control and organisation of risk management systems of the Bank to meet the requirements set by the Bank of Russia to the systems like this.

According to Article 42 of Federal Law No. 395-I dated 2 December 1990 "On banks and banking activities" during the audit of the annual financial statements of the Bank for 2018 we verified whether:

- the Bank was in compliance with the mandatory requirements set by the Bank of Russia as at 1 January 2018;
- internal control and organisation of risk management systems of the Bank were in compliance with the requirements set by the Bank of Russia to the systems like this.

The said audit was limited to such procedures selected based on our judgement as requests, analysis, document examination, comparison of requirements, order and methodologies approved by the Bank with the ones set by the Bank of Russia as well as restatement and comparison of amounts and other information.

The audit has established the following:

1) as for meeting by the Bank of the mandatory requirements set by the Bank of Russia:

- values of the Bank's mandatory ratios set by the Bank of Russia as of 1 January 2019 were within the limits set by the Bank of Russia.

We did not conduct any procedures as to accounting records of the Bank other than procedures we believed were necessary for the purpose of expressing our opinion on whether the annual financial statements of the Bank presented fairly, in all material respects, its financial position as of 1 January 2019, financial performance and cash flows for 2018 in accordance with International Financial Reporting Standards;

2) as for compliance of internal control and organization of risk management systems of the Bank with the requirements set by the Bank of Russia to the systems like this:

a) in accordance with the requirements and recommendations of the Bank of Russia as at 1 January 2019 the internal audit service of the Bank reported to the Bank's Board of Directors, the risk management departments of the Bank did not report to the departments assuming the respective risks, the chiefs of the internal audit service of the Bank and the risk management departments of the Bank met the qualifications set by the Bank of Russia;

b) as at 1 January 2019 the effective internal documents of the Bank indicating the methodologies for identification and management of credit, operational, market, interest rate, legal, liquidity and goodwill risks relevant for the Bank, methodologies for stress-testing were approved by the authorised bodies of the Bank in accordance with the requirements and recommendations of the Bank of Russia;

c) as at 1 January 2019 the Bank had the reporting system for credit, operational, market, interest rate, legal, liquidity and goodwill risks relevant for the Bank as well as for the equity of the Bank;

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d) frequency and order of reports prepared by the risk management departments and the internal audit service of the Bank during 2018 as to management of credit, operational, market, interest rate, legal, liquidity and goodwill risks of the Bank were in compliance with the Bank's internal documents; the said reports comprised the results of observation of efficiency measurement of the Bank's respective methodologies conducted by the Bank's risk management departments and the internal audit service as well as recommendations to improve them;

e) as at 1 January 2019 the powers of the Board of Directors of the Bank and its executive bodies comprised control over the Bank's compliance with risk limits and capital adequacy set by the Bank's internal documents. For the purpose of control over efficiency of risk management procedures applied in the Bank and order of their application during 2018 the Board of Directors of the Bank and its executive bodies discussed on a regular basis reports prepared by the risk management departments of the Bank and the internal audit service of the Bank, and dealt with the offered measures to remove defects.

The procedures in respect of internal control and organization of risk management systems of the Bank have been conducted only to verify whether internal control and organization of risk management systems of the Bank are in compliance with the requirements set by the Bank of Russia to the systems like this.

President of FBK, LLC

S.M. Shapiguzov
Acting by virtue of the Articles of Organisation,
~~Auditor Qualification Certificate~~
01-001230, ORNZ 21606043397

Engagement partner

N.P. Mushkarina
(Auditor Qualification Certificate
01-000988 dated 19 November 2012, ORNZ
21606041880)

Date of Independent Auditor's Report:
14 March 2019

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TRANSLATION NOTE: Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

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## Audited entity

**Name:**

Public Joint Stock Company Best Efforts Bank (PJSC Best Efforts Bank)

**Place of business:**

38/1 Dolgorukovskaya str., Moscow, 127006, Russian Federation.

**Official registration:**

Registered by the Central Bank of the Russian Federation on 3 October 1990, registration number 435.

The registration entry was made in the Unified State Register of Legal Entities on 21 January 2003 under primary state registration number (OGRN) 1037700041323.

## Auditor

**Name:**

FBK, LLC

**Place of business:**

44/1, 2AB, Myasnitskaya St, Moscow, 101990, Russian Federation.

**Official registration:**

State registration certificate series YZ 3 No. 484.583 RP, issued by Moscow Registration Chamber on 15 November 1993. The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number (OGRN) 1027700058286.

**Membership in self-regulatory organisation of auditors:**

Self-regulatory organization of auditors Association "Sodruzhestvo".

**Number in the register of self-regulatory organization of auditors:**

Certificate of membership in the self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, number in the register – 11506030481.

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## Statement of Profit or Loss and Other Comprehensive Income

| | Note | For 2018 | For 2017 |
|---|---|---|---|
| Interest income | 5 | 258 395 | 245 317 |
| Interest expense | 5 | (114 002) | (82 191) |
| **Net interest income** | | **144 393** | **163 126** |
| Change in provision for expected credit losses on interest bearing assets | 6 | 38 109 | - |
| **Net interest income / (expense) after change in provision for expected credit losses** | | **182 502** | **163 126** |
| **Operating income** | | **27 996** | **72 248** |
| Income less expenses from transactions with financial assets / liabilities | 7 | (9 419) | (21 227) |
| Income less expenses from transactions with foreign currencies and derivative financial instruments | | 7 979 | 9 423 |
| Income less expense from foreign currency revaluation | | 29 436 | 84 053 |
| **Fee and commission income** | 8 | **249 791** | **172 881** |
| **Fee and commission expense** | 8 | **(116 119)** | **(104 610)** |
| **Change in other provisions and change in estimated liabilities** | 6 | **4 114** | **(19 613)** |
| **Other operating income** | | **1 097** | **2 327** |
| **Operating expenses** | 9 | **(242 923)** | **(191 398)** |
| **Profit before tax** | | **106 458** | **94 962** |
| **Current income tax (expense)** | 10 | **(30 844)** | **(19 006)** |
| Changes in deferred taxes due to occurrence and writing off of temporary differences | | (17 926) | 3 766 |
| NET PROFIT / (LOSS) | | 75 614 | 75 956 |
| Other comprehensive income | | (14 373) | (2 660) |
| Change in fair value of financial assets held for income generation or for sale | | (15 287) | (2 660) |
| Change in value of property, plant and equipment at revaluation | | 914 | - |
| **Total other comprehensive income components less tax** | | **(14 373)** | **(2 660)** |
| COMPREHENSIVE INCOME | | 61 241 | 73 296 |

Signed on 14 March 2019

Chairman of the Management Board — I. B. Ionova

Chief Accountant — N. G. Popova

(thousand Russian rubles)

**Statement of Financial Position**

| | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| *ASSETS* | | | |
| Cash and cash equivalents | 13 | 340 674 | 1 467 286 |
| Mandatory cash balances with the Central Bank of Russia | | 22 239 | 38 896 |
| Financial assets at fair value through profit or loss | 14 | 58 743 | 47 819 |
| Due from financial institutions | 15 | 403 299 | 360 255 |
| Accounts receivable under repo agreements | | 1 901 925 | 3 333 491 |
| Positive fair value of derivative financial instruments | 26 | 3 549 | 6 273 |
| Loans and advances to customers | 16 | 13 189 | 19 203 |
| Financial assets held for income generation or for sale | 17 | 1 585 332 | 1 585 213 |
| - owned by the Bank | | 1 171 791 | 1 235 555 |
| - pledged under repo agreements | | 413 541 | 349 658 |
| Current income tax receivable | | 4 385 | 4 405 |
| Deferred tax asset | 10 | 2 656 | 17 986 |
| Property, plant and equipment | | 86 332 | 113 849 |
| Intangible assets | | 11 177 | 10 891 |
| Other assets | 18 | 14 903 | 6 220 |
| **Total assets** | | **4 448 403** | **7 011 787** |
| *LIABILITIES* | | | |
| Negative fair value of derivative financial instruments | 26 | 2 542 | 1 120 |
| Due to banks and other financial institutions | 19 | 11 242 | 1 133 |
| Obligations to supply securities | | - | 718 993 |
| Accounts payable under repo agreements | | 470 084 | 1 517 104 |
| Customer accounts | 20 | 2 697 296 | 3 398 848 |
| Deferred tax liability | 10 | - | - |
| Other liabilities and provisions | 21 | 146 325 | 33 452 |
| **Total liabilities** | | **3 327 489** | **5 670 650** |
| *EQUITY* | | | |
| Share capital / Paid-in capital | 22 | 702 762 | 702 762 |
| Share premium | 22 | 685 811 | 685 811 |
| Revaluation reserve of financial assets held for income generation or for sale at fair value through other comprehensive income | | (17 735) | (2 448) |
| Revaluation reserve of property, plant and equipment | | 914 | - |
| Retained earnings / (Accumulated deficit) | | (250 838) | (44 988) |
| **Total equity** | | **1 120 914** | **1 341 137** |
| **Total liabilities and equity** | | **4 448 403** | **7 011 787** |

Signed on 14 March 2019

| | | |
|---|---|---|
| Chairman of the Management Board | | I. B. Ionova |
| Chief Accountant | | N. G. Popova |

ПАО «Бест Эффортс Банк»

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(thousand Russian rubles)

**Statement of Changes in Equity**
**for the year ended 31 December 2018**

| | Note | Share capital / Paid-in capital | Treasury shares | Share premium | Revaluation reserve of financial assets held for income generation or for sale at fair value through other comprehensive income | Revaluation reserve of property, plant and equipment | Retained earnings / (Accumulated deficit) | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | | **702 762** | **-** | **685 811** | **212** | **-** | **(120 944)** | **1 267 841** |
| Comprehensive income for the year ended 31 December 2017 after tax | | - | - | - | (2 660) | - | 75 956 | 73 296 |
| **Balance at 31 December 2017** | | **702 762** | **-** | **685 811** | **(2 448)** | **-** | **(44 988)** | **1 341 137** |
| Effect of entering IFRS 9 into force | | - | - | - | - | - | (1 127) | (1 127) |
| **Restated balance at 1 January 2018** | | **702 762** | **-** | **685 811** | **(2 448)** | **-** | **(46 115)** | **1 340 010** |
| Comprehensive income for the year ended 31 December 2018 after tax | | - | - | - | (15 287) | 914 | 75 614 | 61 241 |
| Dividend payment | | | | | | | (280 337) | (280 337) |
| **Balance as at 31 December 2018** | | **702 762** | **-** | **685 811** | **(17 735)** | **914** | **(250 838)** | **1 120 914** |

Signed on 14 March 2019

Chairman of the Management Board I. B. Ionova

Chief Accountant N. G. Popova

ОГРН 1037700041323 * ИНН 7831000034 * Публичное акционерное общество «Бест Эффортс Банк» * МОСКВА * ПАО «Бест Эффортс Банк»

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## Cash Flow Statement

| | Note | For 2018 | For 2017 |
|---|---|---|---|
| *Cash flows from operating activities* | | | |
| Interest received | | 258 133 | 240 404 |
| Interest paid | | (115 050) | (65 198) |
| Fees and commissions received | | 249 168 | 172 881 |
| Fees and commissions paid | | (116 159) | (104 566) |
| Income / (expenses) from transactions with financial assets at fair value through profit or loss held for income generation or for sale | | (9 419) | (26 827) |
| Income / (expense) from foreign currency transactions | | 7 979 | (6 308) |
| Other operating income | | 1 097 | |
| Operating expense paid | | (243 007) | (168 265) |
| Income tax (expense) / recovery | | (29 919) | (42 416) |
| **Cash flow from / (used in) operating activity before changes in operating assets and liabilities** | | **2 824** | **(295)** |
| Net (increase) / decrease in mandatory cash balances with the Bank of Russia | | 16 658 | (10 260) |
| Net (increase) / decrease of financial assets at fair value through profit or loss | | (10 554) | (587 805) |
| Net (increase) / decrease in due from financial institutions | | 33 873 | (192 676) |
| Net (increase) / decrease in accounts receivable under repo agreements | | 1 500 634 | (1 872 097) |
| Net (increase) / decrease in positive fair value of derivative financial instruments | | 2 724 | 11 267 |
| Net (increase) / decrease in loans and advances to customers | | 6 321 | 41 868 |
| Net (increase) / decrease in other assets | | 22 930 | 18 003 |
| Net increase / (decrease) in negative fair value of derivative financial instruments | | 1 422 | (5 169) |
| Net increase / (decrease) in due to banks and other financial institutions | | 10 109 | 497 |
| Net increase / (decrease) in obligations to supply securities | | (718 993) | 718 993 |
| Net increase / (decrease) in accounts payable under repo agreements | | (1 096 090) | 887 130 |
| Net increase / (decrease) in customer accounts | | (854 627) | 636 722 |
| Net increase / (decrease) in other liabilities | | 108 305 | 722 |
| **Net cash flow from / (used in) operating activity** | | **(974 465)** | **(353 100)** |
| *Cash flow from investing activities* | | | |
| Acquisition of financial assets held for income generation or for sale | | 12 970 167 | (16 767 420) |
| Revenues from sales of financial assets held for income generation or for sale | | (12 976 134) | 16 772 053 |
| Acquisition of financial assets held for income generation | | (726) | - |
| Purchases of property, plant and equipment and intangible assets | | 32 258 | (55 572) |
| Gain from realisation of property, plant and equipment | | - | - |
| **Net cash flow from / (used in) investing activities** | | **25 565** | **(50 939)** |



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| | | |
|---|---|---|
| *Cash flows from financial activities* | | |
| Dividends paid | (279 581) | - |
| **Net cash flow from / (used in) financial activity** | **(279 581)** | **-** |
| Effect of changes in exchange rate on cash and cash equivalents | 101 868 | 25 454 |
| **Net increase in cash and cash equivalents** | **(1 126 612)** | **(378 585)** |
| Cash and cash equivalents at the beginning of the reporting period | 1 467 286 | 1 845 871 |
| **Cash and cash equivalents at the end of the reporting period** | **340 674** | **1 467 286** |

Signed on 14 March 2019

Chairman of the Management Board — I. B. Ionova

Chief Accountant — N. G. Popova

ОГРН 1037700041323 * ИНН 7831000034
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ПАО «Бест Эффортс Банк»
МОСКВА

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## Notes to the Financial Statements

### 1 Principal Activities

The Bank has been carrying out its activities since 1990 under the current legislation and the licenses issued:
- License of the Central Bank of the Russian Federation for banking transactions with individuals and legal entities No. 435 without limitation of the validity period;
- Professional securities trader license for dealership No. 077-13818-010000 without limitation of the validity period;
- Professional securities trader license for brokerage No. 077-13817-100000 without limitation of the validity period;
- Professional securities trader license for custody business No. 0077-13860-000100 without limitation of the validity period.

The Bank participates in the Russian deposit insurance program since 26 August 2005.

The Bank is a member of the Association of Financial Market Participants Non-Commercial Partnership of RTS' Financial Market Development, The National Association of Stock Market Participants, The Association of Banks of Russia, and Non-Commercial Organization Russian National SWIFT Association.

RAEX (Expert RA) rating agency upgraded the credit rating of the Bank to the level ruA-. The rating has a stable outlook, which means a high probability of maintaining the rating in the medium term.

The Bank was registered on the website of the US Internal Revenue Service (IRS) in the status of a "Participating Foreign Financial Institution" and was assigned the Global Intermediary Identification Number (GIIN): B57WNA.99999.SL.643.

The US Internal Revenue Service (IRS) has assigned to PJSC Best Efforts Bank the identification number of a qualified intermediary (QI-EIN) 98-0242949. (The IRS is a government agency of the US federal government that collects taxes and monitors compliance with tax legislation).

As at 31 December 2018, the Bank does not have any branches or subsidiaries.

The Bank has one structural unit:
- additional Central office: 38/1 Dolgorukovskaya str., Moscow 127006.

Principal banking transactions of the Bank are as follows:
- Brokerage and custody services;
- Cash management and payment services for legal entities and individuals in Russian ruble and foreign currencies;
- Outsourcing of internal accounting of professional participants of securities market;
- Repo transactions;
- Securities transactions;
- Foreign exchange transactions both by customer orders and for account of the Bank;
- Lending of legal entities and individuals;
- Attraction of deposits of corporate clients and individual depositors.

The Bank is a trader of PJSC Moscow Exchange and PJSC Saint-Petersburg Exchange and provides services to access the international platforms (CME Group, EBS money market, the US and European stock markets).

The key line of the Bank's activities is providing a wide range of brokerage and custody services to professional financial market participants and custody services to customers of professional securities traders not having a license for custody services. The Bank is an intermediary to provide an access to the key exchange trading marketplaces, offering viable solutions in asset reservation and risk assessment.
The Bank consistently accomplishes the adopted development strategy objectives, focusing on maintaining and expanding the achieved volume of cooperation with professional financial market participants, including those of the foreign market.
Considering further service development and improvement options, the Bank develops new tools and technologies on an ongoing basis, offering its customers a complete suite of innovative services and advanced information solutions, products, and know how, which make it possible to achieve the ultimate economic efficiency. The Bank plans to enable a breakthrough level of customer service and to build a modern commercially viable Bank having a strong diversified client base and a ground-breaking process toolkit sufficient to ensure fundamental strength against stressful situations in the economy and providing the required basis for further development.
By providing customers with an access to exchange platforms, in 2018, the Bank secured its high positions in the rating of PJSC Moscow Exchange and PJSC Saint-Petersburg Exchange.
At PJSC Saint-Petersburg Exchange:
- The Bank was one of the largest participants (the 1st position) on the Equities Market in the Foreign Securities and Eurobonds Group of Instruments (in US dollars);
- The Bank was one of the largest participants (the 1st position) on the Equities Market in the Russian Securities Group of Instruments (in Russian rubles).

At PJSC Moscow Exchange:
- The Bank was one of the largest participants on the Equities: Main Trading Mode T+ Market in the Equities and Funds: Main Trading Mode T+ with a turnover of 5.8 billion Russian rubles (the 24th position);
- The Bank was one of the 20 largest participants on the Repo with Central Counterparty Market in the Leading Repo Market Operators of Equities and Funds: Repo with Central Counterparty with a turnover of 5.92 billion Russian rubles (the 15th position).

The Bank timely re-registered the agreement under FATCA and obtained the primary and regular certification of the Bank's activities under FATCA. The Bank adopted the Regulations on Compliance by PJSC Best Efforts Bank with the US Foreign Account Tax Compliance Act (FATCA) approved by Order of the Chairman of the Bank's Management Board No. 01-04-05/03 dated 5 April 2017.

The document contains information on the necessary terms and definitions of the US Foreign Accounts Tax Compliance Act (FATCA) and Federal Law No. 173-FZ dated 28 June 2014 On the Specifics of Financial Transactions with Foreign Citizens and Legal Entities. The procedures for identifying customers and identification for the purposes of FATCA are described, the procedures for interaction between departments, annual reporting procedures are defined. In compliance with the FATCA, information on the status of clients under FATCA is filled in by the Bank, the availability of GIIN numbers for clients is reflected. During the year, the Bank's client base is monitored for the purpose of not increasing the number of customers with a negative FATCA status among clients-professional participants of the securities market conducting operations in foreign markets. Employees of the Bank, responsible for working with clients, are familiar with the current editions of the W-8BEN, W-8BEN-E, W-8IMY tax forms and the specifics of their filing. For the convenience of customers, the W-8BEN, W-8BEN-E, W-81MY tax forms are posted on the Bank's website. The Bank also developed and operates Criteria for Assigning Clients of PJSC Best Efforts Bank to the Category of Foreign Taxpayers and Ways to Obtain the Necessary Information from them approved by Order of the Chairman of the Bank's Management Board No. 01-09-01/05 dated 1 September 2017. The Bank approved forms of the Questionnaire for referring clients to the category of foreign taxpayers. For the convenience of customers, the text of the Questionnaire is translated into English. These documents as well as current versions of the W-8BEN, W-8BEN-E, W-8IMY tax forms are posted on the official website of the Bank in the Internet: http://besteffortsbank.ru. The Bank has the status of a Qualified Intermediary (QI). The Internal Revenue Service (IRS) assigned the identification number of a qualified intermediary (QI-EIN) 98-0242949 to the Bank. The Bank underwent a planned update of the QI contract. The Bank approved the Procedure for Depository Accounting and Provision of Information for the Purpose of Fulfilling the Requirements of the US Tax Code by the Depositors of PJSC Best Efforts Bank when Receiving Income from Securities of US Issuers approved by Order of the Chairman of the Bank's Management Board No. 01-04-28/02 dated 28 April 2018 and application forms for clients. This procedure contains information on the work of the Bank as a qualified intermediary (QI) with the possibility to maintain combined depositary accounting, depending on the place of storage of securities and the rules for providing information about the Bank's clients. The Bank is working to inform clients about its actions to obtain possible tax benefits and the need to provide properly issued documents, including tax forms.
In 2018, the Bank's employees were trained at KPMG on FATCA/CRS. A number of seminars and webinars for customers were held jointly with specialized depositary INFINITUM involving the Bank's representatives and the presentation materials on FATCA/CRS were prepared.

In accordance with the requirements of Federal Law No. 340-FZ dated 27 November 2017 On Amendments to Part One of the Tax Code of the Russian Federation in Connection with Implementation of International Automatic Information and Documents Exchange on International Groups of Companies and due to the entry into force of Decree of the Government No. 693 dated 16 June 2018 On Implementation of International Automatic Information and Documents Exchange with Competent Authorities of Foreign States (Territories), the Bank developed and adopted the Regulations on Implementation by PJSC Best Efforts Bank of Actions to Determine Tax Residence of Customers, Beneficiaries, and/or Persons Directly or Indirectly Controlling Them and to Provide Information to a Federal Executive Authority for Monitoring of and Supervision over Taxes and Levies approved by Order of the Chairman of the Bank's Management Board No. 01-07-12/01 dated 12 July 2018. The Bank approved and put into effect the customer's tax residency confirmation forms; such forms are posted on the Bank's website http://besteffortsbank.ru in FATCA/CRS section.

## 2 Economic Environment in which the Bank Operates

The Bank's operations are primarily located in the Russian Federation.

The Russian economy displays certain characteristics of an emerging market. The national economy is particularly sensitive to the prices for oil and gas. The legal, tax, and regulatory systems keep on developing, are exposed to frequent changes, and allow for different interpretations. Low prices for oil, persistent political tension in the region as well as ongoing international sanctions concerning some Russian companies and citizens had negative influence on the Russian economy in 2017–2018. These factors contributed to economic downturn in the country characterized by the fall of the gross domestic product. Financial markets are still characterized by instability, frequent and significant changes in prices and increase in trading spread. Such economic environment exercises significant influence over activity and financial state of the Bank. Management takes all measures necessary to ensure sustainable activity of the Bank. However, future effects of present economic situation are hard to predict and current expectations and estimates of management may vary from actual results.

Management determined the level of provisions for loan impairment using the "expected credit loss (ECL) model" in accordance with the requirements of the applicable accounting standards. Since 1 January 2018, the Bank recognizes the provision for expected credit losses on all loans and other debt financial assets that are not measured at fair value through profit or loss as well as on loan commitments and financial guarantee agreements (hereinafter jointly referred to in this section as the "financial instruments"). However, the ECL model is of estimating nature only as it considers the data available at the time of preparation of these statements, thus, the actual losses from impairment of financial assets may differ significantly from the current provisions.

## 3 Basis of Presentation

The Bank's financial statements are drawn up in compliance with the International Financial Reporting Standards (IFRS), including all previously approved IFRS and Interpretations of the Standing Interpretations Committee and International Financial Reporting Standards Interpretations Committee. The Bank keeps books and draws up financial statements in accordance with the legislation applied in the countries of its registration. These financial statements are prepared on the basis of the financial statements subject to adjustments and reclassification of the items necessary to bring them in compliance with IFRS. The accounting principles used in preparation of these financial statements are set out below. These principles were consistently applied to all periods presented in the statements, unless otherwise stated.

The Bank's functional currency is Russian ruble, national currency of the Russian Federation ("RUB"). Unless otherwise indicated, all figures in the financial statements are presented in thousands of Russian rubles.
As at 31 December 2018, the official exchange rate used for revaluation of balances on accounts in foreign currency was RUB 62.7565 per USD 1 (31 December 2017: RUB 57.6002 per USD 1) and RUB 72.9921 per EUR 1 (31 December 2017: RUB 68.8668 per EUR 1) and RUB 88.2832 per GBP 1 (31 December 2017: RUB 77.6739 per GBP 1).

## 4 Significant Accounting Policies

The accounting policies and accounting methods used in preparation of these financial statements are consistent with the accounting policies and methods used in the Bank's annual financial statements for the year ended 31 December 2017, except for some new standards, interpretations, and amendments to the existing standards listed in the Bank's financial statements, which became binding since 1 January 2018. In addition to IFRS 9 "Financial Instruments", the effect of adoption of which is disclosed below in these financial statements, other standards had no material effect on these financial statements of the Bank. As it is authorised by the transition provision of IFRS 9, the Bank does not restate the results of the comparable period. The relevant information on the comparable period is shown in accordance with the previous accounting policies as noted in the Bank's financial statements for 2017. At the beginning, the retained earnings and other capital components in the current period were recognised as adjustments for the carrying amount of financial assets and liabilities as at 1 January 2018.

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*4.1 Key Measurement Conditions*

When recognising financial instruments, the Bank applies the following valuation techniques:

- At fair value
- At amortized cost

**Fair value** is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

The fair value is measured based on the assumption that a transaction to sell an asset or to transfer a liability takes place either on the main market of the asset or the liability or, if there is no main market, on the market most profitable for the asset or the liability. The fair value is the current price of an offer for financial assets, the current price of demand for financial liabilities, and the average current prices of demand and offer, when the Group holds both short and long positions in a financial instrument. A financial instrument is considered as quoted in an active market if the quoted prices are regularly and at any time available according to the data of a stock exchange or any other institution, and these prices present actual and regular market transactions on a continuous basis. The valuation techniques are used to measure the fair value of certain financial instruments, for which the information on prices on the external market is unavailable.

Such valuation techniques include discounted cash flow models, generally accepted option pricing models, models based on recent transactions between independent market participants, or analysis of investee's financial performance. Valuation techniques may require assumptions that are not supported with the observable market data.

Additional information on fair value and fair value estimates is shown in these financial statements.

Amortised cost is the amount at which the financial instrument was measured at initial recognition, less any principal repayments, plus interest accrued and, for financial assets, adjusted for the estimated provision for expected credit losses. The interest accrued includes depreciation of transaction costs deferred at initial recognition and any premiums or discounts on the repayment amount using the effective interest method. Accrued interest income and accrued interest expense, including both accumulated coupon and amortised discount and premium, including payments deferred as they arise, if any, are not recorded separately and are included in the carrying amount of the relevant asset or liability in the consolidated statement of financial position.

Gross carrying amount of a financial asset is an amortised cost of the financial asset prior to deduction of the estimated provision for expected credit losses.

Transaction costs are additional costs directly related to acquisition, issuance, or disposal of a financial instrument. Additional costs are costs that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as sales agents), advisors, brokers and dealers, charges of regulatory authorities and stock exchanges as well as taxes and levies paid at transfer of property. Transaction costs do not include premiums or discounts on debt liabilities, finance costs, or internal administrative expenses.

The effective interest method is a method to allocate interest income or interest expense for the relevant period so as to ensure a constant periodical interest rate (effective interest rate) for the current value of an instrument. The effective interest rate is an accurate discount rate for estimated future cash payments or proceeds (except for future credit losses) within the expected lifetime of a financial instrument up to the amortised cost of the financial liability.

When calculating the effective interest rate on financial instruments other than impaired financial assets, the Bank shall measure future cash flows taking into account all contractual terms of the financial instrument without considering the expected credit losses. For the assets that are impaired financial assets, the effective interest rate is adjusted for the credit risk, which includes the expected credit losses on estimated future cash flows. The calculation of an effective interest rate includes transaction costs and fees and paid or received commissions that are an integral part of the effective interest rate. The transaction costs include additional costs directly related to acquisition or issuance of a financial asset or liability.

*4.2 Initial Recognition and Classification of Financial Instruments*

A financial asset or liability shall be initially measured at fair value plus, for an instrument not measured at fair value through profit or loss, transaction costs directly related to its acquisition or issuance. The best evidence of fair value at initial recognition is the transaction price. Profit or loss from initial recognition shall be recognised only if there is a difference between the fair value and the transaction price as evidenced by other observable current market transactions for the same instrument or the valuation techniques, which include only data of the observable markets.

All purchases and sales of financial assets requiring delivery within the period established by the regulations or the market conditions (for purchases and sales) shall be recorded as at the transaction date being the date, when the Bank assumed an obligation to deliver a financial instrument. All other purchases and sales shall be recognised, when the Bank becomes a party to the contractual provisions of the instrument.

Since 1 January 2018, at initial recognition, a financial asset shall be classified as measured at amortised cost, at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL).

A financial asset shall be measured at amortised cost if both of the following conditions are met and it is not classified as measured at fair value through profit or loss:

- The asset is held within a business model, the objective of which is to hold assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

A debt instrument shall be measured at fair value through other comprehensive income only if both of the following conditions are met and it is not classified as measured at fair value through profit or loss:

- The asset is held within a business model, the objective of which is to hold assets in order to collect contractual cash flows and to sell the financial asset;

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– The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

Financial assets shall not be reclassified after their initial recognition, except for the period after changing the business model for managing financial assets. At the same time, at initial recognition, the Bank may irrevocably define a financial asset that otherwise meets the requirements for its measurement at amortised cost or at FVTOCI as measured at FVTPL, if it removes or significantly reduces the accounting mismatch that otherwise would occur.

The Bank shall assess the objective of the business model, where the asset is held in the portfolio, based on all relevant evidence of the activities the Bank intends to be engaged in to achieve the goal set for the portfolio available at the assessment date.

*4.3 Impairment of Financial Assets*

In order to fairly reflect the assumed risks in the statements, the Bank forms provisions for investments in all financial asset groups, except for financial assets measured at fair value through profit or loss, deferred tax assets, and assets arising from remuneration to the employees.

The entry of IFRS 9 into force principally changes the Bank's approach to accounting of loan impairment. Instead of an incurred loss approach pursuant to IAS 39, a forward-looking approach requiring recognition of expected credit losses (ECL) is introduced. Since 1 January 2018, the Bank recognizes the provision for expected credit losses on all loans and other debt financial assets that are not measured at fair value through profit or loss as well as on loan commitments and financial guarantee agreements (hereinafter jointly referred to in this section as the "financial instruments"). The requirements of IFRS 9 for impairment do not apply to equity financial instruments.

Based on the forecasts, the Bank shall measure the expected credit losses related to debt financial assets measured at amortised cost and at fair value through other comprehensive income and to the risks arising from credit related commitments and financial guarantee contracts. The Bank shall measure the expected credit losses and recognise the estimated provision for credit losses as at each reporting date, and the measurement of expected credit losses shall reflect:

– An unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes;

– The time value of money;

– Reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions available at the reporting date without undue cost or effort.

Debt financial assets measured at amortised cost shall be recorded in the statement of financial position less the estimated provision for expected credit losses. For credit related commitments and financial guarantees (if these components may be separated from a loan), a separate provision for expected credit losses shall be recognised within liabilities in the statement of financial position. For debt instruments measured at fair value through other comprehensive income, an estimated provision for expected credit losses shall be recognised within profit or loss and it impacts the profit or loss from changes in the fair value recognised in other comprehensive income rather than the carrying amount of these instruments.

The Bank shall apply the impairment model under IFRS 9 based on the changes in the credit quality since initial recognition:

– A financial asset that is not impaired at initial recognition, for which there was no significant increase in the credit risk in the reporting period as compared to the level established at initial recognition, as well as an asset attributable to the low-risk portfolio as at the reporting date shall be classified as attributable to Stage 1. For Stage 1 financial assets, the expected credit losses shall be measured in the amount equal to a part of the full lifetime expected credit losses arising as a result of defaults that may occur within the next 12 months (12-month ECL).

– If the Bank identifies a significant increase in the credit risk since initial recognition, the asset shall be classified as attributable to Stage 2 and the expected credit losses shall be measured based on the full lifetime expected credit losses (full lifetime ECL).

– If the Bank determines that a financial asset is impaired: the borrower is assigned a default status and at the same time the loan is recognised as a bad one, the asset shall be classified as attributable to Stage 3 and the expected credit losses shall be measured as the full lifetime expected credit losses.

Originated or purchased credit-impaired products include:

– Loans purchased by the Bank at a deep discount. The deep discount shall mean a discount of 15% or more of the nominal value of the loan purchased.

– Individual types of restructured transactions being at stages 2 and 3 and classified as impaired at origination.

For purchased or originated credit-impaired financial assets, the expected credit losses are always measured as lifetime expected credit losses.

On each reporting date, the Bank performs a measurement in order to detect a significant increase in the credit risk since recognition of a financial instrument. To estimate ECL, the following components are used:

PD is a probability of default determined based on the risk segment and the internal rating (or past due loan group) for the relevant period (12 months or full lifetime of an instrument (Lifetime PD)). The values are determined based on the internal statistics using the models and using the migration matrices. Lifetime PD is determined inclusive of the forecast information. Current and expected changes in the macroeconomic situation (for example, real GDP growth, capital outflow, growth in real disposable income of the population, etc.) are used as the forecast information. The key segmentation principle for determining the probability of default (PD) for provisioning expects that debt financial instruments having similar risk profiles should be attributed to the same portfolio with a similar risk level. The risk segment is determined based on the specific feature of activities of a counterparty/issuer, residence country, business size and model.

LGD is a loss given default determined as a percentage of the exposure at default. The values are determined using the models developed based on the internal statistics.

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EAD is exposure at default. The values are determined using the models developed based on the internal statistics.

If the counterparty has current balance sheet debt, provision for credit losses for credit related commitments is assessed in accordance with the approaches applied to provisioning balance sheet debt of this counterparty adjusted for the credit conversion factor (CCF) determined based on the statistical data and the Basel ratios. If the counterparty has only credit related commitments, estimated provisions for credit losses are calculated depending on the scope of obligations adjusted for CCF, either individually or on a group basis.

Classification of financial assets into five categories of the credit risk is summary information on the credit quality of the financial assets falling within the scope of IFRS 9. Ratios of a range of the probability of default based on the internal ratings and the credit risk level assessed by the Bank are given below:

- Minimum credit risk — assets with counterparties that demonstrate a stable ability to fulfil financial liabilities in time with an insignificant probability of default
- Low credit risk — assets with counterparties having a low probability of default and a strong ability to fulfil financial liabilities in time
- Moderate credit risk — assets with counterparties having a moderate probability of default and a normal ability to fulfil financial liabilities in time; more careful attention during monitoring is required
- High credit risk — assets with counterparties having a high probability of default; close attention during monitoring is required
- Default — assets that are qualified as defaulting considering all available signs of impairment

List of macroeconomic indicators:

- Real GDP
- Unemployment
- Consumer price growth
- 10-year government bond yield

*4.4 Derecognition of Financial Assets*

The Bank derecognizes a financial asset only when one of the below conditions is met:

- The contractual rights of claim to cash flows from the financial asset come due;
- The Bank transfers the financial asset and the transfer qualifies for derecognition.

The financial asset is deemed transferred by the Bank only when one of the below conditions is met:

- The Bank transfers the contractual rights to collect cash flows from the financial asset;
- The Bank retains the contractual rights to collect cash flows from the financial asset, but assumes a contractual obligation to pay cash flows to one or more third parties, and when the certain other conditions are met.

Upon transfer of a financial asset, the Bank evaluates the degree, to which it retains risks and rewards of ownership of this financial asset. If the Bank:

- Transfers substantially all risks and rewards of ownership of a financial asset, the financial asset is derecognised. Rights or obligations accrued or retained when transferring the financial asset are recognised separately as assets or liabilities;
- Retains substantially all risks and rewards of ownership of a financial asset, recognition of this financial asset is continued;
- Neither retains nor transfers substantially all risks and rewards of ownership of a financial asset, it determines whether the control over this financial asset is retained. If the control is not retained, the Bank derecognises the transferred financial asset. Rights or obligations accrued or retained when transferring the financial asset are recognised separately as assets or liabilities. When control is retained, the Bank continues to recognise the transferred financial asset to the extent of its participation in it.

When an asset is redesignated with a considerable change in the terms, the redesignated asset is derecognised and then recognised in the balance sheet as newly purchased.

When a financial asset is redesignated without considerable changes in the terms, the redesignated asset is recognised at carrying amount of the redesignated financial asset.

*4.5 Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand and cash equivalents in the form of short-term and highly liquid investments easily convertible into a certain amount of cash and exposed to insignificant risk of value fluctuation. All short-term interbank placements, beyond overnight placements, are included in due from other banks. Any amounts, the use of which is in any way restricted, are not classified as cash and cash equivalents.

*4.6 Mandatory Cash Balances with the Central Bank of Russia*

Mandatory cash balances are cash deposited with the Bank of Russia which are not intended for financing current transactions of the Bank. Consequently, they are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

*4.7 Financial Assets at Fair Value Through Profit or Loss*

All debt financial assets that do not meet criterion of being "solely payments of principal and interest on the principal amount outstanding" (SPPI) are classified at initial recognition as financial assets at fair value through profit and loss. Pursuant to such criterion, any debt instruments that do not meet the definition of a "basic loan agreement", such as instruments embodying convertibility option, or non-recourse loans are measured at fair value through profit or loss. Securities at fair value through profit or loss pursuant to IAS 39 were classified within debt securities at profit or loss and recorded at fair value through profit or loss, since they are not held to collect contractual cash flows and to sell the financial asset.

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The fair value is measured based on the assumption that a transaction to sell an asset or to transfer a liability takes place either on the main market of the asset or the liability or, if there is no main market, on the market most profitable for the asset or the liability. The fair value is the current price of an offer for financial assets, the current price of demand for financial liabilities, and the average current prices of demand and offer, when the Bank holds both short and long positions in a financial instrument. A financial instrument is considered as quoted in an active market if the quoted prices are regularly and at any time available according to the data of a stock exchange or any other institution, and these prices present actual and regular market transactions on a continuous basis. The valuation techniques are used to measure the fair value of certain financial instruments, for which the information on prices on the external market is unavailable.

Realised and unrealised income and expense from transactions in financial assets at fair value through profit or loss are recorded in the statement of profit and loss for the period when they occur within income less expenses from transactions in financial assets at fair value through profit or loss.

Interest income from financial assets at fair value through profit or loss are recorded in the statement of profit and loss as interest income from financial assets at fair value through profit or loss. Dividends received are recorded in line "Other operating income" in the statement of profit and loss, when the right of the Bank to receive payments is established and there is a possibility to receive dividends.

Purchase and sale of financial assets at fair value through profit or loss to be delivered within the term set by the law or the market convention (purchase and sale under standard contracts) are recognised on the transaction date, i.e. the date when the Bank undertakes to sell or buy such assets.

The Bank classifies financial assets at fair value through profit or loss at the time of purchase. Financial assets classified into this group shall not be reclassified, except for the period after changing the business model for managing financial assets.

### *4.8 Transactions in Sale (Purchase) of Trading Securities Subject to their Reverse Repurchase (Sale)*

Transactions in sale of trading securities subject to their reverse repurchase (repurchase transactions) are treated as operations to raise cash against collateral of securities. Trading securities transferred under reverse repurchase transactions are recorded in items depending on the financial instrument group determined on the sale date.

Transactions in purchase of trading securities subject to their reverse sale (reverse repurchase transactions) are treated as operations to provide cash against collateral of securities.

Securities acquired under reserve repurchase transactions are not recorded in the balance sheet. Relevant requirements with regard to provided cash are recorded in line "Receivables under repo agreements".

The difference between the purchase price and the reverse sale price of the security is recognised as interest income and is accrued within the entire repurchase transaction validity term using the effective interest method.

Trading securities lent by the Bank to counterparties are still recorded as trading securities in the Bank's financial statements.

Securities received as a loan are not recorded in the financial statements. If these securities are sold to third parties, the financial result from purchase and sale of such securities is recorded in the statement of profit and loss in line "Income less expenses from transactions with financial assets / liabilities".

Liability to return such securities is recorded at fair value as held for trading.

### *4.9 Due from Financial Institutions*

Due from financial institutions includes financial assets not being derivative financial instruments, with fixed payments, not quoted in an active market, provided by the Bank to counterparties (including the Bank of Russia), other than:
a) Overnight deposits;
b) Those that the Bank intends to sell immediately or in the near term and which shall be classified as available for sale and those that the Bank measures after initial recognition at fair value through profit or loss;
c) Those that are determined as held for income generation or for sale after initial recognition;
d) Those, for which the Bank may not recover all of its initial investment, other than because of credit deterioration, which shall be classified as held for income generation or for sale.

In line "Due from financial institutions" of the statement of financial position, the Bank reflects loans issued to and deposits placed with other credit and financial institutions as well as balances on correspondent nostro accounts, not equal to cash equivalents.

Due from financial institutions is recorded at amortised cost. Amortised cost is the amount at which the financial instrument was measured at initial recognition, less any principal repayments, plus interest accrued and, for financial assets, adjusted for the estimated provision for expected credit losses.

The difference between the fair value and the nominal value of a loan (deposit), occurring when loans are extended (deposits are placed) at interest rates above or below existing market rates, is recorded in the statement of profit and loss when such loan is extended (deposit is placed) in item "Income (expenses) from assets invested at rates above (below) the market rates". Subsequently, the carrying amount of such loans (deposits) is adjusted to depreciation of this income/(expenses) and the interest income is recorded in the statement of profit and loss using the effective interest method.

The procedure for determining impairment of financial assets is set out in section 4.3 "Impairment of Financial Assets".

### *4.10 Loans and Advances to Customers*

Loans and advances to customers meeting SPPI test are held to collect contractual cash flows and measured at amortised cost. Impairment of loans at amortised cost or at fair value through other comprehensive income is determined using the forecast expected credit loss model. There is information on inputs, assumptions, and accounting methods used when measuring expected credit losses, including explanation how the Bank includes the forecast information in the expected credit loss model.

SPPI test assumes that cash flows from a financial asset are solely payments of principal and interest. For example, loans, which yield depends on the company's profit, will not meet SPPI test and will be recorded at fair value. When applying the test, all loans are divided into three stages:
Stage 1. Group of assets, which obviously meet SPPI test based on the general parameters of the agreement
Stage 2. Subgroup of homogeneous assets, which may be analysed on a group basis
Stage 3. Individual analysis

The difference between the fair value and the nominal value of a loan is recorded in the statement of profit and loss as income from assets at rates above the market rates or as an expense from assets at rates below the market rates. Subsequently, the carrying amount of such loans is adjusted to depreciation of income (expenses) from the loan, and the relevant income is included in the statement of profit and loss using the effective interest method.

The Bank shall apply the impairment model based on the changes in the credit quality since initial recognition:

- A financial asset that is not impaired at initial recognition, for which there was no significant increase in the credit risk in the reporting period as compared to the level established at initial recognition, as well as an asset attributable to the low-risk portfolio as at the reporting date shall be classified as attributable to Stage 1. For Stage 1 financial assets, the expected credit losses shall be measured in the amount equal to a part of the full lifetime expected credit losses arising as a result of defaults that may occur within the next 12 months (12-month ECL).
- If the Bank identifies a significant increase in the credit risk since initial recognition, the asset shall be classified as attributable to Stage 2 and the expected credit losses shall be measured based on the full lifetime expected credit losses (full lifetime ECL).
- If the Bank determines that a financial asset is impaired: the borrower is assigned a default status and at the same time the loan is recognised as a bad one, the asset shall be classified as attributable to Stage 3 and the expected credit losses shall be measured as the full lifetime expected credit losses.

The carrying amount of loans and receivables is reduced by means of the account for provision for expected credit losses. After assessment of objective signs of impairment on an individual basis, in case of absence of such signs, loans are included in a group of financial assets with similar credit risk to assess any signs of their impairment on an aggregate basis.

*4.11 Financial Assets Held for Income Generation or for Sale*

This category includes non-derivative financial assets designated as held for income generation or for sale or not classified as loans and receivables, investments held for income generation, and financial assets at fair value through profit and loss. The Bank classifies financial assets on the acquisition date.

Financial assets held for income generation or for sale at initial recognition are recorded at fair value through other comprehensive income. In this regard, as a rule, the fair value is the transaction price of purchasing such financial asset. Financial assets held for income generation or for sale are further measured at fair value based on the quoted prices to purchase financial assets.

Some investments held for income generation or for sale, for which no quoted prices are available from external independent sources, are measured by the Bank at fair value through other comprehensive income based on a recent purchase of similar debt securities to a non-related third party, analysis of other information such as discounted cash flows and financial information on investee, and on any other valuation techniques.

Various valuation techniques can be used depending on the situation. Investments in equity instruments that do not have quoted market prices are measured at fair value through other comprehensive income.

Unrealised income and expenses resulting from a change in fair value of financial assets held for income generation or for sale are recorded in the statement of changes in equity.

Upon disposal of financial assets held for income generation or for sale, the relevant accumulated unrealised income and expenses are included in the statement of profit and loss. Impairment and recovery of earlier impaired value of financial assets held for income generation or for sale are recorded through other comprehensive income.

The value of financial assets held for income generation or for sale is reduced if their carrying amount exceeds their estimated recoverable amount. The recoverable amount is the current cost of the expected cash flows discounted by the current market price of a similar financial asset.

Under usual settlement conditions, purchase and sale of financial assets held for income generation or for sale are recorded on the transaction date, i.e. on the date when the Bank shall purchase or sell this asset. (Alternatively, the Bank may recognise them as at the settlement date).

All other purchases and sales are recorded as forward transactions until settlements are made.

*4.12 Financial Assets Held for Income Generation*

This group includes financial assets with fixed maturity that the Bank has the positive intention and ability to hold to maturity. The Bank classifies financial assets on the acquisition date. The Bank assesses its intention and ability to hold the financial assets classified as held for income generation to maturity as at each reporting date, but not only at initial recognition of such financial assets.

Financial assets held for income generation are initially recognised at amortised cost using the effective interest method less provision for expected credit losses, which is the difference between the carrying amount and the current cost of the estimated future cash flows discounted by the original effective interest rate.

Interest income from financial assets held for income generation is recorded in the statement of profit and loss as interest income from financial assets held for income generation.

Under usual settlement conditions, purchase and sale of financial assets held for income generation are recorded on the transaction date, i.e. on the date when the Bank shall purchase or sell this asset. All other purchases and sales are recorded as forward transactions until settlements are made.

*4.13 Property, Plant and Equipment*

Property, plant and equipment are recorded at acquisition cost or at revalued amount, as noted below, less accumulated depreciation and impairment provision (where necessary).

If the carrying amount of the asset exceeds its estimated recoverable cost, the carrying amount of the asset is reduced to its recoverable cost, and the difference is recorded in the statement of profit and loss. The estimated recoverable cost is the highest of fair value of the asset less sales cost and value in use.

If an individual fixed asset is revaluated, then the entire group of property, plant and equipment, to which this asset belongs, shall be also revaluated.

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The group of property, plant and equipment is revaluated simultaneously in order to exclude a possibility of a selective revaluation of assets and to present the items being the sum of property, plant and equipment at actual cost and at revalued cost on different dates in the financial statements. However, the group of assets may be revaluated according to a flexible schedule if it is revaluated within a short period and the results are continuously updated.

The Bank assesses any signs of impairment of property, plant and equipment at each reporting date. If there are such signs, the Bank assesses the recoverable amount as net realisable value of property, plant and equipment or as value in use, whichever is greater.

If the carrying amount of property, plant and equipment exceeds their estimated recoverable amount, the carrying amount of property, plant and equipment is reduced to their recoverable amount, and the difference is recorded in the statement of profit and loss as impairment loss of property, plant and equipment unless they are previously revaluated. In this case, revaluation surplus is excluded, and any additional loss is recognised in profit or loss. Impairment losses recognised with respect to property, plant and equipment in prior years are reversed, when there are any changes in estimates used to determine the recoverable amount of property, plant and equipment.

Profit and loss resulting from disposal of property, plant and equipment are determined on the basis of their carrying amount and are recorded when calculating the profit (loss) amount. Costs on repair and maintenance are recorded in the statement of profit and loss when incurred.

*4.14 Depreciation*

Depreciation of property, plant and equipment is calculated using the straight-line method, i.e. evenly decreasing the initial or revalued cost down to net book value during next estimated periods of useful life of the assets

| Pool of property, plant and equipment | Useful life |
|---|---|
| Buildings | from 10 to 50 years |
| Furniture and equipment | from 5 to 20 years |
| Computers and office equipment | from 2 to 5 years |

Net book value of an asset is the estimated amount that the Bank would have received for the time being if the asset had been sold less the expected costs on disposal, if the condition and lifetime of the asset had corresponded to the lifetime and condition the asset would have had at the end of its useful life. Net book value of an asset is zero if the Bank intends to use the asset up to the end of its physical life. Net book value of assets and their useful lives are reviewed and, if necessary, adjusted as at each reporting date.

Asset depreciation starts when it is available for use, i.e. when the location and condition of the asset allow using it according to the Bank's intention. Depreciation is derecognised at the date when the asset is derecognised.

*4.15 Intangible Assets*

Intangible assets of the Bank, except for business reputation, have a certain useful life of 5 to 10 years and mainly include capitalised software. Acquired and recognised intangible assets are capitalised on the basis of expenses from purchase and integration of such assets. After initial recognition, intangible assets are recognised at the acquisition cost less amortisation and impairment losses accrued. Intangible assets are amortised according to the straight-line method and evaluated for the purpose of impairment if there are signs of potential impairment of such assets.

*4.16 Borrowed Funds*

Borrowed funds include customer accounts, due from financial institutions (including the Bank of Russia), subordinated deposits (loans), and other borrowed funds.
Borrowed funds are recognised at amortised cost and the difference between the obtained amount and the repayment amount is accounted for in the statement of profit and loss within the lending period with the use of the effective interest method.

*4.17 Financial Liabilities at Fair Value Through Profit or Loss*

Financial liabilities at fair value through profit or loss include derivative financial instruments, including exchange contracts. All derivative financial instruments are accounted for as assets if fair value of such instruments is positive or as liabilities if their fair value is negative. Any changes in the fair value of derivative financial instruments are recognised as income/expenses. The Bank does not apply hedge accounting.

*4.18 Trade and Other Account Payables*

Account payables are recognized by the Bank upon fulfilment of its obligations by the counterparty and are accounted for at amortised cost.

*4.19 Share Capital and Share Premium*

Share capital is recognised at initial cost adjusted to the purchasing power equivalent of a Russian ruble as at 31 December 2002, for contributions to the share capital made before 1 January 2003. Costs directly attributable to the issue of new shares are recognised as a decrease in the shareholders' equity.

Share premium is contributions to the share capital in excess of the nominal value of the issued shares.

*4.20 Dividends*

Dividends declared after the balance sheet date are recorded in the note on subsequent events. Dividend payments and other profit distribution are made on the basis of the net profit for the current year according to the financial statements prepared in compliance with the legislation of the Russian Federation.

If dividends are declared for holders of equity instruments after the reporting date, such dividends are not recognised as liabilities as at the reporting date.

Dividends are recorded when they are approved by the General Meeting of Shareholders (General Meeting of Members) and are reported as distribution of profit.

*4.21 Income and Expense Recognition*

Interest income and expense are calculated using the effective interest method. Interest income and expense are recorded as debt instruments at amortised cost or at FVTOCI on an accrual basis using the effective interest method. This method takes into account all payments received or made between the parties to the transaction as part of interest income or expense and as an integral part of the effective interest rate, transaction costs, premiums, or discounts. When calculating fair value, the effective interest method is not applied if the largest difference in accrued interest income (expense) between interest income (expense) calculated using the effective interest method and interest income (expense) calculated using the straight-line method does not exceed 10%.

Payments that are an integral part of the effective interest rate include commission fees received or paid by the Bank and related to origination or purchase of a financial asset or issuance of a financial liability, for example, fees for credit scoring, appraisal and registration of guarantees or a pledge, negotiations on the terms of an instrument and for processing of transaction documents. Commission fees received by the Bank for issuing loans at market interest rates are an integral part of the effective interest rate if there is a probability that the Bank will enter into a specific loan agreement, but it does not expect to sell the loan received shortly after its origination. The Bank does not designate loan obligations as financial liabilities at FVTPL.

For financial assets arising from purchase of impaired loans, the effective interest rate is the rate reducing the expected cash flows (including initial expected credit losses) down to the fair value at initial recognition (usually represented as a purchase price). As a result, the effective interest is adjusted for the counterparty's credit worthiness.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- Financial assets that became impaired loans (stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (less provision for expected credit losses (ECL));

- Financial assets that were purchased or issued as impaired, for which the current interest rate adjusted for the credit worthiness and effective for amortised cost is applied.

Other interest income and expense are interest income and expense recorded as debt instruments at FVTOCI and are reported on an accrual basis using the nominal interest rate.

Fee and commission income and expense All other fees, commissions, and other income and expense items are usually recorded on an accrual basis within the period, when the services are provided to customers that simultaneously receive and consume the rewards provided by the results of the Bank's activities, usually on a straight-line basis.

Commissions resulting from the negotiations or participation in the negotiations on a transaction for a third party, such as purchase of loans, shares or other securities or purchase or sale of a business, which are gained when the Bank performs obligations to execute them, are recorded upon closing. Administrative, consulting, and service fees are recognised based on the applicable service contracts within the period, when the services are provided to customers that simultaneously receive and consume the rewards provided by the results of the Bank's activities, usually on a straight-line basis. Asset management fees related to investment funds are recognised within the period, when the services are provided, since a customer simultaneously receives and consumes the rewards provided by the results of the Bank's activities, usually on a straight-line basis. The same principle applies to capital management, financial planning, and custodial services, which are continuously provided for a long period.

*4.22 Income Tax*

The financial statements recognise tax expenses in accordance with the legislation of the Russian Federation.

Income tax expense (recovery) in the statement of profit and loss for the year includes current taxes and changes in deferred taxes. Current tax is calculated on the basis of the expected taxable profit for the year with income tax rates applicable as at the balance sheet date. Tax expenses, apart from income tax expenses, are recognised in administrative and other operating expenses.

Deferred income tax is calculated on the basis of the balance assets and liabilities method in relation to all temporary differences between the tax base of assets and liabilities and their carrying amount in accordance with the financial statements. Deferred tax assets and liabilities are identified with the use of taxation rates that are supposed to be effective within the period when the assets will be realised and the liabilities repaid, on the basis of tax rates set during the current period or actually set as at the reporting date.

Deferred tax assets are recognised to the extent that it is likely to receive taxable income against which temporary differences can be used.

Deferred tax arising from revaluation at fair value of financial assets at FVTOCI, with revaluation results credited or charged to equity, is also recognised directly in equity. When these financial assets are disposed of, the respective amounts of deferred income tax are reflected in the statement of profit and loss.

Carrying amount of the deferred tax asset is reviewed at the end of each reporting period and decreased to the extent, to which gaining of sufficient taxable income that will allow using all or part of deferred tax assets is not probable anymore. Non-recognised deferred tax assets are reviewed at the end of each reporting period and recognised to the extent, to which it is probable that future taxable income will allow using deferred tax assets. Deferred tax assets and liabilities are offset against one another if there is a legal right to offset current tax assets and liabilities and deferred taxes relate to the same tax authority.

*4.23 Derivatives*

Derivative financial instruments, including exchange contracts, interest rate futures, forward rate agreements, foreign exchange and interest rate swaps, foreign exchange and interest rate options and other derivative financial instruments, are initially recognised in the balance sheet at fair value through profit or loss (which is, as a rule, an acquisition cost, including transactions costs).

Fair value is calculated based on quoted market prices, cash flow discounting models, models of pricing for options or spot exchange rates at the end of the year depending on the type of a transaction. All derivative financial instruments are accounted as assets if their fair value is positive or as liabilities if their fair value is negative.

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Derivative financial instruments are recorded in item "Positive fair value of derivative financial instruments" of the balance sheet if fair value of such derivative financial instrument is positive or in item "Negative fair value of derivative financial instruments" if fair value of such financial instrument is negative.

Changes in the fair value of derivative financial instruments are attributed to income less expenses from transactions with foreign currencies, income less expenses from transactions with financial assets at fair value through profit or loss, and income less expenses from transactions with precious metals depending on the type of a transaction.

Some derivative financial instruments embedded in other financial instruments such as a conversion option embedded in a convertible bond are separated from the underlying contract if their risks and economic characteristics do not closely relate to the risks and economic characteristics of the underlying contract and the underlying contract is not recognised at fair value reflecting unrealised income and expenses in the statement of profit and loss.

The Bank is not engaged in transactions defined as hedging instruments under IFRS 9 "Financial Instruments".

*4.24 Estimated Liabilities*

Estimated liabilities are recognised when the Bank has liabilities (legal or due to business practice) arisen prior to the reporting date. To settle these liabilities, outflow of economic resources is highly probable and the amount of the liabilities can be reasonably assessed.

*4.25 Related Party Transactions*

The Bank is engaged into related party transactions. Parties are also considered to be related when one of them can control the other, is under common control together with the other party, is under control of the other party and a third party and can exercise significant influence on the other party's financing and operating decisions.

When considering relations with related parties, the Bank takes into account not only legal, but also economic aspects of such relations.

*4.26 Adoption of New or Revised Standards and Interpretations*

***New Standards, Interpretations and Amendments***

Since the issue date of the Bank's latest annual financial statements, no new standards or interpretations that are mandatory for annual reporting periods beginning after 1 January 2018 were issued, except for the standards and interpretations disclosed in the Bank's annual financial statements.

*IFRS 9 "Financial Instruments"*

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement" for annual reporting periods beginning on or after 1 January 2018. The Bank did not recalculate the comparative information for 2017 on financial instruments in accordance with IFRS 9. Therefore, the comparative information for 2017 is shown in accordance with IAS 39 and cannot be compared with the information for 2018. The differences arising from the adoption of IFRS 9 were recognized directly in retained earnings as at 1 January 2018.

(a) Classification and measurement
According to IFRS 9, all debt financial assets that do not meet criterion of being "solely payments of principal and interest on the principal amount outstanding" (SPPI) are classified at initial recognition as financial assets at fair value through profit and loss. Pursuant to such criterion, any debt instruments that do not meet the definition of a "basic loan agreement", such as instruments embodying convertibility option, or non-recourse loans are measured at fair value through profit or loss. The Bank has no investments in securities, and also there are no instruments embodying convertibility option. All debt financial assets and debt financial liabilities of the Bank that correspond to the Bank's "to hold and to sell" business model, pursuant to IFRS 9, are recorded at fair value through other comprehensive income. All debt financial assets and debt financial obligations that correspond to the Bank's "to hold an asset to collect contractual cash flows" business model, pursuant to IFRS 9, are recorded at amortised cost. These debt instruments do not meet criterion of being "solely payments of principal and interest on the principal amount outstanding" (SPPI). Thus, the classification of financial assets and financial liabilities remained unchanged as compared to the requirements of IAS 39.

(b) Impairment
The entry of IFRS 9 into force principally changes the Bank's approach to accounting of loan impairment. Instead of an incurred loss approach pursuant to IAS 39, a forward-looking approach requiring recognition of expected credit losses (ECL) is introduced. Since 1 January 2018, the Bank recognizes the provision for expected credit losses on all loans and other debt financial assets that are not measured at fair value through profit or loss as well as on loan commitments and financial guarantee agreements (hereinafter jointly referred to in this section as the "financial instruments"). The requirements of IFRS 9 for impairment do not apply to equity financial instruments.

Provision for ECL is calculated based on lifetime expected credit losses (lifetime ECL) if there is no significant increase in the credit risk since recognition; otherwise, provision is calculated based on 12-month expected credit losses (12-month ECL). 12-month ECL are a part of lifetime ECL representing ECL arising from defaults on a financial instrument that may occur within 12 months after the reporting date. Lifetime ECL and 12-month ECL are calculated either individually or on a group basis, depending on the nature of the baseline portfolio of financial instruments.

The Bank approved a policy to assess whether there has been a significant increase in the credit risk for a financial instrument since its initial recognition by analysing changes in the risk of default arising during the remaining life of the financial instrument.

The Bank forms impairment provisions for all groups of financial assets, except for those measured at fair value through profit or loss.

At initial recognition of a financial asset, the Bank estimates impairment of the financial asset as 12-month expected credit losses. As to the Bank's commitments to provide loans to borrowers without a right of subsequent reversal, the date of initial recognition for applying the requirements to impairment is the date of the relevant contract.

As at each reporting date, for each financial instrument or group of financial instruments (falling within the scope of portfolio management), the Bank assesses the credit risk:

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• If the credit risk has not significantly increased since initial recognition for a financial instrument or a group of financial instruments, the Bank forms an estimated provision in the amount of 12-month expected credit losses on a financial instrument or a group of financial instruments.
If the credit risk has significantly increased since initial recognition for a financial instrument or a group of financial instruments, the Bank forms an estimated provision in the amount of lifetime expected credit losses on a financial instrument or a group of financial instruments.
• If it is less than 12 months to maturity of a financial instrument, the Bank forms an estimated provision for the instrument in the amount of expected credit losses to its maturity.
• If, on the reporting date, the credit risk for a financial instrument is low, the Bank assumes that the credit risk has not significantly increased since initial recognition for a financial instrument.

If, during the previous reporting period, the Bank estimated the estimated provision for losses on a financial instrument in the amount equal to lifetime expected credit losses, but, as at the current reporting date, the credit risk on the financial instrument decreased so that there is no significant increase in the credit risk as compared to initial recognition, as at the current reporting date, the Bank estimates the estimated provision in the amount equal to 12-month expected credit losses.

In order to assess whether the credit risk has increased significantly since initial recognition for a financial instrument, the Bank is guided by a change in the risk of default over the expected lifetime of a financial instrument (not by a change in the amount of expected credit losses).

For loan commitments, the Bank considers changes in the risk of default on a loan, to which the loan commitment relates.

The risk of default of financial instruments is assessed within the risk assessment models formed according to the business models. The Bank assesses the risk of default on a group basis or individually (if the number of financial instruments is insufficient to assess them on a group basis). Whether to use a group or individual assessment method is determined when approving a business model for managing a financial instrument in accordance with the Methods for Determining Provisions for Impairment of the Bank's Financial Assets. When forming groups of financial instruments, the Bank does not include financial instruments having different risk characteristics in one group, and the groups are formed so that the number of financial instruments is sufficient to obtain valid results.

If the available qualitative and non-statistical quantitative information on a financial instrument is sufficient to determine whether the criterion for recognising an estimated loss provision in the amount equal to lifetime expected credit losses is met for a financial instrument, then statistical models or credit rating procedures do not apply to this financial instrument to determine whether there is a significant increase in the credit risk for the financial instrument.
For financial instruments measured on a group basis, the risk of default is assessed based on the information on past due payments taking into account the forecast macroeconomic information that is available without undue cost or effort.

For financial instruments measured individually, the risk of default is assessed both using the information on past due payments on a financial instrument and using the information on the borrower (his/her/its financial standing, actual debt restructuring, etc.), which is available without undue costs and effort.

If reasonable and supportable forecast information is available without undue cost or effort, the Bank does not rely solely upon the information on past due payments when determining whether the credit risk has significantly increased since initial recognition. However, when information that is more predictable than the status of past due payments (whether individually or on a group basis) is not available without undue cost or effort, the Bank uses the information on past due payments when determining whether the credit risk has increased significantly since initial recognition. The Bank assumes that the credit risk for a financial instrument has increased significantly if the contractual payments are more than 30 days past due (within the approved business models, this period may be reduced for particular business models).

Methods used to determine whether the credit risk has significantly increased for a financial instrument since initial recognition take into account the characteristics of a financial instrument (or a group of financial instruments) and occurrences of defaults during the previous periods for comparable financial instruments.

When determining a default to determine the risk of default, the Bank assumes that a default on a financial instrument occurs either if this financial instrument is more than 90 days past due or if the borrower enters bankruptcy (even if the instrument is less than 90 days past due).

Estimate of expected losses.
The Bank estimates expected credit losses on a financial instrument using the method reflecting:
(a) An unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes;
(b) The time value of money; and
(c) Reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions available at the reporting date without undue cost or effort.
The period under consideration when assessing expected credit losses is the maximum contractual period (including options to renew), during which the Bank is exposed to the credit risk, but not a longer period, even if it corresponds to the business practice.
Expected credit losses are a probability-weighted estimate of credit losses (i.e. present value of all expected cash shortfalls) during the expected lifetime of a financial instrument. Cash shortfalls is a difference between the contractual cash flows due to the Bank and the cash flows the Bank expects to gain. Since expected credit losses take into account the amount and dates of payments, the credit loss occurs even if the Bank expects to collect the full amount, but later than provided for by the contract.
In case of a credit-impaired financial asset as at the reporting date, which is not purchased or originated credit-impaired financial asset, the Bank estimates expected credit losses as a difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted by the original effective interest rate on the financial asset. Any adjustment is recognised within profit or loss as profit or loss from impairment.
Losses from financial asset impairment accounted for by the amortised cost are recognized in the statement of profit and loss when they arise from one or more events (loss events) occurring after the initial financial asset recognition.

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The Bank avoids, but does not exclude occurrence of losses from impairment at initial recognition of financial assets.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss has been recognised (such as improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the created provision in the statement of profit and loss.
Financial assets that cannot be matured and for which all necessary procedures have been completed for the purpose of full or partial recovery and the final amount of the loss have been determined are written off against the provision for impairment.
The main criteria for writing off impaired financial assets against provision are:
- The Bank takes all necessary and appropriate steps to collect this debt that arise from law, business customs or a contract.
- Writing off uncollectable debt is reasonable if there are documents supporting the actual non-performance by the debtor of the obligations to the Bank within the period of at least one year before the date of decision on debt writing off.
- There are reports of state authorities proving the uncollectability of debt.
Losses from impairment of financial assets at FVTOCI are recognised in the statement of profit and loss when incurred as a result of one or more events (loss events) occurring after initial recognition of financial asset at FVTOCI.
- Significant or prolonged decline in fair value of equity security at FVTOCI below its acquisition cost is a sign of its impairment. If there are any signs of impairment, the cumulative loss determined as a difference between the acquisition cost and the current fair value less impairment loss of this asset, which was initially recognised in the profit and loss accounts, is carried over from equity to the profit and loss accounts. Losses from impairment of equity instruments are not reversed through profit and loss; an increase in fair value after impairment is recognised directly within equity.

For debt instruments at FVTOCI, the instrument is assessed for signs of impairment according to the same criteria (loss events) as for financial assets at amortised cost. The loss amount that shall be reclassified into the statement of profit and loss is equal to the difference between the acquisition value (less principal repayment amounts and with account of depreciation of assets assessed with the effective interest method) and the current fair value of the asset less impairment losses previously recognized in the statement of profit and loss. If, in a subsequent reporting period, fair value of debt instrument at FVTOCI increases and such increase may be objectively related to the event occurring after recognition of the impairment loss in the profit and loss accounts, the impairment loss is reversed through profit or loss of the current reporting period.

The reconciliation of the carrying amount in accordance with IAS 39 and the balances recorded in accordance with IFRS 9 as at 1 January 2018 is shown below:

| As at 31 December 2017 (in accordance with IAS 39/37) | As at 31 December 2017 (in accordance with IAS 39/37) | Reclassification due to IFRS 9 | Revaluation due to IFRS 9 | As at 1 January 2018 (IFRS 9) |
|---|---|---|---|---|
| Due from banks, loan and advances to customers, receivables, pursuant to IAS 39, measured at amortised cost pursuant to IFRS 9 | 45 167 | - | (1 130) | 46 297 |
| Other financial assets | 5 494 | - | 3 | 5 491 |
| **TOTAL** | **50 661** | **-** | **(1 127)** | **51 788** |

*IFRS 15 "Revenue from Contracts with Customers"*

IFRS 15 published in May 2014 and amended in April 2016 establishes a five-step model of recognition of revenue under contracts with customers. Under IFRS 15, revenue is recognized in an amount reflecting the reimbursement that the organization expects to receive in return for the transfer of goods or services to the buyer. This standard does not apply to revenues from financial instruments and leasing contracts and, accordingly, does not affect most of the Bank's revenue items, including interest income, profit/(loss) from transactions in securities and income under leasing agreements, to which IFRS 9 "Financial Instruments" and IAS 17 "Leases" apply. As a result, application of this standard will have no effect on most of the Bank's income.

Prior to adoption of IFRS 15, variable consideration was assessed based on the historical data. In accordance with IFRS 15, revenue is recognized only to the extent that there is a high probability of a significant decrease in revenue after resolving the uncertainty associated with variable consideration. The Bank applied this requirement, when estimating variable consideration, and concluded that the effect on the financial statements is not material.

*IFRS 16 "Leases"*

IFRS 16 "Leases" was issued in January 2016 and replaces IAS 17 "Leases", IFRIC Interpretation 4 "Determining Whether an Arrangement Contains a Lease", SIC Interpretation 15 "Operating Leases — Incentives" and SIC Interpretation 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease". IFRS 16 establishes principles for the recognition, assessment, presentation and disclosure of lease information and requires that tenants record all leases using a unified accounting model in the balance sheet, similar to the accounting treatment provided for in IAS 17 for finance leases. The standard provides for two exemptions from recognition for tenants — for leasing assets with low cost (for example, personal computers) and short-term leases (i.e. leases with a period of not more than 12 months). IFRS 16 becomes effective for annual periods beginning on or after 1 January 2019. Early adoption of the standard is permitted provided that IFRS 15 "Revenue from Contracts with Customers" will also be applied. The Bank does not intend to apply this standard ahead of schedule. The Bank is in the process of assessing the possible impact of IFRS 16 on its financial statements.

**IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019). The ambiguity regarding the interpretation of the norms of the tax legislation may influence the Bank's accounting of current or deferred tax assets or liabilities. The Interpretation clarifies how to apply the requirements of IAS 12 "Income Taxes" to recognition and measurement, when there is uncertainty over income tax treatments. In this case, the organization must recognize and assess its current and deferred tax assets or liabilities on the basis of taxable profit (tax loss), tax base, unused tax losses, unused tax benefits and tax rates determined in accordance with this Interpretation. The Bank expects that adoption of these amendments will not have a material effect on the financial statements of the Bank.

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## 5 Interest Income and Expense

Interest income and expense are as follows:

| | For 2018 | For 2017 |
|---|---|---|
| *Interest income on assets at amortised cost* | | |
| Accounts receivable under repo agreements | 125 569 | 125 405 |
| Loans to customers | 2 150 | 2 625 |
| Other | 103 | 70 |
| **Total interest income on financial assets at amortized cost** | **127 822** | **128 100** |
| *Interest income on assets at fair value through other comprehensive income* | | |
| On financial assets held for income generation or for sale | 130 573 | 117 217 |
| **Total interest income on financial assets at fair value through other comprehensive income** | **130 573** | **117 217** |
| **Total interest income** | **258 395** | **245 317** |
| *Interest expense on liabilities at amortised cost* | | |
| Accounts payable under repo agreements | (51 411) | (29 477) |
| Accounts and deposits of customers being legal entities | (50 076) | (43 750) |
| Deposits of customers being individuals | (1 145) | (986) |
| Other | (1 865) | (1 592) |
| **Total interest expense on financial liabilities at amortised cost** | **(104 497)** | **(75 805)** |
| *Interest expenses on liabilities at fair value through other comprehensive income* | | |
| Financial assets held for income generation or for sale | (9 505) | (6 386) |
| **Total interest expense on financial liabilities at fair value through other comprehensive income** | **(9 505)** | **(6 386)** |
| **Total interest expense** | **(114 002)** | **(82 191)** |
| **Net interest income** | **144 393** | **163 126** |

## 6 Provisions for Impairment and Other Provisions

Provisions for impairment recorded in the profit and loss accounts include contributions made during the current year to form provisions based on the ECL model under IFRS 9.

The change in provisions for 2018 is as follows:

| | Balance as at 31 December 2017 | 12-month ECL | Lifetime ECL — non-impaired assets | Lifetime ECL — impaired assets | Purchased or originated impaired assets | Net change in provision for expected credit losses | Balance for 2018 |
|---|---|---|---|---|---|---|---|
| *Assessed at amortized cost:* | | | | | | | |
| Due from financial institutions | 45 247 | (37 437) | - | - | - | (37 437) | 7 810 |
| Loans to customers | 1 050 | (680) | - | - | - | (680) | 370 |
| Cash except for that due from the Bank of Russia | - | 8 | - | - | - | 8 | 8 |
| Other | - | - | - | - | - | - | - |
| **Total change in provision for expected credit losses on interest bearing assets** | **46 297** | **(38 109)** | - | - | - | **(38 109)** | **8 188** |
| *Other* | 5 491 | (4 114) | - | - | - | (4 114) | 1 377 |
| Change in other provisions and change in estimated liabilities | 5 491 | (4 114) | - | - | - | (4 114) | 1 377 |
| **Total change in provision for ECL and other provisions** | **51 788** | **(42 223)** | - | | | **(42 223)** | **9 565** |

(thousand Russian rubles)

The change in provisions for impairment calculated in accordance with the incurred loss model under IFRS 9 in 2017 was as follows:

| | Balance as at 31 December 2016 | Write-offs from provision | Income from recovery of provisions for impairment less expense on creation of provisions for impairment | Balance as at 31 December 2017 |
|---|---|---|---|---|
| Due from financial institutions | 20 868 | - | (23 249) | 44 117 |
| Loans to customers | 1 812 | - | 762 | 1 050 |
| Change in other provisions and change in estimated liabilities | 8 368 | - | 2 874 | 5 494 |
| **Total change in provisions for impairment** | **31 048** | - | **(19 613)** | **50 661** |

## 7 Income Less Expenses from Transactions with Financial Assets and Liabilities

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Fair value adjustment and revaluation | Sold from resale and repayment | Total | Fair value adjustment and revaluation | Sold from resale and repayment | Total |
| Financial assets at fair value through profit or loss | 6 611 | - | **6 611** | - | - | - |
| Financial assets held for income generation or for sale | - | (9 205) | **(9 205)** | - | 15 861 | **15 861** |
| Income from use of embedded derivatives | 4 370 | - | **4 370** | - | - | - |
| Financial liabilities at fair value through profit or loss | (11 199) | - | **(11 199)** | (37 406) | - | **(37 406)** |
| Financial liabilities provided by financial institutions, legal entities, and individuals | - | 3 | **3** | - | - | - |
| Dividends received | | 1 | 1 | | 318 | 318 |
| **Total income less expenses from transactions with financial assets and liabilities** | **(218)** | **(9 201)** | **(9 419)** | **(37 406)** | **16 179** | **(21 227)** |

As a result of changes in the accounting valuations for 2018, RUB 5,263 thousand were reclassified from item "Operating income" for 2017 into item "Income less expenses from transactions with financial assets and liabilities".

## 8 Fee and Commission Income and Expense

Fee and commission income and expenses are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| *Fee and commission income* | | |
| Brokerage | 205 650 | 127 338 |
| Market maker services | 21 967 | 36 933 |
| Accounts maintenance and servicing | 9 001 | 4 393 |
| Custody transactions | 8 944 | 3 416 |
| Maintenance of internal records | 3 309 | - |
| Other | 920 | 801 |
| **Total fee and commission income** | **249 791** | **172 881** |
| *Fee and commission expense* | | |
| Brokerage | (100 674) | (92 746) |
| Custody transactions | (5 099) | (2 650) |
| Settlements | (2 310) | (2 092) |
| Exchange transactions | (7 752) | (5 759) |
| Other | (284) | (1 362) |
| **Total fee and commission expense** | **(116 119)** | **(104 609)** |
| **Total fee and commission income and expense** | **133 672** | **68 272** |

## 9 Administrative and Other Operating Expenses

Administrative and other operating expenses are as follows:

| | 2018 | 2017 |
|---|---|---|
| *Staff costs* | **151 326** | **124 767** |
| Salaries and bonuses | 121 679 | 101 285 |
| Expenses associated with property, plant and equipment (maintenance, repair, sale, write-down of property, plant and equipment) | 31 626 | 3 564 |
| Obligatory insurance contributions to non-budgetary funds | 29 647 | 23 482 |
| Communications services | 9 683 | 7 624 |
| Other information services | 8 878 | 2 820 |
| Taxes and duties other than income tax | 8 511 | 21 165 |
| Amortization and depreciation | 7 308 | 6 116 |
| Right to use intellectual activity items | 6 591 | 5 473 |
| Software support and maintenance services | 5 781 | 5 616 |
| Other expenses on other invested or borrowed funds | 3 658 | 2 936 |
| Operating lease expense | 2 701 | 3 815 |
| Inventories writing-off | 1 609 | 1 932 |
| Professional services | 664 | 788 |
| Insurance | 266 | 299 |
| Security costs | 249 | 226 |
| Business travel expenses | 94 | 285 |
| Advertising and marketing | 51 | 77 |
| Hospitality expenses | 2 | - |
| Other operating expenses | 3 925 | 3 895 |
| **Total administrative and other operating expenses** | **242 923** | **191 398** |

## 10 Income Tax

Income tax comprises as follows.

| | 2018 | 2017 |
|---|---|---|
| Current income tax (expense) / recovery | 12 918 | 22 772 |
| Changes in deferred taxes due to occurrence and writing off of temporary differences | 17 926 | (3 766) |
| **(Expense) / Income tax recovery** | **30 844** | **19 006** |

The current income tax rate applicable to the largest part of the Bank's profit for 2018 is 20% (2017: 20%).

Estimated tax expenses and actual tax expenses are compared below.

| | 2018 | 2017 |
|---|---|---|
| (Expense) / Income tax recovery | 30 844 | 19 006 |
| Estimated tax deductions (recovery) at the rate of 20% | (6 169) | (3 801) |
| Other permanent difference | 37 013 | 22 807 |
| **(Expense) / Income tax recovery** | **30 844** | **19 006** |

Differences between IFRS and tax legislation of the Russian Federation (and other countries) give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and calculation of income tax. The tax consequences of the movement of these temporary differences for 2018 and 2017 presented below are recorded at the rate of 20% (20% in 2017), except for income from state (municipal) securities and bonds of Russian entities (except for bonds of foreign entities recognised as tax residents of the Russian Federation), which, as at the relevant dates of recognition of interest income from them, are recognised as traded on the organized securities market, denominated in Russian rubles and issued during the period from 1 January 2017 to 31 December 2021 inclusively, taxable at the rate of 15%, 9%, 0% (2017: 15%, 9%, 0%).

## 11 Earnings (Loss) per Share

Basic earnings (loss) per share is calculated by dividing net profit or loss attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year less average number of ordinary shares repurchased by the Bank.

The Bank does not have dilutive potential ordinary shares. So, therefore, the diluted earnings per share are equal to the basic earnings per share.

| | 2018 | 2017 |
|---|---|---|
| Earnings (Loss) attributable to shareholders holding ordinary shares of the Bank | 75 614 | 75 956 |
| Earnings (Loss) attributable to shareholders holding preference shares of the Bank | | |
| **Earnings or loss for the year** | **75 614** | **75 956** |
| Weighted average number of ordinary shares outstanding (in thousands) | 56 490 | 56 490 |
| Weighted average number of preference shares outstanding (in thousands) | 100 | 100 |
| Basic and diluted earnings (loss) per ordinary share (in rubles per share) | 1,34 | 1,34 |
| Basic and diluted earnings (loss) per preference share (in rubles per share) | 75,61 | 75,96 |

(thousand Russian rubles)

## 12 Dividends

| | 2018 | 2017 |
|---|---|---|
| | For ordinary and preference shares | For ordinary and preference shares |
| **Dividends payable as at the beginning of the year** | - | - |
| Dividends declared during the year | 280 337 | |
| Dividends paid during the year | 279 582 | - |
| **Dividends payable as at the end of the reporting period** | **755** | - |

All dividends were declared and paid in the currency of the Russian Federation.

## 13 Cash and Cash Equivalents

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cash on hand | 25 017 | 50 197 |
| Balances on accounts with the Bank of Russia (other than mandatory reserve funds) | 128 617 | 509 857 |
| Funds on correspondent accounts | 187 040 | 907 232 |
| **Total cash and cash equivalents** | **340 674** | **1 467 286** |

## 14 Financial Assets at Fair Value Through Profit or Loss

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| *Equity securities at fair value through profit or loss* | | |
| Shares | 58 743 | 47 819 |
| **Total equity securities at fair value through profit or loss** | **58 743** | **47 819** |
| **Total financial assets at fair value through profit or loss** | **58 743** | **47 819** |

## 15 Due from Financial Institutions

Due from financial institutions is presented as broker's accounts and cash on stock exchange

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Correspondent accounts | 68 | 68 |
| Other accounts with financial institutions | 411 041 | 404 304 |
| **Total due from financial institutions before provision for ECL** | **411 109** | **404 372** |
| Provision for ECL | (7 810) | (44 117) |
| **Total due from financial institutions** | **403 299** | **360 255** |

## 16 Loans and Advances to Customers

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Loans to individuals — consumer | 13 559 | 20 253 |
| **Total loans and advances to customers before provision for ECL** | **13 559** | **20 253** |
| Provision for ECL | (370) | (1 050) |
| **Total loans and advances to customers** | **13 189** | **19 203** |

The structure of the Bank's loans is shown below:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Individuals | 13 559 | 100,0% | 20 253 | 100,0% |
| **Total loans and advances to customers before provision for ECL** | **13 559** | **100,0%** | **20 253** | **100,0%** |
| Provision for ECL | (370) | | (1 050) | |
| **Total loans and advances to customers** | **13 189** | | **19 203** | |

(thousand Russian rubles)

## 17 Financial Assets Held for Income Generation or for Sale

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| *Debt financial assets at fair value through other comprehensive income* | | |
| Bonded loans of the Russian Federation | 921 395 | 917 382 |
| Corporate Eurobonds | 209 985 | 151 914 |
| Corporate bonds | 453 952 | 515 917 |
| **Total debt financial assets at fair value through other comprehensive income** | 1 585 332 | 1 585 213 |
| **Total financial assets held for income generation or for sale** | 1 585 332 | 1 585 213 |

The analysis of financial assets by credit quality held for income generation or for sale as at 31 December 2018 is set out below

| | Regional and municipal bonds | Corporate Eurobonds | Corporate bonds | Promissory notes | Loans | Total debt financial assets at fair value through other comprehensive income |
|---|---|---|---|---|---|---|
| - rated above BBB | - | - | - | - | - | - |
| - rated from BBB- to BBB+ | - | 190 368 | 252 333 | - | - | 442 700 |
| - rated from BB- to BB+ | - | 2 718 | 196 417 | - | - | 199 136 |
| - rated from B- to B+ | - | - | 5 202 | - | - | 5 202 |
| - Unrated | - | 16 899 | | - | - | 16 899 |
| **Total financial assets held for income generation or for sale before provision for ECL** | - | **209 985** | **453 952** | - | - | **663 937** |
| Bonded loans of the Russian Federation | 921 395 | - | - | - | - | **921 395** |
| **Total financial assets held for income generation or for sale** | **921 395** | **209 985** | **453 952** | - | - | **1 585 332** |

(thousand Russian rubles)

The analysis of financial assets by credit quality held for income generation or for sale as at 31 December 2017 is set out below

| | Regional and municipal bonds | Corporate Eurobonds | Corporate bonds | Promissory notes | Loans | Total debt financial assets at fair value through other comprehensive income |
|---|---|---|---|---|---|---|
| - rated from BBB- to BBB+ | - | 114 871 | 166 795 | - | - | **281 666** |
| - rated from BB- to BB+ | - | 9 619 | 255 905 | - | - | **265 524** |
| - rated below B- | - | - | 93 217 | - | - | **93 217** |
| - Unrated | - | 27 424 | | - | - | **27 424** |
| **Total financial assets held for income generation or for sale before provision for ECL** | **-** | **151 914** | **515 917** | **-** | **-** | **667 831** |
| Bonded loans of the Russian Federation | 917 382 | - | - | - | - | 917 382 |
| **Total financial assets held for income generation or for sale** | **917 382** | **151 914** | **515 917** | **-** | **-** | **1 585 213** |

Information on fair value of financial assets held for income generation or for sale is given in Note 27.

## 18 Other Assets

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Accounts receivable and advance payments | 11 186 | 8 255 |
| Other | 5 094 | 3 456 |
| Provision for ECL | (1 377) | (5 491) |
| **Total other assets** | **14 903** | **6 220** |

## 19 Due to Banks and Other Financial Institutions

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Other accounts of financial institutions | 11 242 | 1 133 |
| **Total due to financial institutions** | **11 242** | **1 133** |

## 20 Customer Accounts

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| *Accounts of private entities* | | |
| Current and settlement accounts | 293 135 | 544 953 |
| Fixed-term deposits | 826 185 | 1 750 047 |
| **Total accounts of private entities** | **1 119 320** | **2 295 000** |
| *Individual accounts* | | |
| Current accounts | 9 763 | 22 106 |
| Fixed-term deposits | 24 846 | 18 545 |
| **Total individual accounts** | **34 609** | **40 651** |
| *Broker's accounts* | | |
| Other customer accounts | 1 543 367 | 1 063 197 |
| **Total broker's accounts** | **1 543 367** | **1 063 197** |
| **Total customer accounts** | **2 697 296** | **3 398 848** |

(thousand Russian rubles)

## 21 Other Liabilities

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Accounts payable | 131 055 | 26 259 |
| Dividends payable | 755 | - |
| Accrued expenses on payment of remuneration to staff | 10 702 | 7 172 |
| Other liabilities | 3 813 | 21 |
| **Total other liabilities** | 146 325 | 33 452 |

## 22 Share Capital and Share Premium

| | Nominal value of ordinary shares | Nominal value of preference shares | Inflation adjustment for the share capital |
|---|---|---|---|
| **31 December 2017** | **564 900** | **100** | **137 762** |
| **31 December 2018** | **564 900** | **100** | **137 762** |
| **Total share capital as at 31 December 2018** | **702 762** | | |

The Bank's nominal registered issued share capital before adjustment for share capital contributions made before 31 December 2018 to the purchasing power equivalent of a Russian ruble as at 31 December 2002 is RUB 137,762 thousand. As at 31 December 2018, all outstanding shares of the Bank are declared, issued, and fully paid-up.

The share premium is the amount by which contributions to the capital exceed the nominal value of shares in issue.

## 23 Risk Management

The Bank manages the following financial risks:

– Credit risk
– Liquidity risk
– Market risk

The principal task of financial risk management is to establish and to ensure further adherence to risk limits. The assessment of assumed risk also forms the basis for optimal allocation of capital taking into account risks, formation of pricing for transactions and assessment of performance. Management of operational, legal, reputational, and regulatory risks should ensure due compliance with the internal regulations and procedures to mitigate such risks.

The priority is to ensure the maximum soundness of assets and capital through minimization of exposure to risks that may result in unexpected losses. All risks that may adversely affect the Bank's meeting its objectives are recognised and assessed on a regular basis. This approach applies to all risks assumed by the Bank in the course of its business (credit risk, liquidity risk, operating risk, market risk, legal risk, country risk, reputational risk, strategy risk).

In 2018, risks at the Bank were managed in accordance with the scale and nature of the Bank's activities as well as taking into account the recommendations of the Bank of Russia and the Basel Committee on Banking Supervision under the established risk and capital management system.
Established procedures and methods for managing significant risks are an essential element of the strategy, one of the main lines of the activities, and a key part of the management decision making system at the Bank.
Management of and control over risks and capital adequacy considered by the Bank's management are an important aspect in the Bank's management and its transactions.
Approaches to arranging the risk and capital management system are determined in the Risk and Capital Management Strategies of PJSC Best Efforts Bank for 2017–2018 adopted and approved by the Board of Directors.

Risk management processes are regulated by the accepted PJSC Best Efforts Bank Banking Risk and Capital Management Policy, which establishes the principles of the organization of the risk management system and establishes uniform management standards.
In order to identify potential risks, to which the Bank may be exposed, and risks inherent to the Bank's activities, a procedure to identify risks significant to the Bank is performed on a regular basis.
Based on the results of risk identification, the Bank groups the identified risks according to the degree of materiality of their impact on the Bank's financial strength and, depending on it, builds processes for managing significant risks on an individual and aggregated basis as well as establishes capital requirements for their coverage.
As part of the risk and capital management system, the Bank determines the most significant risks related to financial ones based on the adopted classification, nature and scale of activities, which include:
• Risk of liquidity loss (liquidity risk);
• Credit risk;
• Market risk;
• Interest rate risk;
• Operational risk;
• Concentration risk.
The Bank classifies these types of risks as significant in accordance with the adopted Banking Risk and Capital Management Policy. This Policy determines classification of the risks, to which the Bank is exposed, and the amount of capital required to cover them, which meets the requirements of Directive 3624-U.

As part of effective risk management, the Bank pays special attention to the distribution of powers and responsibilities between the Bank's structural units (employees of the Bank) and the Bank's management bodies for risk managing and their compliance with the requirements of the legislation of the Russian Federation, including statutory acts of the Bank of Russia. One of the principles for forming the Bank's organizational structure is to ensure ongoing monitoring of banking transactions and risk management process. Control over banking risks is one of the lines of the Bank's internal control system.

There are three risk management levels in the Bank's organizational structure:
• Bank's management;
• Unit in charge of risk management;
• Structural units and officials.
The Board of Directors performs a strategic management of the Bank, determines basic principles and approaches to arrangement of the risk management and internal control system in the Bank, controls activities of the Bank's executive bodies and performs other key functions in accordance with the Articles of Association and internal documents of the Bank.
The competence of the Bank's Management Board includes implementation of the risk and capital management strategy and policy approved by the Bank's Board of Directors and other issues falling within the scope of the risk and capital management system.
The Bank's Management Board may delegate risk management issues falling within its competence to the collegial working bodies (the Bank's committees).
In order to implement risk regulating processes and risk management principles, the Bank created the following committees:
• Credit Committee (CC)
• Assets and Liabilities Management Committee (ALMC)

The main objective of the activities of the Credit Committee is to develop recommendations on the Bank's credit policy and to lower credit risks.
The main objective of the activities of the Assets and Liabilities Management Committee is to determine the Bank's policy in managing and controlling banking liquidity and to lower banking risks.
In order to effectively perform organizational and control functions by the Board of Directors for banking risk management, the Bank has formed a structural unit — the Risk Control Department responsible for coordinating banking risk management and performing the functions imposed on it by the internal regulatory documents.
The Bank's structural units are responsible for identifying risks arising in the course of transactions that are core to the unit. All structural units of the Bank monitor the level of risks of banking activities arising when they are achieving their goals and objectives. Control over the level of banking risks in the Bank's structural units is aimed at limiting and mitigating them as well as at ensuring the procedure for performance of the functions of the Bank's employees, subject to the requirements of the current legislation, statutory acts of the Bank of Russia, professional codes of conduct, business rules and internal regulating documents.

**– Credit Risk**

Credit risk is the risk of financial losses of the Bank if a customer or counterparty fails to meet its contractual obligations. The Bank manages its credit risk through approved policies and procedures that include requirements to establish and observe credit risk concentration limits, as well as through current Credit Committee and ALMC that are responsible for making decisions on credit risk regulation and for control over compliance with internal limits and norms.
Key elements of effective credit risk management were a developed credit policy and procedures, portfolio management, effective control over loans.

When managing the credit risk, the Bank is guided by the adopted Credit Policy of PJSC Best Efforts Bank for 2017–2018, under which the Bank:
• Identifies credit risks inherent to the Bank's activities;
• Identifies potential credit risks, to which the Bank may be exposed;
• Assesses credit risks;
• Monitors the scope of risks (including credit one) significant to the Bank;
• Ensures compliance with the mandatory ratios established by the Bank of Russia as well as control over the credit risk level.

The Credit Policy accepted by the Bank regulates the Bank's credit operations and other operations containing the credit risk that are carried out with retail and corporate clients, including different kinds of short-term and long-term lending, issue of guarantees and letters of credit, acceptance of guarantees as collateral for liabilities of corporate clients, acceptance of letters of credit.

The procedures for managing credit risk are determined in the Bank's internal documents and include:

• Procedure for granting loans and making decisions about their issue;
• Methods for determining and procedure for establishing limits (risk limit per borrower (group of related borrowers), risk limit by economic activity of borrowers, other limits);
• Methods for assessing risk of a counterparty (i.e., risk of a counterparty's default before completion of settlements under the transaction), including methods for assessing financial standing of counterparties (borrowers), loan quality, and for determining equity (capital) requirements;
• Requirements for securing performance of the obligations of counterparties (borrowers) and methods for its evaluation.
The Bank uses the following credit risk management methods:
• Credit risk analysis and assessment for specific credit products;
• Non-acceptance of the credit risk at the stage preceding the transactions exposed to the credit risk;
• Implementation of uniform risk assessment and identification processes;
• Planning of the credit risk level through expected loss level assessment;
• Limitation of the credit risk by setting limits and/or limiting risk as well as limitation of authorities;
• Formation of provisions for possible loan losses;
• Management of collateral for credit products;
• Management of bad debts;
• Credit risk level monitoring and control;

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

**v) Provision for Expected Credit Losses**

The Bank forms a provision for expected credit losses, which reflects the Bank's estimates of losses on the credit portfolio.

The Bank writes off a loan (and the relevant impairment provision) if the loan is classified as uncollectable and when all necessary credit reimbursement procedures are completed. Such decision is taken after considering the information on significant changes in the borrower's financial standing (such as inability to repay the loan) and if proceeds from enforcement of collateral are insufficient to cover the entire debt.

Bad debts are written off against provision for possible loan losses based on a decision of the Bank's Management Board. The borrower's financial standing and property are monitored for collectability for five years.

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FBK
Auditor's report
"Accountants and business advisors"
OGRN 1027700058286 Moscow

(thousand Russian rubles)

**vi) Maximum Credit Risk**

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The credit risk for off-balance financial instruments is determined as a probability of losses due to non-fulfilment of the terms and conditions of the relevant agreement by the other party to the financial instrument. For approval of contingent credit related commitments (undrawn credit facilities, letters of credit, and guarantees), the Bank applies the same procedures and methods determined by the Bank's credit policy as for the loan commitments (loans) recognised in the balance sheet. The maximum credit risk for off-balance financial instruments is shown in Note 26.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| *ASSETS* | | |
| Cash and cash equivalents | 340 674 | 1 467 286 |
| Mandatory cash balances with the Central Bank of Russia | 22 239 | 38 896 |
| Financial assets at fair value through profit or loss | 58 743 | 47 819 |
| Due from financial institutions | 403 299 | 360 255 |
| Accounts receivable under repo agreements | 1 901 925 | 3 333 491 |
| Positive fair value of derivative financial instruments | 3 549 | 6 273 |
| Loans and advances to customers | 13 189 | 19 203 |
| Financial assets held for income generation or for sale | 1 585 332 | 1 585 213 |
| **Total assets** | **4 328 950** | **6 858 436** |

**– Liquidity Risk**

Liquidity risk is the risk caused by the credit institution's inability to fund increases in assets and meet liabilities as they come due, without incurring losses in amounts unacceptable for the financial stability.

The Bank maintains the required liquidity level in order to ensure the continuing availability of cash required to settle all liabilities as they mature by maintaining diversified and stable structure of financing sources consisting of debt securities, long-term and short-term loans from other banks, deposits from major corporate customers and individuals as well as diversified highly liquid asset portfolio in order to be able to react quickly and without sudden fluctuations to unforeseeable liquidity requirements.

The liquidity risk factors, the basic principles, and the risk management process are set out in the adopted Banking Risk and Capital Management Policy of PJSC Best Efforts Bank.

The main external factors determining the Bank's liquidity include:
• Sudden changes in the economic and political situation in the country;
• Banking system stability;
• Condition of money and securities market.

The internal factors affecting the Bank's liquidity include:
• Maturity mismatch of assets and liabilities;
• Income and expense imbalances;
• High uncertainty of future payments;
• Risk of borrowers' insolvency.

Liquidity risk management procedures, liquidity assessment and management methods, reporting and information exchange procedures in the course of liquidity risk management are described in the Banking Risk Management and Capital Adequacy Assessment Procedures of PJSC Best Efforts Bank.

The Bank's liquidity management requires analysis of liquid assets level necessary to settle liabilities at their maturity, access to various sources of financing, plans of action in case of problems with financing and monitoring whether balance sheet liquidity ratios comply with the legislation of the Russian Federation.

(thousand Russian rubles)

The carrying amount of financial instruments broken down by expected maturity term as at 31 December 2018 is presented in the table below:

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 year to 3 years | Over 3 years | Outstanding / with unlimited period | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and cash equivalents | 340 674 | - | - | - | - | - | 340 674 |
| Mandatory cash balances with the Central Bank of Russia | 22 239 | - | - | - | - | - | 22 239 |
| Financial assets at fair value through profit or loss | 58 743 | - | - | - | - | - | 58 743 |
| Positive fair value of derivative financial instruments | 3 549 | - | - | - | - | - | 3 549 |
| Due from financial institutions | 403 299 | - | - | - | - | | 403 299 |
| Accounts receivable under repo agreements | 1 443 848 | 458 077 | - | - | - | - | 1 901 925 |
| Loans and advances to customers | - | 264 | 128 | 8 417 | 4 379 | - | 13 189 |
| Financial assets held for income generation or for sale | 1 585 332 | | | | | - | 1 585 332 |
| Current income tax receivable | 4 385 | - | - | - | - | - | 4 385 |
| Deferred tax asset | 2 656 | - | - | - | - | - | 2 656 |
| Property, plant and equipment | - | - | - | - | 86 332 | - | 86 332 |
| Intangible assets | - | - | - | - | 11 177 | - | 11 177 |
| Other assets | 14 903 | | | | | - | 14 903 |
| **Total assets** | **3 879 628** | **458 341** | **128** | **8 417** | **101 888** | **-** | **4 448 403** |
| LIABILITIES | | | | | | | |
| Negative fair value of derivative financial instruments | 2 542 | - | - | - | - | - | 2 542 |
| Accounts payable under repo agreements | 470 084 | - | - | - | - | - | 470 084 |
| Due to banks and other financial institutions | 11 242 | - | - | - | - | - | 11 242 |
| Customer accounts | 2 183 119 | 11 846 | 2 330 | 1 | 500 000 | - | 2 697 296 |
| Deferred tax liability | - | - | - | - | - | - | - |
| Other liabilities and provisions | 146 325 | - | - | - | - | | 146 325 |
| Total liabilities | 2 813 312 | 11 846 | 2 330 | 1 | 500 000 | - | 3 327 489 |
| **Net balance sheet item as at 31 December 2018** | **1 066 316** | **446 495** | **(2 202)** | **8 416** | **(398 112)** | **-** | **1 120 914** |
| **Net balance sheet item on accrual basis as at 31 December 2018** | **1 066 316** | **1 512 812** | **1 510 610** | **1 519 026** | **1 120 914** | **1 120 914** | |

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FBK
Auditor's report
OGRN 1027700058286 Moscow
"Accountants and business advisers"

(thousand Russian rubles)

The carrying amount of financial instruments broken down by expected maturity term as at 31 December 2017 is presented in the table below:

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | From 1 year to 3 years | Over 3 years | Outstanding / with unlimited period | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and cash equivalents | 1 467 286 | - | - | - | - | - | 1 467 286 |
| Mandatory cash balances with the Central Bank of Russia | 38 896 | - | - | - | - | - | 38 896 |
| Accounts receivable under repo agreements | 3 193 493 | 139 998 | - | - | - | - | 3 333 491 |
| Financial assets at fair value through profit or loss | 47 819 | - | - | - | - | - | 47 819 |
| Positive fair value of derivative financial instruments | 6 273 | - | - | - | - | - | 6 273 |
| Due from financial institutions | 360 255 | - | - | - | - | - | 360 255 |
| Loans and advances to customers | - | - | 890 | 18 313 | - | - | 19 203 |
| Financial assets held for income generation or for sale | 1 585 213 | - | - | - | - | - | 1 585 213 |
| Current income tax receivable | 4 405 | - | - | - | - | - | 4 405 |
| Deferred tax asset | 17 986 | - | - | - | - | - | 17 986 |
| Property, plant and equipment | - | - | - | - | 113 849 | - | 113 849 |
| Intangible assets | - | - | - | - | 10 891 | - | 10 891 |
| Other assets | 6 220 | - | - | - | - | - | 6 220 |
| **Total assets** | **6 727 846** | **139 998** | **890** | **18 313** | **124 740** | **-** | **7 011 787** |
| LIABILITIES | | | | | | | |
| Negative fair value of derivative financial instruments | 1 120 | - | - | - | - | - | 1 120 |
| Accounts payable under repo agreements | 1 517 104 | - | - | - | - | - | 1 517 104 |
| Due to banks and other financial institutions | 1 133 | - | - | - | - | - | 1 133 |
| Obligations to supply securities | 718 993 | - | - | - | - | - | 718 993 |
| Customer accounts | 1 766 263 | 1 117 638 | 1 510 | 513 437 | - | - | 3 398 848 |
| Other liabilities and provisions | 33 452 | - | - | - | - | - | 33 452 |
| **Total liabilities** | **4 038 065** | **1 117 638** | **1 510** | **513 437** | **-** | **-** | **5 670 650** |
| **Net balance sheet item as at 31 December 2017** | **2 689 781** | **(977 640)** | **(620)** | **(495 124)** | **124 740** | **-** | **1 341 137** |
| **Net balance sheet item on accrual basis as at 31 December 2017** | **2 689 781** | **1 712 141** | **1 711 521** | **1 216 397** | **1 341 137** | **1 341 137** | |

As a rule, the difference from the carrying amount is increased potential costs for borrowings in accordance with the terms and conditions of contracts in force at the settlement date till the end of their realization.

Undiscounted cash flows in item "Futures transactions and derivatives" mainly represent obligations to deliver foreign currency under swap transactions (one part of a swap transaction). Amounts are shown in Russian rubles at the exchange rate as at the reporting date.

(thousand Russian rubles)

When the amount payable is not fixed, the amount in the table is calculated depending on conditions existing at the reporting date. Currency payments are restated with spot foreign exchange rate effective at the reporting date.

The analysis of financial liabilities by maturity as at 31 December 2018 is given in the table below:

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|
| LIABILITIES | | | | | |
| Negative fair value of derivative financial instruments | 2 542 | - | - | - | 2 542 |
| Accounts payable under repo agreements | 470 084 | - | - | - | 470 084 |
| Due to banks and other financial institutions | 11 242 | - | - | - | 11 242 |
| Customer accounts | 2 183 119 | 11 846 | 2 330 | 500 001 | 2 697 296 |
| Deferred tax liability | - | - | - | - | - |
| Other liabilities and provisions | 146 325 | - | - | - | 146 325 |
| **Total potential future payments on financial liabilities** | **2 813 312** | **11 846** | **2 330** | **500 001** | **3 327 489** |

The analysis of financial liabilities by maturity as at 31 December 2017 is given in the table below:

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|
| LIABILITIES | | | | | |
| Negative fair value of derivative financial instruments | 1 120 | - | - | - | 1 120 |
| Accounts payable under repo agreements | 1 517 104 | - | - | - | 1 517 104 |
| Due to banks and other financial institutions | 1 133 | - | - | - | 1 133 |
| Obligations to supply securities | 718 993 | - | - | - | 718 993 |
| Customer accounts | 1 766 263 | 1 117 638 | 1 510 | 513 437 | 3 398 848 |
| Other liabilities and provisions | 33 452 | - | - | - | 33 452 |
| **Total potential future payments on financial liabilities** | **4 038 065** | **1 117 638** | **1 510** | **513 437** | **5 670 650** |

**– Market Risk**

Market risk is the risk that the Bank will incur financial losses due to changes in the current (fair) value of financial instruments of the Bank's trading portfolio and derivative financial instruments, as well as of foreign exchange rates and/or accounting prices for precious metals.

Market risk is divided into:

- Interest rate risk

- Currency risk

When managing the market risk, the Bank achieves the following objectives:
• Arranging control over trading portfolio diversification;
• Maintaining the Bank's open positions at the level not posing a threat to its financial standing.

The market risk management methods depend on the nature of risks arising and are divided into general and specific ones.
The general market risk management methods include:
• System for collecting and analysing information on markets and counterparties;
• System for setting and controlling limits;
• Market price change current monitoring system;
• Hedging system.

**– Interest Rate Risk**

The interest rate risk is a risk of deterioration of financial state of the Bank due to the decrease in capital, income level, asset value due to the change in interest rates on the market. Interest rate risk management is part of the risk and capital management system of PJSC Best Efforts Bank.

The interest rate risk management procedures include a list of assets (liabilities) sensitive to changes in interest rates.
The quantitative parameters of acceptable (admissible) interest rate risk level and other elements (components) of the interest rate risk management system are determined in the Bank's internal documents.

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Interest rate risk management based on the analysis of the term when interest rates are reviewed is supplemented by monitoring the assets and liabilities sensitivity.

The analysis of the Bank's risk resulting from fluctuations in interest rates as at 31 December 2018 is given below. The table displays assets and liabilities which are exposed to interest rate risk and classified into different time categories by contractual dates of interest rate revision.

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | Over 1 year | Indefinite term / No interest rate risk | Total |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Cash and cash equivalents | 340 674 | - | - | - | - | 340 674 |
| Mandatory cash balances with the Central Bank of Russia | 22 239 | - | - | - | - | 22 239 |
| Financial assets at fair value through profit or loss | 58 743 | - | - | - | - | 58 743 |
| Due from financial institutions | 403 299 | - | - | - | - | 403 299 |
| Accounts receivable under repo agreements | 1 443 848 | 458 077 | - | - | - | 1 901 925 |
| Loans and advances to customers | - | 264 | 128 | 12 796 | | 13 189 |
| Financial assets held for income generation or for sale | 1 585 332 | - | - | - | | 1 585 332 |
| Positive fair value of derivative financial instruments | 3 549 | | | | | 3 549 |
| Current income tax receivable | 4 385 | - | - | - | - | 4 385 |
| Deferred tax asset | 2 656 | - | - | - | - | 2 656 |
| Property, plant and equipment | - | - | - | 86 332 | | 86 332 |
| Intangible assets | - | - | - | 11 177 | | 11 177 |
| Other assets | 14 903 | - | - | - | - | 14 903 |
| **Total assets** | **3 879 628** | **458 341** | **128** | **110 305** | **-** | **4 448 403** |
| **Accrued total assets** | **3 879 628** | **4 337 970** | **4 338 098** | **4 448 403** | | |
| LIABILITIES | | | | | | - |
| Negative fair value of derivative financial instruments | 2 542 | - | - | - | - | 2 542 |
| Accounts payable under repo agreements | 470 084 | - | - | - | - | 470 084 |
| Due to banks and other financial institutions | 11 242 | - | - | - | - | 11 242 |
| Customer accounts | 2 183 119 | 11 846 | 2 330 | 500 001 | - | 2 697 296 |
| Deferred tax liability | - | - | - | - | - | - |
| Other liabilities and provisions | 146 325 | - | - | - | - | 146 325 |
| **Total liabilities** | **2 813 312** | **11 846** | **2 330** | **500 001** | **-** | **3 327 489** |
| **Accrued total liabilities** | **2 813 312** | **2 825 158** | **2 827 488** | **3 327 489** | **3 327 489** | |
| Marginal gap | 1 066 316 | 446 495 | (2 202) | (389 696) | - | |
| **Gap ratio (cumulative relative gap on accrual basis)** | **137,90%** | **153,55%** | **153,43%** | **133,69%** | **133,69%** | |
| Interest rate sensitivity | 10 219 | 3 163 | (6) | | | 13 376 |

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The analysis of the Bank's risk resulting from fluctuations in interest rates as at 31 December 2017 is given below.

| | On demand and less than 1 month | From 1 to 6 months | From 6 to 12 months | Over 1 year | Indefinite term / No interest rate risk | Total |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Cash and cash equivalents | 1 467 286 | - | - | - | - | 1 467 286 |
| Mandatory cash balances with the Central Bank of Russia | 38 896 | - | - | - | - | 38 896 |
| Accounts receivable under repo agreements | 3 193 493 | 139 998 | - | - | - | 3 333 491 |
| Financial assets at fair value through profit or loss | 47 819 | - | - | - | - | 47 819 |
| Positive fair value of derivative financial instruments | 6 273 | - | - | - | - | 6 273 |
| Due from financial institutions | 360 255 | - | - | - | - | 360 255 |
| Loans and advances to customers | - | - | 890 | 18 313 | - | 19 203 |
| Financial assets held for income generation or for sale | 1 585 213 | - | - | - | - | 1 585 213 |
| Current income tax receivable | 4 405 | - | - | - | - | 4 405 |
| Deferred tax asset | 17 986 | - | - | - | - | 17 986 |
| Property, plant and equipment | - | - | - | 113 849 | - | 113 849 |
| Intangible assets | - | - | - | 10 891 | - | 10 891 |
| Other assets | 6 220 | - | - | - | - | 6 220 |
| **Total assets** | **6 727 846** | **139 998** | **890** | **143 053** | **-** | **7 011 787** |
| **Accrued total assets** | **6 727 846** | **6 867 844** | **6 868 734** | **7 011 787** | **7 011 787** | |
| LIABILITIES | | | | | | |
| Negative fair value of derivative financial instruments | 1 120 | - | - | - | - | 1 120 |
| Accounts payable under repo agreements | 1 517 104 | - | - | - | - | 1 517 104 |
| Due to banks and other financial institutions | 1 133 | - | - | - | - | 1 133 |
| Obligations to supply securities | 718 993 | - | - | - | - | 718 993 |
| Customer accounts | 1 766 263 | 1 117 638 | 1 510 | 513 437 | - | 3 398 848 |
| Other liabilities and provisions | 33 452 | - | - | - | - | 33 452 |
| **Total liabilities** | **4 038 065** | **1 117 638** | **1 510** | **513 437** | **-** | **5 670 650** |
| **Accrued total liabilities** | **4 038 065** | **5 155 703** | **5 157 213** | **5 670 650** | **5 670 650** | |
| Marginal gap | 2 689 781 | (977 640) | (620) | (370 384) | - | |
| **Gap ratio (cumulative relative gap on accrual basis)** | **166,61%** | **133,21%** | **133,19%** | **123,65%** | **123,65%** | |
| Interest rate sensitivity | 25 777 | (6 925) | (2) | | | 18 851 |

Sensitivity to fluctuations in interest rates is the effect of a parallel shift in all yield curves of 100 basis points to the amount of net interest income (expense) for a year.

Analysis of the interest rate risk on the basis of the above tables is conducted over an absolute gap amount obtained at the end of the year. As at 31 December 2018, upon increasing interest rate by 100 basis points, the effect on net interest income for the year was RUB 13,376 thousand, upon decreasing interest rate net interest expense was RUB 13,376 thousand (in 2017, upon increasing interest rate by 100 basis points, the effect on net interest income for the year was RUB 18,851 thousand, upon decreasing interest rate net interest expense was RUB 18,851 thousand).

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Profit or loss | Equity | Profit or loss | Equity |
| Increase 100 basis points | - | 13 376 | - | 18 851 |
| Decrease 100 basis points | - | (13 376) | - | (18 851) |

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**– Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates and/or precious metals rates for positions held by the Bank in foreign currencies and/or precious metals.

The analysis of sensitivity of profit or loss and equity to currency risks based on a simplified scenario of a 100 basis point (bp) symmetrical rise or fall in all yield curves as at 31 December 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| 10% appreciation of USD against RUB | **581** | **(583)** |
| 10% appreciation of EUR against RUB | **(712)** | **(895)** |

The Bank is exposed to currency risk that is the risk of losses arising from adverse changes in exchange rates on open foreign currency positions.

The Bank sets limits on the level of accepted risk by currency and comprehensively both for the end of each day and throughout the day and controls adherence to these limits on a daily basis.

The table below provides general analysis of the Bank's currency risk as at the reporting date, 31 December 2018:

| | RUB | USD | EUR | Other currencies | Total |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | 138 758 | 183 069 | 18 773 | 75 | 340 674 |
| Mandatory cash balances with the Central Bank of Russia | 22 239 | - | - | - | 22 239 |
| Accounts receivable under repo agreements | 1 197 308 | 356 093 | 348 524 | - | 1 901 925 |
| Financial assets at fair value through profit or loss | 58 717 | 26 | - | - | 58 743 |
| Positive fair value of derivative financial instruments | 3 549 | - | - | - | 3 549 |
| Due from financial institutions | 132 | 151 830 | 251 337 | | 403 299 |
| Loans and advances to customers | 13 189 | - | - | - | 13 189 |
| Financial assets held for income generation or for sale | 1 321 434 | 162 041 | 101 856 | - | 1 585 332 |
| Current income tax receivable | 4 385 | - | - | - | 4 385 |
| Deferred tax asset | 2 656 | - | - | - | 2 656 |
| Property, plant and equipment | 86 332 | - | - | - | 86 332 |
| Intangible assets | 11 177 | - | - | - | 11 177 |
| Other assets | 14 903 | - | - | - | 14 903 |
| **Total assets** | **2 874 779** | **853 059** | **720 490** | **75** | **4 448 403** |
| LIABILITIES | | | | | |
| Negative fair value of derivative financial instruments | 2 542 | - | - | - | 2 542 |
| Due to banks and other financial institutions | 821 | 10 421 | - | - | 11 242 |
| Accounts payable under repo agreements | 470 084 | - | - | - | 470 084 |
| Customer accounts | 1 324 183 | 1 360 691 | 12 421 | - | 2 697 296 |
| Deferred tax liability | - | - | - | - | - |
| Other liabilities and provisions | 18 868 | 127 410 | 47 | - | 146 325 |
| **Total liabilities** | **1 816 498** | **1 498 522** | **12 468** | **-** | **3 327 489** |
| **Effect of derivative financial instruments expressed in foreign currencies** | **64 501** | **651 278** | **(715 145)** | **-** | **634** |
| **Net balance sheet item** | **1 122 782** | **5 814** | **(7 122)** | **75** | **1 121 548** |

(thousand Russian rubles)

The table below provides general analysis of the Bank's currency risk as at the reporting date, 31 December 2017:

| | RUB | USD | EUR | Other currencies | Total |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | 635 934 | 36 979 | 794 282 | 91 | 1 467 286 |
| Mandatory cash balances with the Central Bank of Russia | 38 896 | - | - | - | 38 896 |
| Financial assets at fair value through profit or loss | 47 819 | - | - | - | 47 819 |
| Due from financial institutions | 6 359 | 156 247 | 197 649 | - | 360 255 |
| Accounts receivable under repo agreements | 2 122 164 | 1 211 327 | - | - | 3 333 491 |
| Positive fair value of derivative financial instruments | 1 267 | 247 | 4 759 | - | 6 273 |
| Loans and advances to customers | 19 203 | - | - | - | 19 203 |
| Financial assets held for income generation or for sale | 1 433 267 | 151 946 | - | - | 1 585 213 |
| Current income tax receivable | 4 405 | - | - | - | 4 405 |
| Deferred tax asset | 17 986 | - | - | - | 17 986 |
| Property, plant and equipment | 113 849 | - | - | - | 113 849 |
| Intangible assets | 10 891 | - | - | - | 10 891 |
| Other assets | 6 220 | - | - | - | 6 220 |
| **Total assets** | **4 458 261** | **1 556 746** | **996 690** | **91** | **7 011 787** |
| LIABILITIES | | | | | |
| Negative fair value of derivative financial instruments | 31 | - | 1 089 | - | 1 120 |
| Due to banks and other financial institutions | 1 133 | - | - | - | 1 133 |
| Obligations to supply securities | 718 993 | - | - | - | 718 993 |
| Accounts payable under repo agreements | 1 254 239 | 262 865 | - | - | 1 517 104 |
| Customer accounts | 1 453 083 | 1 877 819 | 67 946 | - | 3 398 848 |
| Other liabilities and provisions | 18 343 | 15 096 | 13 | - | 33 452 |
| **Total liabilities** | **3 445 822** | **2 155 780** | **69 048** | **-** | **5 670 650** |
| **Effect of derivative financial instruments expressed in foreign currencies** | **348 534** | **593 207** | **(936 588)** | **-** | **5 153** |
| **Net balance sheet item** | **1 360 973** | **(5 827)** | **(8 946)** | **91** | **1 346 290** |

## 24 Capital Management

The Bank's capital management is aimed at: (i) adherence to the legal capital requirements set by the Bank of Russia and (ii) ensuring the Bank's ability to operate as a going concern. The Bank also monitors the level of capital adequacy calculated in accordance with the Basel Accord on an ongoing basis to maintain it at or above 8%.

During the periods ended 31 December 2018 and 31 December 2017, the Bank observed the capital adequacy ratio established by the Bank of Russia.

The Bank shall observe the minimum capital level requirements, including capital adequacy ratio calculated on the basis of the Basel Capital Accords as stipulated by the International Convergence of Capital Measurement and Capital Standards (accepted in July 1988 and as amended in April 2005) and the Supplement to the Basel Capital Accords introducing market risk consideration (as amended in November 2005), usually referred to as Basel III. Below you will find the structure of the Bank's capital calculated on the basis of the Basel Capital Accords:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| *Equity* | | |
| *Tier 1 capital* | | |
| Share capital | 702 762 | 702 762 |
| Share premium | 685 811 | 685 811 |
| Revaluation reserve of financial assets held for income generation or for sale at fair value through other comprehensive income | (17 735) | (2 448) |
| Retained earnings | (251 132) | (44 988) |
| **Total tier 2 capital** | - | - |
| *Components decreasing equity* | | |
| Intangible assets | (11 177) | (10 891) |
| **Total components decreasing equity** | **(11 177)** | **(10 891)** |
| **Total equity** | **1 108 529** | **1 330 246** |

(thousand Russian rubles)

Below are the Bank's capital adequacy ratios calculated by the Bank in accordance with the requirements of 180-I:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Tier 1 capital adequacy ratio | 36,33 | 38,51 |
| Total capital adequacy ratio (tiers 1 and 2) | 36,33 | 38,51 |

During 2018 and 2017, the Bank complied with all external capital requirements.

## 25 Contingent Liabilities

### Legal Proceedings

From time to time and in the normal course of business, claims against the Bank are received by judicial authorities. Based on own assessment and recommendations of internal and external advisors, the management believes that the Bank will not incur any material losses resulting from legal proceedings on such claims and, for this reason, has not created any related provisions.

### Tax Legislation

Significant part of the Bank's transactions is made in the Russian Federation. The tax legislation of the Russian Federation (including amendments entered in force at the end of the reporting period) allows different interpretations, when applied to the Bank's transactions and activities, and is subject to frequent amendments. Therefore, the position taken by the Bank's management as to taxation and the official documents in support of its tax position may be challenged by the relevant authorities. The Russian tax authorities adhere to the rigid position and there is a risk of audit of tax operations without explicit business objective or of transactions made with counterparties violating the tax legislation. Tax periods remain open for audit by the tax authorities to check tax payments within three calendar years preceding the year, which is audited. In some cases, audits may cover longer periods.

The Russian legislation on transfer pricing largely corresponds to the international transfer pricing principles developed by the Organization for Economic Cooperation and Development. This legislation provides a possibility for the tax authorities to adjust transfer pricing and impose any additional tax liabilities with regard to all controlled transactions (related party transactions and some non-related party transactions), provided that the transaction price differs from a market price.

The Russian legislation contains specific rules for adjusting transaction prices for tax purposes, including transfer pricing rules, and rules for securities and derivatives. The Bank believes that the transactions made in 2017 do not require any tax adjustments, except for some transactions (mainly classified as transactions in securities and derivatives). As the interpretation of transfer pricing rules is being elaborated, such transfer prices may be challenged. The consequences thereof cannot be assessed with a reasonable degree of accuracy.

The legislation on controlled foreign companies implemented in the Russian Federation a tool for taxing profit of controlled foreign companies and foreign non-corporate entities (including trusts) controlled by the Russian tax residents. Income of controlled foreign companies is taxed at the rate of 20% if such companies are controlled by a legal entity or at the rate of 13% if they are controlled by an individual. As a result, management revised the Bank's tax positions and concluded that such new legislation would not result in additional significant deferred taxes due to temporary differences resulting from the expected taxation method of the relevant Bank's activities falling within the scope of the legislation on controlled foreign companies.

The Russian tax legislation does not contain complete guidance on all tax issues, and the tax authorities may challenge the interpretations of the legislation applied by the Bank. Although, at present, management believes that such tax positions and interpretations may be confirmed, there is a risk that a resource outflow may be required if these tax positions and interpretations are challenged by the relevant authorities. The consequences thereof cannot be assessed with a reasonable degree of accuracy; however, they may significantly affect the Bank's financial standing and/or activities in general.

Apart from the above risks, as per the Bank's estimate, as at 31 December 2018 and 31 December 2017 the Bank has no other potential tax liabilities. The above risks are estimates resulting from the uncertainty in the interpretation of the applicable legislation and the relevant requirements to documents. Management will assert the Bank's positions and interpretations used when determining taxes recorded in these financial statements if they are challenged.

## 26 Derivatives

Foreign exchange (and other) derivatives are usually traded in exchange market with professional traders under standardised contracts.

Fair value of forwards, swaps, and options under interest rate contracts, foreign exchange contracts, and securities contracts concluded by the Bank as at the reporting date are shown in the table below. The table includes contracts with the settlement dates after the relevant reporting date; the amounts for these transactions are shown in detail before netting of positions (and payments) for each counterparty. Transactions are short-term.

| | 31 December 2018 | | |
|---|---|---|---|
| | Contract or agreed amount | Positive fair value | Negative fair value |
| **Currency contracts** | **-** | **3 155** | **(2 521)** |
| Forwards and swaps | - | 3 155 | (2 521) |
| Securities contracts | | 394 | (21) |
| **Total derivative financial assets (liabilities)** | **-** | **3 549** | **(2 542)** |

(thousand Russian rubles)

Fair value of forwards, swaps, and options under interest rate contracts, foreign exchange contracts, and shares contracts concluded by the Bank are shown in the table below as at 31 December 2017:

| | 31 December 2017 | | |
|---|---|---|---|
| | Contract or agreed amount | Positive fair value | Negative fair value |
| **Currency contracts** | - | **6 273** | **(1 120)** |
| Forwards and swaps | - | 6 273 | (1 120) |
| Securities contracts | - | - | - |
| **Total derivative financial assets (liabilities)** | - | **6 273** | **(1 120)** |

## 27 Fair Value of Financial Instruments

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is given by quoted price in the market for the financial instrument.

The Bank determined the estimated fair value of financial instruments on the basis of available market data (if any) and proper valuation techniques. Professional judgments are however required to interpret market data to determine the fair value. Notwithstanding the Russian Federation has investment grade ratings, it continues to display some characteristic of an emerging economy and economic environment continues to limit the level of activity in financial markets. Management uses all available market data when assessing the fair value of financial instruments.

To measure the fair value of financial instruments, the Bank uses inputs of various levels on a recurring basis:

Level 1 inputs are quoted (unadjustable) prices in active markets for a financial asset that the Bank can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available.
Level 1 inputs include:
- Quoted prices in main markets for this financial instrument / type of financial instrument;
- Data disclosed by other trading authorities or information systems, which operators are professional securities traders carrying out activities to arrange trading on the securities market.

Level 2 inputs are inputs (adjustable) other than quoted prices included in Level 1 that are observable for a financial instrument, either directly or indirectly. If prices for current transactions or published current quoted prices are not available, the fair value of financial instruments is determined based on valuation techniques using observable parameters detected directly (i.e., as prices) or indirectly (i.e., as a parameter derived from a price).
Level 2 inputs include:
- Quoted prices or yields for similar financial instruments in active markets;
- Data observable for a financial instrument and corroborated by the market;
- Quoted prices for identical or similar securities in markets that are not active.

Level 3 inputs are unobservable inputs for the financial instrument being measured as well as inputs that the Bank cannot classify as Level 1 and Level 2 inputs. Level 3 inputs are used to measure financial instruments that are not quoted in an active market. Accordingly, their fair value may be determined using at least one unobservable parameter that is significant for determining fair value or using valuation technique, which assumes that the cumulative effect of unobservable parameters is significant for measuring fair value. Unobservable parameters show the Bank's own assumptions and the assumptions used by the market participants in the process of setting price for an asset or a liability, including risk assessment. When using Level 2 inputs and below, the price calculated based on the professional judgement is deemed as reliably determined.

Depending on the used inputs and methods for determining the fair value of financial instruments, the obtained fair value may have a different level in the Fair Value Hierarchy.
Level 1: fair value of financial instruments traded in an active market, which may be determined based on current unadjusted market data (Level 1 inputs).
Level 2: fair value of financial instruments traded in an active market, which may be determined using observable parameters (Level 2 inputs).
Level 3: fair value of financial instruments traded in an inactive market, which may be determined using at least one unobservable parameter (Level 3 inputs).

### Financial Instruments at Fair Value

Trading securities, other securities, loans and advances to customers, changes in fair value of which are recognised in the statement of profit and loss, derivative financial instruments and financial assets held for income generation or for sale are reported at fair value. The fair value is based on the quoted market prices. Cash and cash equivalents are recognised at amortised cost which approximates their current fair value.

(thousand Russian rubles)

**Due from Financial Institutions at Amortised Cost and at Fair Value Through Profit or Loss**

In the management's opinion, the fair value of due from financial institutions did not significantly differ from their carrying amount. It is explained by the existent practice when interest rate is restated in order to reflect current market conditions. Therefore, interest rate for most balances is based on rates similar to market ones.

**Loans and Advances to Customers at Amortised Cost or at Fair Value Through Profit or Loss**

The fair value of floating rate instruments is normally their carrying amount. In case of significant changes in the market environment, the Bank can review interest rates on fixed rate loans to customers and deposits with other banks. As a consequence, interest rates on loans made prior to the reporting date do not significantly differ from effective interest rates in the loan market for new instruments with similar credit risks and remaining maturities. If the Bank estimates that rates on loans made in earlier periods significantly differ from effective interest rates for similar instruments at the reporting date, the estimated fair value of such loans shall be determined. The measurement is based on expected cash flows discounted at effective interest rates in the loan market for new instruments with similar credit risks and remaining maturities. The discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty.

**Financial Assets Held for Income Generation**

The amortised cost of financial assets held for income generation is based on the quoted market prices.

The Bank estimates the fair value of other financial assets, including trade and business receivables that is equal to the carrying amount taking into account that the indebtedness is short-term.

**Liabilities at Amortised Cost**

The fair value of liabilities at amortised cost is based on the quoted market prices, if available. The estimated fair value of fixed rate instruments with a stated maturity, for which quoted market prices are not available, is based on expected cash flows discounted at interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period (demandable liabilities) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

**Derivatives**

All derivative financial instruments are accounted for at fair value as assets if fair value of such instruments is positive or as liabilities if their fair value is negative.

The fair value of financial instruments is as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| *Financial assets* | | | | |
| *Financial assets at fair value* | | | | |
| Financial assets at fair value through profit or loss | 58 743 | 58 743 | 47 819 | 47 819 |
| Positive fair value of derivative financial instruments | 3 549 | 3 549 | 6 273 | 6 273 |
| *Financial assets at fair value through other comprehensive income* | | | | |
| Financial assets held for income generation or for sale | 1 585 332 | 1 585 332 | 1 585 213 | 1 585 213 |
| *Financial assets at amortised cost* | | | | |
| Cash and cash equivalents | 340 674 | 340 674 | 1 467 286 | 1 467 286 |
| Due from financial institutions | 403 299 | 403 299 | 360 255 | 360 255 |
| Loans and advances to customers | 13 189 | 13 189 | 19 203 | 19 203 |
| **Total financial assets** | **2 404 786** | **2 404 786** | **3 486 049** | **3 486 049** |
| ***Financial liabilities*** | | | | |
| *Financial liabilities at fair value* | | | | |
| Negative fair value of derivative financial instruments | 2 542 | 2 542 | 1 120 | 1 120 |
| Obligations to supply securities | - | - | 718 993 | 718 993 |
| *Financial liabilities at amortised cost* | | | | |
| Due to banks and other financial institutions | 11 242 | 11 242 | 1 133 | 1 133 |
| Customer accounts | 2 697 296 | 2 697 296 | 3 398 848 | 3 398 848 |
| Other liabilities and provisions | 146 619 | 146 619 | 33 452 | 33 452 |
| **Total liabilities** | **2 857 699** | **2 857 699** | **4 153 546** | **4 153 546** |

Level 1 hierarchy includes the largest part of the assets amounting to RUB 1,585,332 thousand.

(thousand Russian rubles)

## 28 Related Party Transactions

For the purposes of these financial statements, the parties are considered to be related if one party has the ability to control the other party or to exercise significant influence on the other party in making financial and operating decisions as stated in IAS 24 "Related Party Disclosures". When considering each possible related party relationship, attention is paid to the substance of such relationship, not merely its legal form.

The most significant (by the scope of transactions) related parties of the Bank are the principal shareholders and the key management personnel.

Below are the data on related party transactions grouped by item of the statement of financial position and by contingent liability as at 31 December 2018, by item of income and expenses for 2018:

| | Principal shareholders | Key management personnel | Other related parties |
|---|---|---|---|
| ASSETS | | | |
| Financial assets at fair value through profit or loss | - | - | 58 709 |
| Due from financial institutions | - | - | 10 250 |
| Accounts receivable under repo agreements | - | - | - |
| Loans and advances to customers | - | 8 618 | - |
| Other assets | 106 | - | - |
| **Total assets** | **106** | **8 618** | **68 959** |
| LIABILITIES | | | |
| Financial liabilities at fair value through profit or loss | - | - | - |
| Due to banks and other financial institutions | - | - | 11 242 |
| Customer accounts other than individual accounts | 38 506 | - | 712 669 |
| Individual accounts | - | 463 | - |
| Other liabilities and provisions | 441 | - | 58 |
| Subordinated deposit | 509 503 | - | - |
| **Total liabilities** | **548 451** | **463** | **723 969** |

| | Principal shareholders | Key management personnel | Other related parties |
|---|---|---|---|
| Interest income | - | 1 297 | 177 |
| Interest expense | 37 106 | - | 1 456 |
| Change in provision for expected credit losses on interest bearing assets | - | 238 | 11 101 |
| Income less expenses from transactions with financial assets / liabilities | - | - | 1 |
| Income less expenses from transactions with foreign currencies and derivative financial instruments | (7 046) | 3 | (28 843) |
| Fee and commission income | 9 650 | 62 | 5 281 |
| Fee and commission expense | - | - | 13 530 |
| Change in other provisions and change in estimated liabilities | 36 | 11 646 | - |
| Other operating income | 287 | - | 3 |
| Operating expenses | 7 567 | - | 618 |

(thousand Russian rubles)

Below are the data on related party transactions grouped by item of the statement of financial position and by contingent liability as at 31 December 2017, by item of income and expenses for 2017:

| | Principal shareholders | Key management personnel | Other related parties |
|---|---|---|---|
| ASSETS | | | |
| Funds for transactions on the exchange | - | - | 31 661 |
| Accounts receivable under repo agreements | - | - | 41 638 |
| Financial assets at fair value through profit or loss | - | - | 47 787 |
| Loans and advances to customers | - | 10 430 | - |
| Other assets | 46 | - | 1 086 |
| **Total assets** | **46** | **10 430** | **122 172** |
| LIABILITIES | | | |
| Due to banks and other financial institutions | - | - | 1 133 |
| Customer accounts other than individual accounts | 88 319 | - | 168 682 |
| Individual accounts | - | 778 | - |
| Other liabilities and provisions | 374 | - | 247 |
| Subordinated deposit | 510 380 | - | - |
| **Total liabilities** | **599 073** | **778** | **170 062** |

| | Principal shareholders | Key management personnel | Other related parties |
|---|---|---|---|
| Interest income | - | 1 524 | 3 416 |
| Income less expenses from transactions with financial assets / liabilities | 20 418 | 73 | 20 254 |
| Income less expenses from transactions with foreign currencies | 3 681 | - | (4 462) |
| Fee and commission income | 596 | 60 | 14 954 |
| Change in provision for expected credit losses on assets held for income generation | - | - | 14 391 |
| Change in other provisions and change in estimated liabilities | - | - | (1 165) |
| Other operating income | - | - | 127 |
| Operating expenses | (3 925) | - | (2 114) |

The Bank's key management personnel consist of the members of the Board of Directors and the Management Board of the Bank. Below is the information on the remuneration paid to the key management personnel for 2018 and 2017, included in item "Staff costs":

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Short-term payments | 8 689 | 7 878 |

## 29 Subsequent Events

There were no subsequent events before the signing date of these financial statements.

## 30 Estimates and Assumptions Impact on Recognized Assets and Liabilities

The Bank carries out estimates and assumptions having impact on recognized amounts of assets and liabilities during the following financial year. Estimates and judgements are accepted and based on historic experience and other factors, including expectations of future events which may arise under certain circumstances.

### Going Concern Principle

The management prepared these financial statements based on going concern principle. Using this judgement, management took into account the existing intentions, the profit margin of operations, the available financial resources, and the impact of the current economic situation on the Bank's activities.

Signed on 14 March 2019

Chairman of the Management Board I. B. Ionova

Chief Accountant N. G. Popova

Limited liability company
FBK
Auditor's report
OGRN 1027700058286 Moscow
Accountants and business advisors

Limited liability company

**FBK**

Auditor's report

"Accountants and business advisors"

OGRN 1027700058286 Moscow

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(forty eight)pages
President of «FBK», LLC
(                    )
Engagement partner
(                    )