

IMPORTANT NOTICE

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the “**Prospectus**”) and you are advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Prospectus. In accessing the attached Prospectus you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from the Issuer, CBM or the Joint Lead Managers (each as defined below) as a result of such access. The attached Prospectus is intended for the addressee only.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES DESCRIBED IN THE ATTACHED PROSPECTUS (THE “NOTES”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), DIRECTLY OR INDIRECTLY, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THE ATTACHED PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES.

Confirmation of your Representation: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the Notes, investors must comply with the following provisions. You have been sent the attached Prospectus on the basis that you have confirmed to Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Emirates NBD Bank PJSC, ING Bank N.V., London Branch, Raiffeisen Bank International AG, Société Générale, Sova Capital Limited and UBS AG London Branch (the “**Joint Lead Managers**”), being the senders of the attached Prospectus, that:

- (a) you (and each investor that you represent) are either: (A) not a U.S. person (as such term is defined in Regulation S under the Securities Act), are not investing in the Rule 144A Note (as defined in the attached Prospectus) and the electronic mail address that you have given to us and to which this electronic transmission has been sent is not located in the United States; or (B) a “qualified institutional buyer” (as such term is defined in Rule 144A under the Securities Act) that is also a “qualified purchaser” (within the meaning of Section 2(a)(51) of the United States Investment Company Act of 1940, as amended);
- (b) you consent to delivery of the attached Prospectus by electronic transmission;
- (c) you are a prospective purchaser of the Notes and you are a “relevant person” (as defined below) if in the United Kingdom;
- (d) you will not transmit the attached Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of a Joint Lead Manager; and

- (e) you acknowledge that the attached Prospectus does not constitute an offer of or an invitation to subscribe for or purchase any of the Notes.

By accepting this electronic transmission and accessing the attached Prospectus, you shall be deemed to have made the above representation and that you consent to delivery of such Prospectus by electronic transmission.

This Prospectus is directed solely at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the “**Order**”), (iii) high net worth entities, or (iv) any other persons to whom an invitation or inducement to engage in investment activities may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i)-(iv) above being “**relevant persons**”). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

The attached Prospectus or information contained therein is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in the attached Prospectus is not intended for any persons in the Russian Federation who are not “qualified investors” within the meaning of Article 51.2 of Federal Law No. 39-FZ “On the Securities Market” dated 22 April 1996, as amended (the “**Russian QIs**”), and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for “placement” or “circulation” in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

The attached Prospectus has been delivered to you on the basis that you are a person into whose possession the attached Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The attached Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of CBOM Finance p.l.c. (the “**Issuer**”), CREDIT BANK OF MOSCOW (public joint-stock company) (“**CBM**”) or the Joint Lead Managers, or any person who controls them, or any director, officer, employee or agent of any of them, or their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the attached Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are reminded that no representation or warranty, expressed or implied, is made or given by or on behalf of the Joint Lead Managers, nor any person who controls the Joint Lead Managers or any director, officer, employee or agent of any of them, or their respective affiliates as to the accuracy, completeness or fairness of the information or opinions contained in the attached Prospectus and such persons do not accept responsibility or liability for any such information or opinions.

Neither this electronic transmission nor the attached Prospectus constitutes or contains any offer to sell or invitation to subscribe or make commitments for or in respect of any securities in any jurisdiction where such an offer or invitation would be unlawful. If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer, and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.



**U.S.\$600,000,000 4.700% Loan Participation Notes due 2025
to be issued by, but with limited recourse to,
CBOM Finance p.l.c.
for the sole purpose of financing a loan to
CREDIT BANK OF MOSCOW (public joint-stock company)**

Issue Price: 100%

CBOM Finance p.l.c., a public company with limited liability incorporated under the laws of Ireland, having its registered office at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland, and registered under number 425241 (the “**Issuer**”), is issuing an aggregate principal amount of U.S.\$600,000,000 4.700% Loan Participation Notes due 2025 (the “**Notes**”) to be issued by, but with limited recourse to the Issuer for the sole purpose of financing a U.S.\$600,000,000 loan (the “**Loan**”) to CREDIT BANK OF MOSCOW (public joint-stock company) (the “**Borrower**” or “**CBM**”) on the terms of a loan agreement dated 27 January 2020 (the “**Loan Agreement**”) between the Issuer and CBM. The Notes are constituted by, are subject to, and have the benefit of, a trust deed to be dated on or about 29 January 2020 (the “**Trust Deed**”) between the Issuer and Citibank, N.A., London Branch as trustee (the “**Trustee**”) for the benefit of the Noteholders (as defined in the “*Terms and Conditions of the Notes*”). In the Trust Deed, the Issuer has charged, in favour of the Trustee for itself and for the benefit of the Noteholders, by way of a first fixed charge as security for its payment obligations in respect of the Notes and under the Trust Deed, certain of its rights and interests under the Loan Agreement and the Account (as defined in the Trust Deed). In addition, the Issuer has assigned absolutely certain of its administrative rights under the Loan Agreement to the Trustee.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) by, or for the account of, the Issuer pursuant to the Loan Agreement excluding, however, any amounts paid in respect of Reserved Rights (as defined in the Trust Deed). The Issuer will have no other financial obligation under the Notes. Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on CBM’s covenant to pay under the Loan Agreement and on the credit and financial standing of CBM in respect of the payment obligations of the Issuer under the Notes.

Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to CBM except through action by the Trustee under any of the Security Interests (as defined in the “*Terms and Conditions of the Notes*”).

On each interest payment date, being 29 January and 29 July (each, an “**Interest Payment Date**”) in each year, commencing on 29 July 2020 and ending on 29 January 2025, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan Agreement is equal to 4.700% per annum from, and including, 29 January 2020 (the “**Issue Date**”) to, but excluding 29 January 2025 (the “**Maturity Date**”).

The Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Borrower, for tax reasons or in the event that it becomes unlawful for the Issuer to fund the advance or allow the Loan to remain outstanding and/or increased costs are due under the Loan Agreement, and thereupon (subject to the receipt of the relevant funds from the Borrower) the principal amount of all outstanding Notes will be prepaid by the Issuer, together with accrued interest.

There is currently no public market for the Notes. The Prospectus has been approved by the Central Bank of Ireland (the “**Central Bank**”) as competent authority under Regulation (EU) 2017/1129 of the European Parliament and of the Council dated 14 June 2017 (as amended, the “**Prospectus Regulation**”). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union (“**EU**”) law pursuant to the Prospectus Regulation. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) for the Notes to be admitted to the official list (the “**Official List**”) and trading on its regulated market. References in this Prospectus to the Notes being listed (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the regulated market of Euronext Dublin. The regulated market of Euronext Dublin is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial institutions. This Prospectus will be valid until the date of admission of the Notes to trading on the regulated market of Euronext Dublin. The obligation to supplement this Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply

when the Prospectus is no longer valid.

The Notes will be in registered form. The Notes may be held and transferred, and will be offered and sold, in the principal amount of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, in each case without interest coupons attached. The Notes that are offered and sold outside the United States to non-U.S. persons in reliance on Regulation S (“**Regulation S**”) under the United States Securities Act of 1933, as amended (the “**Securities Act**”) will be represented by beneficial interests in a global registered certificate (the “**Regulation S Global Certificate**”) deposited with a common depository (the “**Common Depository**”) for, and registered in the name of, a nominee of, Euroclear Bank SA/NV (“**Euroclear**”) or Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”) on or about 29 January 2020 (the “**Closing Date**”). The Notes which are offered and sold in the United States to qualified institutional buyers (“**QIBs**”), as defined in Rule 144A (“**Rule 144A**”) under the Securities Act, that are also qualified purchasers (“**QPs**”), as defined in Section 2(a)(51) of the United States Investment Company Act of 1940, as amended (the “**Investment Company Act**”), in reliance on the exemption from registration provided by Rule 144A will be represented by interests in a global registered certificate (the “**Rule 144A Global Certificate**”) and, together with the Regulation S Global Certificate, the “**Global Certificates**”) deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company (“**DTC**”) on or about the Closing Date. Interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their respective participants. Individual notes in definitive form (the “**Definitive Certificates**”) evidencing holdings of Notes will only be available in certain limited circumstances. See “*Summary of the Provisions Relating to the Notes in Global Form*”.

An investment in the notes involves a high degree of risk. You should carefully consider the risk factors beginning on page 10 of this prospectus before investing in the notes.

THE NOTES, THE LOAN IN RESPECT THEREOF FROM TIME TO TIME (TOGETHER, THE “SECURITIES”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, EXCEPT PURSUANT TO CERTAIN EXEMPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S). THE NOTES MAY BE OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QIBs THAT ARE ALSO QPs IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE “RULE 144A NOTES”) AND (II) TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (THE “REGULATION S NOTES”). THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE RULE 144A NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE NOTES AND DISTRIBUTION OF THIS PROSPECTUS, SEE “SUBSCRIPTION AND SALE” AND “TRANSFER RESTRICTIONS”.

The Notes are rated “BB” by Fitch Ratings Ltd (“**Fitch**”) and “BB-” by Standard & Poor’s Credit Market Services Europe Limited, a division of the McGraw Hill Companies Inc. (“**S&P**”). The Borrower has “BB” long-term issuer default and “B” short-term issuer default ratings from Fitch, “Ba3” long-term global and local currency deposit rating from Moody’s Investors Service Ltd (“**Moody’s**”) and “BB-” long-term counterparty default and “B” short-term counterparty default ratings from S&P. Each of Fitch, Moody’s and S&P is established in the European Community and registered under Regulation (EC) No. 1060/2009 on credit rating agencies (the “**CRA Regulation**”). The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority’s website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>). A rating is a not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Global Coordinators, Joint Lead Managers and Bookrunners

Citigroup

ING

**Société Générale
Corporate & Investment Banking**

UBS Investment Bank

Joint Lead Managers and Bookrunners

Commerzbank

Emirates NBD Capital

Raiffeisen Bank International

Sova Capital Limited

The date of this Prospectus is 27 January 2020.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This document comprises a prospectus (the “**Prospectus**”), for the purpose of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (the “**Prospectus Regulation**”). This Prospectus has been approved by the Central Bank, as competent authority under Regulation (EU) 2017/1129. The Central Bank only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129. Such approval should not be considered as an endorsement of the issuer or of the quality of the Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes. Each of the Issuer and CBM accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and CBM, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

CBM, having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to the Issuer, CBM, the Notes and the Loan that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to the Issuer and CBM, are in every material respect true and accurate and are not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to CBM, are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts with respect to the Issuer, CBM, the Notes or the Loan the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by CBM to ascertain such facts and to verify the accuracy of all such information and statements. CBM accepts responsibility accordingly.

No representation or warranty, express or implied, is made by the joint lead managers named under “*Subscription and Sale*” (the “**Joint Lead Managers**”), the Trustee, the Agents (as defined below) or any of their respective affiliates or any person acting on their behalf as to the accuracy or completeness of the information contained in this Prospectus. Each person receiving this Prospectus acknowledges that such person has not relied on any Joint Lead Manager or the Trustee, the Agents, or any person affiliated with any Joint Lead Manager, the Trustee or the Agents, in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of CBM and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment. This Prospectus may only be used for the purpose for which it has been published.

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement made, or purported to be made, by the Joint Lead Managers or on their behalf in connection with the Issuer, CBM or the issue and offering of the Notes. The Joint Lead Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Prospectus or any such statement.

CBM and the Issuer have derived substantially all of the information contained in this Prospectus concerning the Russian banking market and its competitors, which may include estimates or approximations, from publicly available data published by Russian government authorities and agencies (such as the Central Bank of Russia (“**CBR**”), the Federal State Statistics Service of the Russian Federation (“**Rosstat**”), the International Monetary Fund (“**IMF**”), the World Bank and from other publicly available sources.

Each of CBM and the Issuer accepts responsibility that such information has been accurately reproduced and, as far as CBM and the Issuer are aware and are able to ascertain, no facts have been omitted which would render the information inaccurate or misleading. However, CBM and the Issuer have relied on the accuracy of information concerning the Russian banking market and its competitors without carrying out an independent verification.

CBM's legal name is CREDIT BANK OF MOSCOW (public joint-stock company) and the address of its registered office and its head office is 2 (Building 1) Lukov Pereulok, Moscow 107045, the Russian Federation. The telephone number of the registered office and head office is +7 (495) 797-42-22. CBM is regulated by the CBR and holds general banking licence No. 1978 issued by the CBR on 6 May 2016. The Issuer's legal name is CBOM Finance p.l.c. registered as a public company with limited liability under the Companies Act 1963-2005 of Ireland under number 425241, and its registered address is 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland. The Issuer may be reached by telephone at +353 1 905 8020.

The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Prospectus comes are required by the Issuer, CBM and the Joint Lead Managers to consult their legal advisers regarding such matters. Any consents or approvals that are needed in order to purchase any Notes must be obtained. CBM, the Issuer and the Joint Lead Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. None of the Issuer, CBM, the Trustee, the Agents or the Joint Lead Managers or any of the respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws.

IMPORTANT - EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPS Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the type of market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

The Securities have not been and will not be registered under the Securities Act. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to QIBs that are also QPs in reliance on the exemption from registration under the Securities Act provided by Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provision of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Prospectus, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

This Prospectus is only being distributed to and is only directed at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”), (iii) high net worth entities, or (iv) any other persons to whom an invitation or inducement to engage in investment activities may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i)-(iv) above being “**relevant persons**”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

NOTIFICATION UNDER SECTION 309B(1)(c) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE, as modified from time to time (the “**SFA**”) – Unless otherwise stated in the Prospectus (or any supplement thereto) in respect of any Notes, all Notes issued or to be issued hereunder shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The information provided in this Prospectus is not an offer or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation or to, or for the benefit of, any Russian person or entity. This Prospectus does not constitute an advertisement or offering of any securities in the Russian Federation. The Notes have not been and will not be registered in the Russian Federation or admitted to placement or public circulation in the Russian Federation. The information set forth in this Prospectus is not intended for any persons in the Russian Federation who are not “qualified investors” within the meaning of Federal Law No. 39-FZ “On the Securities Market”, dated 22 April 1996, as amended (the “**Russian QIs**”). This Prospectus must not be distributed into or circulated in the Russian Federation to any persons who are not Russian QIs unless and to the extent they are otherwise allowed to access such information. No person should at any time carry out any activities in breach of the restrictions set out in “*Subscription and Sale – Russian Federation*”.

None of the Issuer or CBM intends to provide any post-issuance transaction information regarding the Notes or the performance of the Loan. No person is authorised to provide any information or to make any representation not contained in this Prospectus, and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, CBM, the Trustee, the Agents or the Joint Lead Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Without limitation to the generality of the foregoing, the contents of CBM’s website, in addition to any other websites referred to in this Prospectus, as at the date hereof or as at any other date, do not form any part of this Prospectus and have not been scrutinised or approved by the Central Bank (and, in particular, are not incorporated by reference herein).

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes.

In connection with the issue of the Notes, Société Générale (the “**Stabilising Manager**”) (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the stabilising manager) will undertake stabilisation action. Any stabilisation action may begin at any time after adequate public disclosure of the final terms of the offer of the Notes and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Closing Date and 60 days after the date of the allotment of the Notes.

NOTICE TO U.S. INVESTORS

EACH PROSPECTIVE PURCHASER OF RULE 144A NOTES OR BENEFICIAL INTERESTS THEREIN, BY ACCEPTING DELIVERY OF THIS PROSPECTUS, SHALL BE DEEMED TO HAVE ACKNOWLEDGED AND AGREED THAT SUCH PROSPECTUS IS PERSONAL TO IT AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON OR TO THE PUBLIC GENERALLY TO SUBSCRIBE FOR OR OTHERWISE ACQUIRE SUCH NOTES OTHER THAN PURSUANT TO RULE 144A. DISTRIBUTION OF THIS PROSPECTUS, OR DISCLOSURE OF ANY OF ITS CONTENTS TO ANY PERSON OTHER THAN SUCH OFFEREE AND THOSE PERSONS, IF ANY, RETAINED TO ADVISE IT WITH RESPECT THERETO IS UNAUTHORISED AND ANY DISCLOSURE OF ANY OF ITS CONTENTS, WITHOUT THE PRIOR WRITTEN CONSENT OF THE ISSUER, IS PROHIBITED. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, EXCEPT AS REASONABLY NECESSARY TO COMPLY WITH APPLICABLE SECURITIES LAWS, INVESTORS (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF THE INVESTORS) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE U.S. FEDERAL TAX TREATMENT AND U.S. FEDERAL TAX STRUCTURE OF THE OFFERING AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE INVESTORS RELATING TO SUCH U.S. FEDERAL TAX TREATMENT AND U.S. FEDERAL TAX STRUCTURE (AS SUCH TERMS ARE DEFINED FOR PURPOSES OF SECTIONS 6011, 6111 AND 6112 OF THE U.S. INTERNAL REVENUE CODE AND THE TREASURY REGULATIONS PROMULGATED THEREUNDER).

FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be “forward-looking statements”. Forward-looking statements include statements concerning CBM’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. CBM uses the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “are expected to”, “could”, “will”, “will continue”, “should”, “would be”, “seeks”, “approximately”, “estimates”, “predicts”, “projects”, “aims” or “anticipates”, and other similar expressions to identify forward-looking statements. These forward-looking statements are contained in “*Risk Factors*”, “*Business*” and other sections of this Prospectus. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or CBM’s results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Such forward-looking statements relate to, among other things:

- overall business conditions;
- changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- economic and political conditions in Russia;
- the timing, impact and other uncertainties of future actions;
- inflation, interest rate fluctuations, foreign currency and exchange rate fluctuations and other capital market conditions in Russia;
- the condition and performance of the Russian economy, including the Russian banking sector;
- the effects of, and changes in, the policy of the federal government of Russia (the “**Russian Government**”) and regulations promulgated by the CBR;
- the effects of competition in the geographic and business areas in which CBM conducts its operations;
- the effects of changes in laws, regulations and taxation or accounting standards or practices in the jurisdictions where CBM conducts its operations;
- CBM’s ability to maintain or increase market share for its products and services and control expenses;
- CBM’s ability to meet its funding obligations and develop and maintain additional sources of financing;
- CBM’s ability to continue to diversify its client base;
- the impact of the growth of CBM’s loan portfolio on its revenue potential and overall asset quality;
- CBM’s ability to comply with the CBR’s mandatory economic ratio requirements and continue to participate in the system of mandatory insurance of retail bank deposits in Russia;
- the future growth of CBM’s business;
- acquisitions or divestitures by CBM or in the business areas in which CBM conducts its operations;
- technological changes; and

- CBM's ability to manage the risks associated with the aforementioned factors.

These forward-looking statements speak only as at the date of this Prospectus. Accordingly, but subject to the requirements of the Central Bank, CBM is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to CBM, or persons acting on CBM's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

ADDITIONAL INFORMATION

Neither the Issuer, nor CBM is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). For so long as neither the Issuer, nor CBM is a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or CBM will, upon request, furnish to each holder or beneficial owner of Notes that are “restricted securities” (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Notes pursuant to Rule 144A or otherwise, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

LIMITATIONS ON ENFORCEMENT OF FOREIGN JUDGMENTS AND ARBITRATION AWARDS

CBM is a public joint-stock company incorporated under the laws of the Russian Federation and most of its assets are located in the Russian Federation. In addition, as at the date of this Prospectus a substantial majority of CBM's directors and executive officers are residents of the Russian Federation. Their presence outside the United States and the United Kingdom may limit your legal recourse against them.

In particular, it may not be possible for you to effect service of process upon CBM or its directors and executive officers; or enforce in Russian courts judgments obtained in jurisdictions other than the Russian Federation against CBM or its directors and executive officers, including judgments obtained in the courts of England and the United States predicated upon English law or U.S. federal securities law, respectively. In addition, it may be difficult for you to enforce, by way of an action brought in a court in a jurisdiction located outside the United Kingdom and the United States, liabilities predicated upon English law or U.S. federal securities law.

Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation only if:

- an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered; and/or
- a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

No such federal law has been passed and no such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions (including the United Kingdom and the United States), as a result of which new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against CBM or, as applicable, its directors and executive officers.

Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may limit or delay, perhaps significantly, the enforcement of such judgments and thereby deprive the holders of the Notes of effective legal recourse against CBM and, as applicable, its directors and executive officers.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts recognised and enforced English court judgments on these grounds in the past, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including, among others, compliance with the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts established by the Arbitrazh Procedural Code of the Russian Federation, limited experience of Russian courts in international commercial transactions, official and unofficial political resistance to

enforcement of awards against Russian companies in favour of foreign investors, Russian courts' inability to enforce such orders and corruption. Furthermore, enforcement of any arbitral award pursuant to arbitration proceedings may be limited by the mandatory provisions of Russian laws relating to categories of non-arbitrable disputes and the exclusive jurisdiction of Russian courts, and specific requirements to arbitrability of certain categories of disputes, including in respect of the Notes (i.e., specific requirements in relation to a type of an arbitral institution, arbitration rules, seat of arbitration and parties to an arbitration agreement for consideration of the so-called "corporate disputes" in relation to Russian companies) and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment. Under Russian law, certain court administration charges may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts of such charges in many instances depend on the amount of the relevant claim.

See "*Risk Factors—Risks Relating to the Issuer, the Loan, the Notes and the Trading Market — Limited recourse obligations of the Issuer*".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

CBM's financial information set forth herein has, unless otherwise indicated, been extracted, without material adjustment, from CBM's unaudited consolidated interim condensed financial statements for the nine-month period ended 30 September 2019 prepared in accordance with IAS 34 Interim Financial Reporting (the "**Interim Financial Statements**") and CBM's audited consolidated financial statements for the years ended 31 December 2018 and 2017 prepared in accordance with International Financial Reporting Standards ("**IFRS**") as promulgated by the International Accounting Standards Board (the "**2018 Annual Financial Statements**" and the "**2017 Annual Financial Statements**", respectively, and together, with the Interim Financial Statements, the "**Financial Statements**"), set forth on pages F-2 through F-241 of this Prospectus.

The Rouble is the presentation currency for the Financial Statements. The Financial Statements and financial information included elsewhere in this document have, unless otherwise noted, been presented in Roubles.

The accounts used by CBM's management to plan, manage and monitor the performance of the business on a day-to-day basis are based on information prepared in accordance with the Russian Accounting Standards ("**RAS**"). In addition, CBM analyses financial information relating to its consolidated subsidiaries based on RAS.

The audited financial statements of the Issuer as at and for the years ended 31 December 2018 and 2017 together with the audit reports thereon, have been filed with Euronext Dublin and the Central Bank and shall be deemed to be incorporated in, and to form part of, this Prospectus. The financial statements of the Issuer as at and for the years ended 31 December 2018 and 2017 may be obtained from the website of Euronext Dublin at https://www.ise.ie/debt_documents/CBOM%20Finance%20PLC%20-%20Financial%20Statements%202018%20-%20Fully%20Executed_c1b73c37-c15c-4569-bd3e-Off22b7230d5.PDF and http://www.ise.ie/debt_documents/CBOM%20Finance%20Plc%202017%20Financial%20Statements_d09a9e00-266a-4928-8862-bdff00d01e0e.PDF, respectively.

CBM's Independent Auditors

The 2018 Annual Financial Statements and 2017 Annual Financial Statements included in this Prospectus have been audited by JSC KPMG ("**KPMG**"), as stated in their reports appearing herein. The Interim Financial Statements were reviewed by KPMG in accordance with ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. With respect to such unaudited financial statements, KPMG has reported that it applied limited procedures in accordance with the professional standards for review of such information; however, its report states that it did not audit and does not express an opinion on such interim financial information. Accordingly, the degree of reliance upon their reports on such information should be restricted in light of the limited nature of the review procedures applied. The address of KPMG is Naberezhnaya Tower Complex, Block C, 10 Presnenskaya Naberezhnaya, Moscow 123112, Russian Federation. KPMG is a member of the self-regulated organisation of auditors "Russian Union of auditors" (*Association*).

Certain Definitions and Currencies

In this Prospectus, all references to:

- "**CBR**" are to the Central Bank of Russia;
- "**DIA**" are to the Depositary Insurance Agency;
- "**EBRD**" are to the European Bank for Reconstruction and Development;
- "**EU**" are to the European Union;

- “**IFC**” are to the International Finance Corporation;
- “**Interest-Bearing Liabilities**” are to the sum of current accounts and deposits by customers, debt securities issued and deposits by credit and other financial institutions;
- “**Interest-Earning Assets**” are to the sum of loans to customers, deposits in credit and other financial institutions, trading financial assets and investment financial assets;
- “**Ireland**” are to Ireland (exclusive of Northern Ireland);
- “**Moscow Area**” is to Moscow and the Moscow Region as federal subjects of the Russian Federation combined;
- “**Russia**” and “**Russian**” pertain to the Russian Federation.

In this Prospectus, the following currency terms are used:

- “**RUB**”, “**Roubles**” or “**roubles**” means the lawful currency of the Russian Federation;
- “**U.S.\$**” or “**U.S. dollar**” means the lawful currency of the United States;
- “**EUR**”, “**Euro**” “**euro**” or “**€**” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended; and
- “**RMB**” means the lawful currency of the People’s Republic of China.

References in the Prospectus to “billion” are to thousands of millions.

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Exchange Rate Information

This Prospectus contains conversions of certain amounts relating to particular transactions from the currency in which the transaction was effected into U.S. dollars. These conversions were effected at the relevant foreign currency to U.S. dollar rate in effect as at the date of the transaction unless otherwise stated. No representation is made that the Rouble or U.S. dollar amounts referred to herein could have been or could be converted into Roubles or U.S. dollars, as the case may be, at these rates, at any particular rate or at all.

The table below sets forth, for the periods and dates indicated, the high, low, period end and period average exchange rate between the Rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR for the relevant year. Fluctuations in the exchange rate between the Rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other financial information presented in this Prospectus.

Year	RUB per U.S.\$1.00			
	High	Low	Period end	Period average ⁽¹⁾
2012	34.04	28.95	30.37	31.09
2013	33.47	29.93	32.73	31.98
2014	67.79	32.66	56.26	39.14
2015	72.88	49.18	72.88	61.87
2016	83.59	60.27	60.65	67.19
2017	60.75	55.85	57.60	58.30
2018	69.97	55.67	69.47	62.69
2019	67.19	61.72	61.91	64.62
2020 (up to and including 27 January 2020)	61.95	60.95	61.80	61.55

Source: www.cbr.ru (CBR)

Note:

- (1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

Non-IFRS Measures

General

The non-IFRS measures described below are alternative performance measures (“APMs”) as defined in the European Securities and Markets Authority Guidelines. Where used, the relevant metrics are identified as APMs and accompanied by an explanation of each such metric’s components and calculation method.

This Prospectus includes certain financial measures that are not measures of performance specifically defined by IFRS. These include average balance sheet data, average interest rate data, average yield data, return on average assets, average yield/rate paid, average interest yield on Interest-Earning Assets, average interest rate on Interest-Bearing Liabilities, return on average equity, charge for credit losses on debt financial assets as a proportion of average loan portfolio, cost-to-income ratio, net interest margin, non-performing loans (“NPLs”), ratio of NPL coverage by allowance for loan impairment, NPL ratio, cost of risk ratio, net interest spread, net interest income to risk-weighted assets ratio, net loans to total deposits ratio, total liquid assets and total liquid assets ratio. The non-IFRS measures disclosed in this Prospectus are unaudited supplementary measures of CBM’s performance and liquidity that are not required by, or presented in accordance with, IFRS. Although the non-IFRS measures disclosed in this Prospectus are not measures of operating income, operating performance or liquidity derived in accordance with IFRS, CBM has presented these measures in this Prospectus because it understands that similarly titled measures may be used by some investors and analysts. The non-IFRS measures disclosed in this Prospectus should not, however, be considered as an alternative to, in isolation from or as substitutes for financial information reported under IFRS. The non-IFRS measures disclosed in this Prospectus are not measures specifically defined by IFRS and CBM’s use of these measures may vary from other companies in its industry due to differences in accounting policies or differences in the calculation methodology of similar measures by other companies in its industry.

Average Balance Sheet and Interest Rate Data

This Prospectus includes information on the average balances of Interest-Earning Assets and Interest-Bearing Liabilities of CBM, as well as the average yield received on interest income or average rate paid under interest expense for such assets and liabilities. Unless otherwise expressly stated, the consolidated average balances of assets and liabilities for the years ended 31 December 2018, 2017 and 2016 presented in this Prospectus represent the average of the opening (31 December of the previous year), quarter-end (31 March, 30 June, 30 September) and closing (31 December) balances for the applicable year. Unless otherwise expressly stated, the consolidated average balances of assets and liabilities for the nine-month periods ended 30 September 2019 and 30 September 2018 presented in this Prospectus represent the average of the opening (31 December of the previous year), quarter-end (31 March and 30 June) and closing (30 September) balances for the applicable nine-month period.

Calculation of these average balances on weekly or daily basis could result in materially different average results. Prospective investors are cautioned that the average balances and related data presented in this Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities.

The average interest rates disclosed in this Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for the applicable period. Average interest rates are distinct from the effective interest rates presented in the consolidated financial statements of CBM. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the entire expected life of the instrument. The present value calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate. See Note 4 to each of the 2018 Annual Financial Statements and 2017 Annual Financial Statements.

CBM presents information on effective interest rates because IFRS requires this rate be used in the preparation of its consolidated financial statements. Operationally, CBM uses this information, as well as average interest rates as both are considered useful business tools.

Supplemental Data

CBM defines:

- average interest yield on Interest-Earning Assets as the ratio of total interest income to average Interest-Earning Assets (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above);
- average interest rate on Interest-Bearing Liabilities as the ratio of total interest expense to average Interest-Bearing Liabilities (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above);
- return on average assets as profit for the period divided by the average balance of total assets (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above);
- return on average equity as profit for the period divided by the average of total equity, excluding perpetual bonds (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above);
- cost-to-income ratio as operating expense (excluding recovery of/(provision for) impairment of other assets and credit related commitments) divided by operating income (excluding charge for credit losses on debt financial assets);
- net interest margin as net interest income before charge for credit losses on loans divided by average Interest-Earning Assets (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above);
- total liquid assets as the sum of cash and cash equivalents, trading financial assets, investment financial assets and deposits in credit and other financial institutions;
- total liquid assets ratio as the ratio of total liquid assets to total assets;
- NPLs as loans with overdue payments of principal loan amount and/or interest by more than 90

days;

- ratio of NPL coverage by allowance for loan impairment as credit loss allowance divided by NPLs;
- NPL ratio as the ratio of NPLs to gross loans to customers;
- cost of risk as net charge of credit loss allowance for the period divided by average gross total loan portfolio (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above);
- net interest spread as the difference between the average interest rate yield (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above) earned on Interest-Earning Assets and the average interest rate paid (calculated as described under “- *Average Balance Sheet and Interest Rate Data*” above) on Interest-Bearing Liabilities;
- net interest income to risk-weighted assets ratio as net interest income before charge for credit losses on loans divided by average risk-weighted assets which are classified into the banking book and trading book; and
- net loans to total deposits ratio as net loans to customers divided by total deposits from customers.

Translations

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. All translations in this Prospectus are direct and accurate translations of the original text.

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OVERVIEW

This overview highlights certain information concerning the business of CBM, the Notes and the Loan. It does not contain all information that may be important to an investor in the Notes or an investment decision in relation to the Notes. This overview should be carefully read in conjunction with, and is qualified in its entirety by reference to, the more detailed information in this Prospectus, including the Financial Statements. Investors should also consider the matters set forth in “Risk Factors” before deciding to invest in the Notes. Certain statements in this Prospectus include forward-looking statements which also involve risk and uncertainties as described under “Forward-Looking Statements”.

Overview

Established in 1992, CBM is one of the leading non-state universal commercial banks in Russia, which focuses on providing banking products and services to corporate customers and individuals primarily in the Moscow Area. CBM is a publicly-traded financial institution whose shares are listed on the Moscow Exchange and included in the MOEX Russia Index and RTS Index. The CBR has recognised CBM as a systemically important bank.

CBM offers a comprehensive range of banking services, which are divided into four principal business lines:

- Corporate banking which comprises corporate lending, overdraft lending, factoring, financial and operating leasing, letters of credit, guarantees, corporate deposit services, settlements and money transfers. CBM focuses on large and medium sized Russian companies operating in various industry sectors, especially those that are most resistant to macroeconomic instability, such as the oil and gas sectors, and has a strong emphasis on customers' credit quality.
- Retail banking which comprises retail demand and term deposit services, retail lending (including cash and mortgage loans), money transfers, private banking services, banking card products, settlements and money transfers. CBM's retail business strategy concentrates on consumer and mortgage loans to high quality retail customers, with a particular emphasis on cross-selling of retail products to the employees and clients of its corporate customers.
- Treasury which comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes, as well as a diverse range of investment banking services.
- Cash operations which comprises all operations connected with cash, cash handling, calculation and transportation. CBM has developed a strong cash-handling platform that is designed to serve as an entry point to start new corporate customer relationships and enhance customer loyalty. Along with that, CBM's cash handling platform provides strategic benefits from a risk management perspective enabling CBM to monitor the cash flows of its corporate customers operating in cash-intensive industries (such as retail sales and services), thus supporting quality risk management and asset quality.

While CBM's business is mainly concentrated in Moscow and the Moscow Area, CBM also has a network of regional offices primarily aimed at attracting customer bank deposits from corporate and individual clients. Through its multichannel distribution network, including offices, ATMs, payment terminals and online services, CBM is able to deliver superior services to its retail customers. CBM is focused on delivering customer-centred services, with quick and user-friendly service and high levels of responsiveness. Coupled with the development of the retail banking business, which has contributed to benefits in customer acquisition, advertising and cost efficiency, CBM's broad payment terminal network became a reliable risk management tool for retail lending. This has provided CBM with the ability to understand consumer patterns and to use its vast database of customers to reduce fraud targeting its customers and banking products. As at 1 January 2020, CBM had 130 branches, 28 cash offices, over 1,100 ATMs and over 6,800 payment terminals mainly concentrated in the Moscow Area. In July 2018, in the process of winding up proceedings with respect to Sovietsky Bank, CBM received the retail deposits and accounts of Sovietsky Bank, as well as the operational branch network of Sovietsky Bank, comprising 28 branches across 17 regions in Russia. This network has been fully

integrated into CBM's branch network which allows CBM to distribute products generating fees and commissions under CBM's brand. See "*Business – Business Operations – Distribution Network*".

As at 30 September 2019, CBM's total assets comprised RUB2,184.2 billion. CBM's total gross loans to customers amounted to RUB772.6 billion, with gross loans to corporate clients and gross loans to individuals accounting for 86.4% and 13.6% of total gross loans respectively. As at 30 September 2019, CBM's total equity constituted RUB199.1 billion. For the nine months ended 30 September 2019, CBM generated a profit of RUB11.9 billion.

As at the date of this Prospectus, CBM has "Ba3" long-term global and local currency deposit rating from Moody's. Fitch has assigned to CBM "BB" long-term issuer default and "B" short-term issuer default ratings. CBM also has "BB-" long-term counterparty default and "B" short-term counterparty default ratings from S&P, "A(RU)" credit rating from ACRA and "ruA" creditworthiness rating from ExpertRA. In addition, CBM has an "AA+" credit rating on the Chinese national scale from China Lianhe Credit Rating Co., Ltd, and Rating-Agentur Expert RA GmbH assigned a BBB[esg] rating to CBM, with a BB[e] environmental rating, BB[s] social rating and A[g] governance rating.

Competitive Strengths

CBM's management believes that CBM has a number of competitive advantages in the Russian banking market, including the following:

- sustainable universal business model;
- proven track record of delivering sustainable profitable growth mainly through organic expansion;
- established position in the banking market;
- high service standards and efficient multichannel distribution;
- leading disciplined risk management driving strong financial performance and asset quality;
- high operational efficiency with a potential for further growth;
- experienced management team and strong corporate governance; and
- history of strong shareholder support.

Strategy

CBM's strategic objective is to further strengthen its position as one of the leading non-state universal commercial banks in Russia and to become the bank of first choice for its customers. CBM aims to continue to provide high-quality corporate and retail banking products and services based on best international and Russian practices while achieving strong and sustainable performance.

The following are the key elements of CBM's strategy:

- maintaining strong asset quality through a strict underwriting and conservative risk management policy;
- delivering further profitable growth;
- enhancing efficiency through revenue maximisation and cost control;
- maintaining high-quality corporate governance;
- attracting and retaining highly-qualified personnel;
- promoting brand awareness and strengthening brand recognition; and
- further development of a state of the art IT platform as part of the focus on client attraction, service tools and cost efficiency.

Risk Factors

An investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment decision with respect to the Notes, see “*Risk Factors*” and “*Forward-Looking Statements*”. Prospective investors in the Notes should carefully consider the risks and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Prospective investors should note that the risks described in this Prospectus are not the only risks CBM faces. CBM has described only the risks it considers to be material. However, there may be additional risks that it currently considers immaterial or of which it is currently unaware.

Overview of the Offering

The Notes:	Issue of U.S.\$600,000,000 4.700% Loan Participation Notes due 2025
Issuer:	CBOM Finance p.l.c., a public company with limited liability incorporated under the laws of Ireland whose registered office is at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland.
Borrower:	CREDIT BANK OF MOSCOW (public joint-stock company), a company organised as a public joint-stock company established under the laws of the Russian Federation whose registered office is at 2 (Building 1) Lukov Pereulok, Moscow 107045, Russian Federation.
Joint Lead Managers:	Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Emirates NBD Bank PJSC, ING Bank N.V., London Branch, Raiffeisen Bank International AG, Société Générale, Sova Capital Limited and UBS AG London Branch
Trustee, Principal Paying Agent and Transfer Agent:	Citibank, N.A., London Branch
Registrar:	Citigroup Global Markets Europe AG. A copy of the register of the Notes shall also be kept at the registered office of the Issuer.
Issue Date:	29 January 2020
Issue Price:	100% of the principal amount of the Notes
Interest:	On each Interest Payment Date (being 29 January and 29 July in each year commencing on 29 July 2020 and ending on 29 January 2025 (the “ Maturity Date ”)), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan Agreement is equal to 4.700% per annum from, and including, the Issue Date to, but excluding, the Maturity Date.
Risk Factors:	An investment in the Notes involves a high degree of risk. See “ <i>Risk Factors</i> ”.
Use of proceeds:	The Issuer will use the gross proceeds of the offering of the Notes for the sole purpose of financing the Loan to CBM. CBM will use the proceeds of the Loan for general banking purposes. In connection with the receipt of the Loan, CBM will pay a facility fee to the Issuer. See “ <i>Use of Proceeds</i> ”.
Status of the Notes:	The Notes constitute secured, limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited to the assets securing the Notes. The Notes are secured in the manner described in the Trust Deed and shall at all times rank <i>pari passu</i> and without preference amongst themselves.
Status of the Loan:	The Loan and all payment obligations expressed to be assumed by the Borrower thereunder constitute direct, general, unconditional, unsecured and unsubordinated obligations of the Borrower which will at all times rank at least <i>pari passu</i> with all

its other unsecured and unsubordinated indebtedness, save for such indebtedness as may be preferred by provisions of law that are both mandatory and of general application.

Limited Recourse:

The Notes will constitute the obligation of the Issuer to apply the gross proceeds from the issue of the Notes solely for the purpose of financing the Loan to the Borrower pursuant to the terms of the Loan Agreement. The Issuer will only account to the Trustee and the Noteholders for all amounts equivalent to those (if any) received and retained (net of tax) from the Borrower in respect of principal, interest or any additional amounts under the Loan Agreement, or held on deposit in the Account (as defined in the Trust Deed), less amounts in respect of the Reserved Rights (as defined in the Trust Deed), all as more fully described under “*Terms and Conditions of the Notes*”.

All moneys received by the Trustee under the Trust Deed shall be applied in accordance with the priority of payments (as more fully set out in the Trust Deed).

Security:

The Issuer’s payment obligations under and in respect of the Notes and its obligations under the Trust Deed will be secured by a first fixed charge with full title guarantee in favour of the Trustee for the benefit of itself and the Noteholders of:

- (a) its rights to all principal, interest and additional amounts (if any) payable by the Borrower under the Loan Agreement;
- (b) its right to receive all sums which may be or become payable by the Borrower or under any claim, award or judgment relating to the Loan Agreement; and
- (c) its rights, title and interest in and to all sums of money now or in the future deposited in, the Account (as defined in the Trust Deed), (in each case, other than the Reserved Rights),

all as more fully described under “*Terms and Conditions of the Notes*”.

In addition, the Issuer with full title guarantee will assign absolutely certain administrative rights under the Loan Agreement (save for the rights charged or excluded as described above) to the Trustee for the benefit of itself and the Noteholders, as more fully described under “*Terms and Conditions of the Notes*”.

Form and Initial Delivery of Notes:

The Notes will be issued in fully registered form in the denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000. The Notes which are offered and sold outside the United States to non-U.S. persons in reliance on Regulation S will be represented by interests in the Regulation S Global Certificate deposited with a Common Depositary for, and registered in the name of a nominee of, Euroclear or Clearstream, Luxembourg on or about the Closing Date. The Notes which are offered and sold in the United States to U.S. persons that are QIBs and QPs in reliance on Rule 144A will be represented by interests in the Rule 144A Global Certificate deposited with a custodian for, and registered in the name of, a nominee of, DTC on or about the Closing Date. The Global

Certificates will only be exchangeable for Definitive Certificates in the limited circumstances described under “*Summary of the Provisions Relating to the Notes in Global Form*”.

Redemption:

The Notes will be redeemed on the Maturity Date. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time upon giving notice to the Noteholders, at their outstanding principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof in the event that the Borrower elects to prepay the Loan for tax reasons or in the event that it becomes unlawful for the Issuer to fund the Loan or to allow the Loan or the Notes to remain outstanding under the Loan Agreement. See Condition 6 (*Redemption and Purchase*).

Amendments/Waiver:

As long as any of the Notes remain outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.

Negative pledge and other Covenants:

Clause 10 (*Covenants by the Borrower*) of the Loan Agreement contains, *inter alia*, a negative pledge in relation to the creation of Liens (as defined in the Loan Agreement) by the Borrower and the Borrower’s Material Subsidiaries (as defined in the Loan Agreement) and covenants limiting, *inter alia*, mergers and disposals by the Borrower and its Material Subsidiaries, transactions between the Borrower and the Borrower’s Affiliates (as defined in the Loan Agreement) and financial covenants by the Borrower. See “*Loan Agreement*”.

Event of Default/Relevant Event:

If an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may, subject as provided in the Trust Deed, (i) in the case of an Event of Default, require the Issuer to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable and do all such other acts in connection therewith that the Trustee may direct or (ii) in the case of a Relevant Event, enforce any or all rights of the security created in the Trust Deed.

Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for such redemption and any additional amounts due and thereupon the Notes shall cease to be outstanding, all as more particularly described in the “*Terms in Conditions of the Notes*”.

Rating:

The Notes are rated “BB” by Fitch and “BB-” by S&P. The Borrower has “BB” long-term issuer default and “B” short-term issuer default ratings from Fitch, “Ba3” long-term global and local currency deposit rating from Moody’s and “BB-” long-term counterparty default and “B” short-term counterparty default ratings from S&P.

Credit ratings assigned to the Notes do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be

subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Borrower could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Withholding Tax:

All payments in respect of interest and principal on the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of Ireland and the Russian Federation, save as required by law. If any such taxes, duties, assessments or governmental charges are payable, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been required. The sole obligation of the Issuer in this respect will be to account to the Trustee and the Noteholders for the sums equivalent to the sums received and retained (net of tax) from the Borrower. See “*Terms and Conditions of the Notes*”. In such circumstances, the Borrower will be required to increase the sum payable under the Loan Agreement to the extent necessary to ensure that the Issuer receives and retains (net of tax) a net sum sufficient to pay to the Noteholders such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been made or required to be made.

All payments in respect of interest and principal to be made by the Borrower under the Loan Agreement will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of the Russian Federation, save as required by law. If any such taxes, duties, assessments or governmental charges are payable under the Loan Agreement or the Borrower or shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Issuer of such amounts as would have been received and retained had no such deduction or withholding been required.

Listing and Trading:

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on its regulated market.

Selling Restrictions:

The Notes have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S). The Issuer has not been and will not be registered under the Investment Company Act. The Issuer is relying on the exemption from the requirements of the Investment Company Act provided by Section 3(c)(7) thereof. The Notes may be offered and sold (i) within the United States to QIBs that are also QPs in reliance on the exemption from registration provided by Rule 144A; and (ii) to non-U.S. persons in offshore transactions in reliance on Regulation S.

The Notes may be sold in other jurisdictions (including the United Kingdom, Russia and Ireland) only in compliance with applicable laws and regulations. See “*Subscription and Sale*”.

PRIIPs Regulation:

No PRIIPs Regulation key information document has been prepared as the Notes are not available to retail investors in the EEA.

ERISA:

The Notes may not be sold or transferred to any Benefit Plan Investor (as defined herein), and no Benefit Plan Investor is permitted to purchase or hold any of the Notes. See “*Certain ERISA Considerations*”.

Governing Law:

The Notes, the Trust Deed and the Loan Agreement and any non-contractual obligations arising out of or in connection with them, shall be governed by, and construed in accordance with, English law.

LEI:

Issuer LEI code: 635400Y22HQLUDCVZX38

CBM LEI code: 2534000R9X3PNNE57C55

Security Codes:

Regulation S ISIN: XS2099763075

Regulation S Common Code: 209976307

Regulation S CFI Code: DAFNFR

Rule 144A CUSIP: 12504P AH3

Rule 144A ISIN: US12504PAH38

Rule 144A Common Code: 211122757

Rule 144A CFI Code: DBFSGR

RISK FACTORS

Prospective investors should consider carefully, among other things, the risks set forth below and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. CBM notes that in a number of situations, which it cannot always control, these risks may materialise and may negatively affect CBM's ability to comply with its payment obligations under the Loan Agreement and, as a result, the debt service by the Issuer on the Notes. These risk factors, individually or together, could have a material adverse effect on CBM, the Issuer and/or their respective businesses, operations and financial conditions and/or the rights under the Notes of the holders of the Notes. In addition, the value of the Notes could decline due to any of these risks, and investors may lose some or all of their investment.

Prospective investors should note that the risks described below are the principal risks which CBM believes are relevant to prospective investors, but they are not the only risks each of CBM or the Issuer, as the case may be, faces. There may be additional risks of which CBM or the Issuer is not currently aware, and any of these risks could have a negative effect on CBM's ability to comply with its payment obligations under the Loan Agreement or the debt service by the Issuer on the Notes. Prospective investors are urged to consult with their own legal, financial and tax advisors before making an investment in the Notes.

The risks below have been classified into the following categories: (i) Risks Relating to CBM's Business and Industry; (ii) Risks Relating to the Russian Federation; (iii) Risks Relating to the Russian Legal System and Legislation; (iv) Other Risks; (v) Risks Relating to Taxation; and (vi) Risks Relating to the Issuer, the Loan, the Notes and the Trading Market.

Risks Relating to CBM's Business and Industry

The Russian banking market is highly competitive, and a failure to compete effectively could have a material adverse effect on CBM's business

According to the CBR, as at 1 December 2019, 838 banks and non-banking credit organisations were registered in the Russian Federation. Notwithstanding the large number of banks, the sector is also highly concentrated, with the 20 largest banks holding an aggregate of 82.9% of total banking sector assets as at 1 December 2019, and the strongest participants being large state-controlled banks. The ongoing consolidation in the Russian banking industry, particularly amongst the group of largest banks, further increases competitive pressures.

CBM faces significant competition in substantially all of the business segments in which it operates. CBM competes for client business primarily on the basis of the quality of its service and the breadth of its product offerings, as well as the pricing of certain of its products. In corporate banking, CBM competes primarily with Sberbank, VTB Bank, Gazprombank and Alfa-Bank, and in retail banking, CBM competes primarily with Sberbank, VTB Bank, Alfa-Bank, AO Raiffeisen Bank, AO UniCredit Bank, Sovcombank and Tinkoff Bank. CBM faces intense competition from state-controlled banks (such as Sberbank and VTB Group), which have access to cheaper sources of funding, are often significant beneficiaries of government funding programmes, and generally may be seen by depositors as less risky and, as such, are able to pay relatively lower rates on deposits. Accordingly, these banks are often able to maintain or increase their market share by offering credit products at lower prices. Since loans to customers constitute one of the largest shares of CBM's Interest-Earning Assets, the increased competition in the banking sector has had, and is expected to continue to have, an adverse effect on CBM's results of operations.

High-rate inflation and competition for high-profile customers tend to raise interest rates payable on new customer deposits for banks operating in the Russian market, while competitive pressures, concerns about customer defaults and fixed rates on existing loan commitments and facilities may restrict CBM's ability to increase interest rates on loans, primarily to retail customers. CBM has also been affected by a complicated market environment facing suppressed net interest margins, in particular, on retail banking operations. At the same time, CBM managed to adjust interest rates in its corporate business thus maintaining a relatively stable net interest margins in that segment. However, there can be no

assurance that CBM will be able to continue to maintain margins in that segment in the future. Competition may further intensify if the global or Russian economy deteriorates and competition for high quality customers on both the asset and liability side increases among banks.

CBM also faces competition on the quality and consumer awareness of its banking products and services, which could affect its reputation. Any reduction in the actual or perceived quality of its products or services (or significant actual or perceived improvements in those offered by its competitors) may negatively impact CBM's ability to compete. Any failure by CBM to compete effectively in the corporate or retail banking sectors, or further compression of interest rate margins resulting from competitive pressures, could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

In addition to traditional banks, in the future CBM may face increasing competition from other financial services companies and/or online banks, particularly in retail banking. Such companies and banks have lower overhead costs and fixed costs as there is no requirement for a network of offices, and may thus allow such financial services companies or online banks to compete with traditional banks. In order for CBM to compete successfully with financial services companies or online banks, CBM will need to provide its clients with a superior user experience in terms of convenience and functionality through a high-end platform.

Any further deterioration of economic conditions in the Russian Federation may further increase competition among Russian banks for creditworthy borrowers, and may adversely affect the business of CBM's customers and consequently could have a material adverse impact on CBM's financial condition, results of operations and prospects.

CBM's financial position and results of operations could be affected by declining net interest margin

CBM's results of operations depend substantially on its net interest income. For the nine-month period ended 30 September 2019, the Group had net interest income before charge for credit losses on debt financial assets of RUB32,129 million as compared to RUB36,593 million for the nine-month period ended 30 September 2018. For the year ended 31 December 2018, the Group had net interest income before charge for credit losses on debt financial assets of RUB48,415 million as compared to net interest income before provision for impairment of loans of RUB45,280 million and RUB40,299 million for the years ended 31 December 2017 and 2016, respectively. The Group has experienced a downward trend in net interest margin in 2016-2019. The net interest margin decreased from 3.3% for 2016, to 2.9% for 2017, to 2.6% for 2018 and further to 2.1% for the nine-month period ended 30 September 2019. The decrease in the Group's net interest margin was primarily attributable to the increased share of lower-yielding liquid assets on CBM's balance sheet, higher competition for top quality customers and the decreasing CBR key rate. Additionally, movements in short- and long-term interest rates affect both the Group's interest income and expense.

The Russian macroeconomic conditions have since improved from the downturn of the Russian economy, the high volatility of the Russian financial markets as a result of geopolitical instability (due to the Ukrainian crisis), and the significant depreciation of the Russian rouble (due to a material decline of oil prices) in 2014-2015. The stabilisation of the financial markets and excess liquidity in the banking sector allowed the CBR to decrease its key rate from 11.0% as at 1 January 2016 to 6.25% with effect from 16 December 2019. These factors, together with the necessity to maintain customer deposit interest rates at high levels and further decreases in key rates by the CBR, have resulted in increased pressure on margins and profitability. See also “– *The Russian banking market is highly competitive, and a failure to compete effectively could have a material adverse effect on CBM's business*”. Any further deterioration in market interest rates could affect the interest rates earned on the Interest-Earning Assets, leading to a reduction in CBM's net interest income and adversely affecting its financial position and results of operations.

The quality of CBM's loan portfolio may continue to be tested in adverse economic conditions

CBM has been subject to risks regarding the credit quality and recovery of loans and amounts from customers and market counterparties. Any downturns in the Russian economy may affect the ability of

many companies and individuals to repay their loans, particularly foreign currency denominated loans. Factors including, without limitation, increased unemployment and poverty in Russia, inflation, reduced corporate liquidity and profitability, increased corporate and personal insolvencies and/or fluctuating interest rates may reduce the ability of CBM's customers and market counterparties to repay their loans.

In addition, changes in economic conditions may result in further deterioration in the value of security held against lending exposures and increase the risk of loss in the event of borrower default. Any changes in the credit quality of CBM's borrowers and counterparties, arising from systemic risks in the Russian and global financial systems, can adversely influence the value of CBM's assets, and require an increase in CBM's write downs and credit loss allowance on loans. In developing risk management methods for NPLs, CBM may not have identified or anticipated certain circumstances or risks that may occur which could result in provisioning levels and write-offs being greater than expected, which could have a material adverse effect on CBM's business.

CBM's credit loss allowance was RUB37,144 million as at 30 September 2019, RUB31,086 million as at 31 December 2018, RUB50,140 million as at 31 December 2017 and RUB40,203 million as at 31 December 2016. As at 30 September 2019, NPLs accounted for 3.7% of the total gross loan portfolio as compared to 1.6% of the total gross loan portfolio as at 31 December 2018, 2.4% of the total gross loan portfolio as at 31 December 2017 and 2.3% of the total gross loan portfolio as at 31 December 2016. The ratio of total credit loss allowance to overdue loans was 114.3% as at 30 September 2019, 88.7% as at 31 December 2018, 172.0% as at 31 December 2017 and 208.3% as at 31 December 2016. The increase in credit loss allowance in the nine months ended 30 September 2019 was mainly attributable to the deteriorated financial condition of a large corporate borrower and conservative provisioning in line with the market trend. The decrease in credit loss allowance in the year ended 31 December 2018 as compared to the year ended 31 December 2017 was attributable to improvement in the quality of CBM's loan portfolio and decrease in the number of NPLs in the relevant period.

Any further deterioration in the performance of the Russian economy and/or CBM's corporate customers, or a reduction in levels of personal income, individual purchasing power and consumer confidence, either generally or specifically in the banking sector, could have a material adverse effect on the development of CBM's business, financial condition, results of operations and prospects, and, in particular, may adversely impact CBM's ability to expand and achieve profitability in its loan portfolio.

The industry and key client concentration in CBM's loan and deposit portfolios could adversely affect CBM's business and financial condition

CBM is subject to concentration risk in its loan portfolio and deposit funding, which increased during the periods under review as a result of the implementation of a strategy to increase exposure to large corporate customers that was in response to the unstable economic environment. CBM's management believes that large and high-quality corporate clients are more stable in volatile markets and times of economic uncertainty, have a relatively strong capital position and provide a healthy demand for banking services.

As at 30 September 2019, loans to crude oil production and trading, petroleum refining, production and trading industries accounted for 27.4% and 14.4%, respectively, of CBM's gross loan portfolio. CBM intends to continue to focus on providing loans to companies operating in the oil and gas sectors, as well as to enterprises in industrial production and construction sectors, but also to continue to lend to companies in other sectors of the economy. As at 30 September 2019, gross loans to individuals accounted for 13.6% of CBM's gross loan portfolio.

The CBR imposes a limit on all Russian banks' exposure to a single borrower or group of related borrowers at 25% of all such bank's regulatory capital and must be monitored on a daily basis. As at the date of this Prospectus, CBM is in compliance with the CBR's limit on exposure to a single borrower or a group of related borrowers, and its N6 ratio does not exceed 25% of CBM's regulatory capital. However, CBM's exposure to a single borrower or a group of related borrowers could rise above this limit, possibly due to a change in the composition of CBM's loan portfolio, fluctuations in foreign currency or changes in the CBR's limit level or interpretation of how the limit should be calculated. The sanctions for failure to comply with this requirement could include fines, temporary administration of

CBM by the CBR or revocation of CBM's banking licence. If CBM exceeded its exposure to a single borrower or a group of related borrowers and the CBR took such steps, CBM's business, financial condition, results of operations or prospects could be materially adversely affected.

Due to customers accounted for 63.9%, 65.1%, 55.1% and 47.1% of CBM's total liabilities as at 30 September 2019, 31 December 2018, 2017 and 2016, respectively. In 2017, due to customers increased to RUB 941.7 billion as compared to RUB689.5 billion as at 31 December 2016. This increase reflects injection by the top depositor of funds withdrawn temporarily in 2016, as well as natural increase of the depositors' base during 2017. As at 31 December 2018, the total gross amount of due to customers to the top ten counterparties (or groups of related counterparties) was RUB769,258 million, or 60.5% and RUB524,486 million, or 55.7%, as at 31 December 2017. The majority of CBM's top-20 depositors are large Russian companies operating in different sectors of the economy and are longstanding customers of CBM. In CBM's view, these companies generate a positive cash flow, receive stable income and the risk of unpredictable withdrawal of funds by them is remote. To mitigate liquidity risk and ensure a comfortable liquidity cushion in the uncertain macroeconomic environment in Russia, as at 30 September 2019 CBM has increased the share of highly-liquid debt securities with lower interest rates in its portfolio (investment grade securities rated "BBB-" and above accounted for 80.7% of total securities portfolio as compared to 76.3% as at 31 December 2018).

CBM's failure to manage the risk of concentration in general, any impairment in the ability of the largest borrowers to repay their loans, or any decision by the largest depositors to withdraw their funds prior to stated maturity could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM may not be able to accurately assess the credit risk of potential and current borrowers

Credit risk assessment is generally more difficult for Russian banks than for banks operating in certain other jurisdictions due to the scarcity of reliable information in the Russian Federation about potential borrowers. In particular, it is difficult to make long-term forecasts with respect to a borrower's financial position as the financial performance of Russian companies are generally more volatile and their credit quality are less predictable than those of similar companies in more mature markets and economies. Further, many potential corporate borrowers do not prepare audited accounts in accordance with IFRS and/or do not have extensive or externally verified credit histories. In extending retail loans, CBM makes approval decisions on information derived from various sources, including data provided by the borrowers (formal documents such as individual income certificate, extract from the borrower's employment records), as well as data provided by third parties (such as the National Bureau of Credit Histories (a leading Russian credit histories bureau) and the borrower's employer). Under CBM's strategy, its target customers include employees and clients of CBM's corporate customers, clients with a positive credit history with other banks, as well as public sector employees. CBM focuses on cross-selling its retail products to its existing customers and new corporate channel customers. CBM targets these customer categories because CBM has relatively extensive and accurate information on their behaviour patterns, and, accordingly, considers them to have a lower credit risk profile. In 2015, in response to the uncertainties in Russian economy, CBM tightened its loan origination approval standards and processes and continues to exercise a very cautious lending policy. Nevertheless, there is a risk that CBM's procedures, controls and IT employed in loan origination and verification may generate errors, or a CBM officer may fail to adhere to compliance procedures which may lead to incorrect assessments of the level of risk of particular retail borrowers. CBM may also be unable to accurately evaluate the current financial condition of each prospective borrower or independently assess information provided by credit applicants, and thus may be unable to determine the long-term economic outlook for each such borrower.

Notwithstanding the risk assessment procedures and systems that CBM has in place, there is no assurance that such procedures and systems, credit loss allowance and supporting collateral will be sufficient to protect CBM against increased levels of defaults, losses or potential write-offs. Additionally, failure of the borrowers whose loans were restructured and who have re-commenced servicing their indebtedness to perform their financial obligations to CBM may lead to further defaults and write-offs. Failure to properly assess the risk of potential borrowers or deterioration in the financial

condition of a significant number of CBM's corporate or retail customers may have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

Devaluation of the Rouble against the U.S. dollar and other currencies, as well as general currency fluctuations or volatility, may have a material adverse effect on CBM's business

The Group maintains a conservative strategy of managing currency risk in compliance with the regulatory requirements of the CBR. Regulatory and internal open currency positions, as well as stop loss limits that are created in the ordinary course of the Group's business, are principal risk management instruments with regard to currency risks. The positions and limits are constantly monitored and managed, yet certain exposures may still create currency risk.

The RUB/U.S.\$ exchange rate fluctuated significantly in 2016-2019 ranging from RUB55.67 per U.S.\$1.00 to RUB83.59 per U.S.\$1.00.

For the nine-month period ended 30 September 2019, CBM had a net foreign exchange loss of RUB8,531 million as compared to a net foreign exchange gain of RUB173 million for the nine-month period ended 30 September 2018. In the year ended 31 December 2018, CBM's net foreign exchange gains amounted to RUB2,723 million as compared to net foreign exchange gains of RUB2,701 million in the year ended 31 December 2017 and net foreign exchange gains of RUB6,065 million in the year ended 31 December 2016. The net foreign exchange loss in the nine months ended 30 September 2019 is mainly attributable to accounting specifics of foreign currency revaluation on perpetual Eurobond in Tier I capital of CBM on the back of Rouble appreciation in the beginning of 2019. The net foreign exchange gains for 2016-2018 were mainly due to income generated from swap contracts, as well as from currency conversion operations conducted by CBM on behalf of its customers. The foreign exchange gains or losses were one of the items that positively or negatively impacted CBM's operating income in the periods under review. Although CBM was successful in managing the exchange rate risk in the past, there is no guarantee that it will be successful in avoiding the effects of exchange rate fluctuations in the future, which could have a material adverse effect on CBM's business, financial condition, results of operations or prospects.

Any depreciation of the Rouble against the U.S. dollar and other currencies, as well as general currency fluctuations or volatility, could negatively affect CBM in a number of ways, including, among other things, increasing the actual cost to CBM of financing its U.S. dollar-based liabilities and by making it more difficult for Russian borrowers to service their U.S. dollar loans. Volatility in the Russian currency market may have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM is exposed to liquidity risk

CBM is exposed to liquidity risk arising out of the mismatches between the maturities of CBM's assets and liabilities, which may result in CBM being unable to meet its obligations in a timely manner. The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group calculates liquidity ratios on a daily basis in accordance with the CBR requirements.

CBM meets a significant portion of its funding requirements using due to customers, which was RUB689,496 million as at 31 December 2016, RUB941,724 million as at 31 December 2017, RUB1,272,175 million as at 31 December 2018 and RUB1,269,029 million as at 30 September 2019. As at 30 September 2019, RUB125,614 million, or 9.9%, of CBM's total due to customers, had a maturity classified as current accounts. See also “- *The industry and key client concentration in CBM's loan and deposit portfolios could adversely affect CBM's business and financial condition*”. Unanticipated decreases in corporate customer deposits or unexpected withdrawals of retail deposits may result in liquidity gaps that CBM may not be able to cover without incurring additional expenses, if at all.

A portion of CBM's due to customers are from the retail segment. As at 30 September 2019, due to individuals represented 36.2% of CBM's total due to customers. The Russian Civil Code entitles retail depositors to withdraw deposits, including term deposits, at any time. The significant withdrawal of these retail deposits may impact the ability of CBM to meet its funding requirements.

The remainder of CBM's funding is raised in the domestic and international capital, syndicated loan and interbank markets. CBM's ability to raise funding from domestic and international markets in amounts sufficient to meet its liquidity needs could be adversely affected by a number of factors beyond CBM's control (such as volatility of financial markets).

As at 30 September 2019, the Group had a cumulative liquidity position between assets and liabilities that mature from three to six months of RUB366,396 million, from six to nine months of RUB178,681 million and from nine months to one year of RUB67,181 million. CBM's management estimates that CBM will be able to cover these liquidity gaps by planned extensions and anticipated funding opportunities, through repo transactions and undrawn credit line facilities from the CBR and other financial institutions.

If the sources of short or long-term funding are not available, or if maturity mismatches between assets and liabilities occur, for example, in light of a shortage of liquidity due to unfavourable economic conditions, this could lead to CBM's failure to meet its obligations, which in turn could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM's business and operations are subject to market risks, including currency risk, interest rate risk and securities portfolio risk

Assets and liabilities of CBM are denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. CBM plans to continue to access the international capital markets and syndicated loan markets, which subjects it to risks inherent in currency fluctuations and the uncertainty of these markets as a reliable funding source. As at 30 September 2019, 67.9% of CBM's loans to customers were denominated in Roubles, 26.0% in U.S. dollars and the remaining 6.1% in other currencies. Any significant exchange rate fluctuations may result in mismatches in currency positions of CBM.

CBM faces interest rate risk resulting from movements in interest rates that affect income or the value of financial instruments. For example, instruments on both the asset and liability side may exhibit different sensitivities to changes in interest rates, including changes in long-term and short-term interest rates relative to one another. If, for example, interest rates were to rise, this could negatively affect the value of CBM assets with longer tenors that may have relatively lower fixed interest rates locked up for some time until they mature. Interest rate movements on both domestic and international markets may have a material adverse effect on CBM's business and financial condition.

The securities portfolio risk arises from fluctuations in the value of financial instruments as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. For the nine-month period ended 30 September 2019, CBM had a net loss from sale and redemption of investment financial assets at fair value through other comprehensive income of RUB221 million as compared to a net loss from sale and redemption of investment financial assets at fair value through other comprehensive income of RUB71 million for the nine-month period ended 30 September 2018. For the year ended 31 December 2018, CBM had a net loss on financial instruments at fair value through profit or loss of RUB189 million as compared to a net gain on financial instruments at fair value through profit or loss of RUB773 million for the year ended 31 December 2017 and a net gain on financial instruments at fair value through profit or loss of RUB235 million for the year ended 31 December 2016. Interest rate and price movements on both domestic and international markets may have a material adverse effect on the value of CBM's securities portfolio, which in turn may lead to losses and have a material adverse effect on CBM's overall business, financial condition, results of operations and prospects.

The instability or illiquidity of the repo market could adversely affect CBM's business, results of operations, financial condition and prospects

CBM obtains a part of its funding from other banks under transactions involving the sale of securities with a simultaneous agreement to repurchase ("repo") utilising its securities portfolio. As at 30 September 2019, payables under repurchase agreements comprised 23.8% of CBM's total liabilities. The Russian repo market may be subject to volatility as a result of any turbulence on the financial and currency markets. At times of instability, funding rates on the repo market may rise significantly (as was the case in late 2014), the market may become illiquid and the risk of margin calls or the loss of collateral may increase. In such environment, Russian banks may be unable to obtain funding under repo transactions with international banks or in the domestic interbank market due to high interest rates. Should CBM's access to the repo market be substantially restricted or if the repo market experiences liquidity shortages or volatility, this could have a material adverse effect on CBM's liquidity, which could lead to a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM's business entails operational risks, including failures to adhere to compliance procedures by CBM's employees

CBM is exposed to several types of operational risk, including unauthorised transactions by employees or operational errors such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems, failure to protect confidentiality, integrity and security of consumer data or funds, and the risk that CBM will be used for money laundering and financing of terrorist activities. CBM maintains a system of controls designed to keep operational risk at appropriate levels. However, there can be no assurance that CBM will not suffer losses from failure of these controls to detect or contain operational risk in the future. See also "– CBM's measures to prevent money laundering or terrorist financing may not be completely effective" and "– CBM's IT systems may malfunction or may become a target of a cyber security attack".

CBM is exposed to the risk that its employees will not adhere to its compliance procedures and limits on risk related activities. CBM takes various precautions to prevent and detect misconduct; however, these may not be effective in all cases. Misconduct by existing employees could include binding CBM to transactions that exceed authorised limits or present unacceptable risks, or concealing unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use or disclosure of confidential information that could result in regulatory and legal sanctions and significant reputational or financial harm which could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM's measures to prevent money laundering or terrorist financing may not be completely effective

CBM's anti-money laundering measures are based on the relevant Russian laws. In particular, Russian anti-money laundering laws contain numerous requirements with respect to identification of clients, as well as documentation and reporting to the relevant authorities of transactions subject to mandatory control and other suspicious transactions. CBM has procedures and documents aimed at preventing money laundering and financing of terrorist activities, including a general anti-money laundering policy, internal control procedures that include a refusal policy whereby CBM refuses to conduct business with suspicious entities or individuals, rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the Federal Service for Financial Monitoring of the Russian Federation.

CBM has complied with applicable anti-money laundering and anti-terrorist financing laws and regulations and has not been subject to any investigation with respect to its involvement in money laundering or terrorist financing. However, there can be no assurance that third parties will not attempt to use CBM as a conduit for money laundering or terrorist financing without CBM's knowledge, nor that the measures described above will be completely effective. If CBM fails to comply with anti-money laundering or anti-terrorism financing laws or if it is otherwise associated with money laundering or

terrorist financing, this could have a material adverse effect on its reputation, business, financial condition, results of operations and prospects.

A decline in the value of, or illiquidity of, the collateral securing CBM's loans may materially and adversely affect the loan portfolio

A portion of CBM's corporate loans, as well as its mortgage, are secured by collateral such as securities, real estate, goods in turnover, equipment and motor vehicles, guaranteed deposits and CBM's own debt securities. As at 31 December 2018, 47.5% of CBM's net loans to legal entities (net of impairment) were secured by liquid collateral, and the remaining portion was secured by corporate sureties and unsecured. Downturns in the relevant markets and a general deterioration of economic conditions in the Russian Federation may result in declines in the value of collateral securing a number of loans. As collateral values decline, the value of the collateral may not be sufficient to cover the remaining loan balances. Moreover, in the past, CBM may have accepted collateral that is insufficient to cover the value of the loan. A decline in the value of collateral securing CBM's loans, or an inability to realise existing collateral or obtain additional collateral has in the past required, and may continue to require, CBM to reclassify the relevant loans, establish additional credit loss allowance, and increase reserves, which could adversely affect CBM's business, financial condition, results of operations and prospects. See “– Risks Relating to the Russian Legal System and Legislation – It may be difficult to enforce security and sureties under Russian law”.

CBM may lack sufficient insurance coverage

While Russian banking and other laws do not require banks to maintain various forms of insurance of their material assets, liabilities or risks, other than the mandatory insurance of retail deposits, CBM voluntarily insures its property and operating assets at levels that are in line with the standard in the Russian market. CBM's insurance includes a bankers blanket bond (“**BBB**”) policy which contains coverage for valuables, property insurance and damage policies, a third-party liability policy, a general liability policy and bank card issuers insurance policy. The general liability policy, among other things, protects against unlawful acts of employees, loss of property, loss from fraud transaction with payments, securities and false bank notes. See “*Business – Insurance*”. However, CBM's insurance does not cover all of CBM's assets and liabilities. The Russian insurance industry is less developed than those in some more economically developed countries, with some insurance products being unavailable to CBM on terms that are common in such economically developed countries, such as insurance coverage for business interruption. CBM may incur uninsured losses of assets and face claims not covered or inadequately covered by such insurance. Any such losses or claims could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM's IT systems may malfunction or may become a target of a cyber security attack

CBM's business is dependent on the uninterrupted, proper functioning of its IT systems and the ability to increase their capacity to support CBM's business expansion and to support new products and services to support CBM's growth and achievement of its strategy. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, hacking, physical damage to vital IT centres and computer virus infection. CBM has invested in upgrading its technologies, centralising its information systems and controlling the operation of its hardware and software, taking into account international best practices. However, CBM cannot provide any assurance that its IT systems will continue to function in a manner that will not result in significant disruptions or temporary loss of functionality, and the possibility of a systems failure that may adversely affect its operational activities and financial performance cannot be eliminated. Moreover, due to the rapid pace of development of financial technology and systems, which may render certain existing technology, equipment and systems obsolete, there can be no assurance that CBM's IT system will at all times be as modern or as efficient as systems used by other financial institutions and competitors.

In September 2018, CBM experienced a technical malfunction of the mobile retail banking software associated with upgrade of the digital platform of the service. Although CBM managed to resolve the malfunction within a short timeframe, the mobile retail banking service went through a temporary

shutdown, and there can be no assurance that similar occurrences will not happen in the future or that CBM will be successful in mitigating them.

Further, CBM's ability to operate its business depends on its ability to protect the computer systems and databases which CBM operates and uses from the intrusion of third parties who may attempt to gain access to CBM's computer systems, networks or databases through the Internet or otherwise. CBM's technologies, systems and networks, and those of CBM's business partners, may become the target of cyberattacks or information security breaches that could result in the unauthorised release, gathering, monitoring, misuse, loss or destruction of proprietary and other information, or other disruption of business operations. In addition, certain cyber security incidents, such as surveillance, may remain undetected for an extended period. As cyber security incidents continue to evolve, CBM will likely invest additional resources to continue to modify and/or enhance its protective measures or to investigate and remediate any vulnerability to cyber security incidents. Although CBM believes that its computer systems, networks and databases are well protected from unauthorised access, given the potential technical and financial resources of intruders, full assurance cannot be given that its computer systems, networks and databases will not suffer from such attacks in the future.

Also, given CBM's history of high growth, should CBM's business volumes continue to grow at a rapid pace, it could lead to significant increases in the utilisation of its IT systems to a point where their capacity limits would be reached and they would be unable to adequately support further growth. A failure of CBM's IT systems to adequately support its operations and the growth of its business and enable it to monitor and manage its operations effectively could result in a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM may face difficulties in recruiting and retaining experienced personnel

CBM's ability to continue to attract, retain and motivate qualified and experienced personnel is key in implementing its strategy. Competition in the Russian banking industry for personnel with relevant expertise is intense due to the relatively small number of available qualified individuals (in particular, in IT sector). Further increases in competition may lead to difficulties in recruiting qualified and experienced employees due to including increased costs of recruitment, a greater length of time taken to identify and recruit such employees, difficulties in retaining qualified and experienced employees, and increased costs of salaries and bonuses. In order to attract and recruit qualified and experienced employees and to minimise the possibility of their departure to other banks, CBM provides packages of compensation and non-financial incentives that are consistent with evolving standards in the Russian labour market. Any inability by CBM to retain, manage or recruit qualified personnel in sufficient numbers could have a material adverse effect on CBM's business, financial condition, results of operations and prospects, and may impair CBM's ability to achieve its strategic objectives.

CBM's strategy could be less successful than CBM anticipates

CBM's ability to execute its strategy depends on a variety of factors, some of which are within CBM's control only to some degree (such as its ability to attract clients and investors and its skill in structuring and executing transactions), and some of which are completely outside of CBM's control (such as global economic conditions, interest rates and demand for certain products (including banking products and cash handling operations)). As part of its growth strategy, CBM may undertake market opportunities for selective expansion and development (such as the consolidation of Soviety Bank's deposit portfolio and branch network). See "*Business – Distribution Network – Branches and Cash Offices*". Failure to successfully integrate such business decisions to the existing strategy may lead to losses and have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

CBM's controlling shareholder may have interests that may differ from the interests of CBM and the shareholders

LLC Concern Rossium ("**Concern Rossium**") owns 56.07% of CBM's shares. Mr. Roman Avdeev, being a majority shareholder of Concern Rossium, is the ultimate controlling party of CBM. Mr. Avdeev exercises significant influence over CBM's business strategy, corporate affairs, management and

policies, including decisions on acquisitions and disposals of businesses. CBM believes that such influence has been, and will continue to be, important in the pursuit and implementation of its strategy. However, there can be no assurance that Mr. Avdeev's or Concern Rossium's interests, views or strategy in relation to CBM will always coincide with those of CBM and its other shareholders. Potential conflicts may arise where Concern Rossium may choose not to approve matters which are otherwise in the interest of CBM or its other shareholders. In addition, transactions with other Concern Rossium's or Mr. Avdeev's businesses may in certain circumstances qualify as interested party transactions under Russian law that require the approval of a majority of CBM's shareholders that do not have an interest in such transactions. As a result, CBM may be prevented from completing certain transactions, which could have a material adverse effect on its business and the interests of its shareholders.

In the ordinary course of business, CBM has commercial dealings with companies under Mr. Avdeev's control and their subsidiaries. As at 30 September 2019, CBM's loans to related parties amounted to RUB25,786 million or 3.5% of the total loans to customers. CBM's commercial dealings with such companies and other related parties are concluded on an arm's-length basis. Nevertheless, transactions with related parties pose the risk of CBM entering into transactions on terms less favourable than those that could be obtained in arm's length transactions with unrelated parties. If any such risk materialises, it could have a material adverse effect on CBM's business, financial condition, results of operations and prospects. See also "*Transactions with Related Parties*".

Risks Relating to the Russian Federation

Substantially all of the Group's assets are located in Russia, which is an emerging market. Investors in emerging markets should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant economic, political, social and legal risks. Investors should also note that emerging economies, such as Russia, are subject to rapid change and that the information set forth herein may become outdated relatively quickly.

Emerging markets are subject to different risks as compared to more developed markets

Emerging markets such as Russia are subject to different risks as compared to more developed markets, including, in some cases, increased political, economic and legal risks. Emerging market governments and judiciaries often exercise broad, unchecked discretion and are susceptible to abuse and corruption. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Emerging markets such as the Russian Federation are subject to rapid change, and the information set out herein may become quickly outdated.

Moreover, financial turmoil in any emerging market country tends to adversely affect the value of investments in all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect its economy. In addition, during such times, companies in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn.

The state of the Russian economy could materially and adversely affect CBM's business

The substantial majority of the Group's assets and customers, as well as the customers' assets are located in, or have businesses related to, Russia. As a result, the Group is substantially affected by the state of the Russian economy, which is, to a significant degree, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials.

According to Rosstat, the Russian economy deteriorated with the real gross domestic product ("GDP") declining by 2.3% in 2015 and an insignificant growth of 0.3% in 2016. The downturn was a result of combination of (i) the political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by the U.S. and the EU (as well as other nations, such as Australia, Canada, Japan and Switzerland) and (ii) the significant decline of oil prices in the end of 2014. These events have also reduced, to a significant extent, the ability of Russian companies and banks to raise new debt or to refinance existing debt in international capital markets. In 2017 and 2018, the economy

was on the trend of stabilisation, and Russia's real GDP increased by 1.6% and 2.3%, respectively, according to Rosstat. In the nine-month period ended 30 September 2019, the Russian GDP improved by 1.1%, according to Rosstat. Based on CBR estimates, Russia's GDP increased by 0.8-1.3% in 2019. However, it has been widely reported that such growth may be attributed more to changes in statistical methods rather than any underlying strengthening of the economy. Furthermore, real disposable income has been decreasing in year-on-year terms (by 0.2% in 2018 as compared to 2017; by 1.2% in 2017 as compared to 2016; and by 5.8% in 2016 as compared to 2015). In the nine months ended 30 September 2019, real disposable income increased by 3.0% in annual terms, according to Rosstat, whereas the level of poverty stood at 12.0% in the third quarter of 2019 (as compared to 12.5% in the relevant period of 2018).

The slowdown of the Russian economy could adversely affect the financial condition of CBM's customers and may result, among other things, in a decrease in the funds that its customers hold on deposit with CBM, a change in CBM's strategy, a reduction in the demand for loans, foreign currency, investment and other banking transaction services that these customers carry out with CBM, as well as a general deterioration in the quality of CBM's loan portfolio and/or a reduction in the market values of securities or other assets held on CBM's balance sheet, leading to possible defaults and/or the need for increased credit loss allowances.

In addition, a significant decline in the credit ratings of the Russian Federation or its financial institutions could cause severe stress in the Russian financial system generally, as well as with respect to the business and economic conditions and prospects of CBM's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which are difficult to predict. As at the date of this Prospectus, Russia's sovereign ratings were "Baa3" with a stable outlook from Moody's, "BBB-" with a stable outlook from S&P and "BBB" with a stable outlook from Fitch. As at the date of this Prospectus, CBM had "Ba3" rating with a stable outlook from Moody's, "BB" rating with a stable outlook from Fitch and "BB-" rating with a stable outlook from S&P.

There can be no assurance that CBM or the Russian Federation will be able to maintain their current credit ratings and any deterioration in the geopolitical situation, the general economic or political environment or CBM's financial condition could lead to downgrades. Any such downgrades could adversely affect CBM's liquidity and undermine confidence in CBM, which could lead to increased borrowing costs and restrict CBM's access to capital markets. An increase in CBM's cost or reduction in availability of funding could lead to pressure on CBM to meet deposit withdrawals on demand or at their contractual maturity, to service the credit facilities of existing customers or to fund new loans, investments and businesses. Furthermore, reduced liquidity and cost of capital could adversely affect CBM's ability to repay its own borrowings as they mature, to meet covenants and other obligations under its own financing facilities or to raise further financing, for example, by issuing debt securities, on favourable terms to CBM, or at all. Failure of CBM to meet such covenants may lead to a default under certain existing financing facilities, which in turn may lead to its insolvency. In addition, should CBM's access to new financing become limited, it could be forced to sell unencumbered assets to meet its liabilities. In a time of reduced liquidity, CBM may be unable to sell some of its assets, or it could be forced to make such sales at depressed prices, which in either case could adversely affect CBM's business, financial condition, results of operations or prospects.

Furthermore, the Russian economy and banking market may be significantly affected by a slowdown in the global economy and disruption in the global financial markets, in particular by a decrease in investor confidence and available liquidity. Volatility in the financial markets may negatively affect the interbank markets and capital raising by borrowers and issuers. For example, on 23 June 2016, a referendum was held on the United Kingdom's membership in the EU, which resulted in a public vote in favour of the United Kingdom leaving the EU ("**Brexit**"). On 29 March 2017, the UK Government invoked Article 50 of the Lisbon Treaty and officially notified the EU of its decision to withdraw from the EU. This commenced the formal negotiations regarding the terms of the withdrawal and the framework of the future relationship between the UK and the EU, with the withdrawal deadline being delayed on several occasions. On 23 January 2020, Queen Elizabeth II gave her formal assent to the bill envisaging the UK's withdrawal from the EU on 31 January 2020. Considering the ongoing negotiations between the parties and the position taken up to now by the UK Government, it is not possible to determine the exact

impact that Brexit may have on the European macroeconomic environment. In addition, policy positions taken by the U.S. presidential administration may result in turbulence in the financial markets and lead to greater uncertainty regarding the status of trade relations between the U.S. and some of its largest trade partners. Such developments could also lead to an increase in the level of protectionism globally. The worsening of trade relations between certain of the larger global economies could have a knock-on effect on global trade generally and the broader economic environment. Any similar events affecting the integrity of the EU generally or any further economic downturns could have an adverse effect on financial stability, both in the EU and globally, and could impact investor sentiments. Other global economies, such as China, are also currently experiencing a slowdown in economic growth and stock market volatility, which could create further economic uncertainty in Russia. These and other events have resulted and could result a decrease of foreign investment into and increased capital outflows from Russia and emerging markets generally, as well as persistent volatility in global and regional financial markets, and therefore may have a material adverse effect on CBM's business, financial condition, results of operation and prospects and the value of the Notes.

Political risks could adversely affect the value of investments in the Russian Federation

While the political situation in the Russian Federation has been relatively stable since 2000, future policy and regulation may be less predictable than in less volatile markets. The last presidential elections in Russia were held in March 2018. Any future political instability could result in a worsening of the overall economic situation, including capital flight and a slowdown of investment and business activity. In addition, any change in the Russian Government or its programme of reform, or lack of consensus between the Russian President, the Prime Minister, the Russian Government, the Parliament and powerful economic groups could lead to political instability and a deterioration in Russia's investment climate that might limit the ability of CBM to obtain financing in the international capital markets or otherwise have a material adverse effect on its business, financial condition, results of operations and prospects.

According to some commentators, actions by government bodies motivated by politics or special interests of well politically connected entities or individuals, including claims brought by the Russian authorities against several major Russian companies, have called into question the security of property and contractual rights, the progress of the market and political reforms, the independence of the judiciary and the certainty of legislation. This has, in turn, resulted in significant fluctuations in the market price of Russian securities and has since had a negative impact on foreign investments in the Russian economy, over and above the recent general market turmoil. Any similar actions by the Russian authorities which could result in a further negative effects on investor confidence in Russia's businesses and legal environment could have a further material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities, including the Notes.

Russia is a federative state consisting of 85 constituent entities, or "subjects". The Russian Constitution reserves some governmental powers for the federal Russian Government, some for the subjects and some for areas of joint competence. In addition, eight "federal districts" ("*federal'nye okruga*"), which are overseen by a plenipotentiary representative of the President, supplement the country's federal system. The delineation of authority among and within the subjects is, in many instances, unclear and contested, particularly with respect to the division of tax revenues and authority over regulatory matters. Subjects have enacted conflicting laws in areas such as privatisation, land ownership and licensing. For these reasons, the Russian political system is vulnerable to tension and conflict between federal, subject and local authorities. This tension creates uncertainties in the operating environment in Russia, and may prevent businesses from carrying out their strategy effectively.

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. Moreover, various acts of terrorism have been committed within the Russian Federation. The risks associated with these events or potential events could materially and adversely affect the investment environment and overall consumer and entrepreneurial confidence in the Russian Federation, which in turn could have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

Social risks could adversely affect the value of investments in the Russian Federation

Emerging markets such as the Russian Federation are prone to social risks and increased lawlessness. High levels of corruption reportedly exist in Russia, including bribing of or collusion with officials to initiate investigations by government agencies. For example, should CBM enter into legal proceedings to recover a bad debt, such debtor may engage in illegal measures, including corruption, to obstruct proceedings in relation to such claim. Whilst CBM's internal monitoring of operational risks and "know your customer" procedures are designed to recognise suspicious and illegal activity, there can be no assurance that corruption or other illegal activity will not affect CBM's business in the future. Corruption and other illegal activities could disrupt CBM's ability to conduct its business effectively, and claims that CBM was involved in such corruption or illegal activities could generate negative publicity, either of which could harm CBM's business.

In addition, rising unemployment, forced unpaid leave, wages in arrears, low disposable income and weakening economies have in some cases in the past led to and could in the future lead again to labour and social unrest, a mood of protest, and a rise in nationalism against migrant workers. Such labour and social unrest could disrupt ordinary business operations, which also could materially adversely affect CBM's business, financial condition, results of operations and prospects.

If Russia were to return to heavy and sustained inflation, CBM's results of operations could be adversely affected

During the period 2016-2018, and according to Rosstat, the consumer price index in Russia measured was 5.4% in 2016, 2.5% in 2017 and 4.3% in 2018. In 2019, the consumer price index in Russia was 3.0%, according to Rosstat. A return to heavy and sustained inflation (comparable to consumer price index of 11.4% measured for 2014) could lead to market instability, new financial crises, reductions in consumer purchasing power and the erosion of consumer confidence. Any of these events could lead to decreased demand for CBM's products and services and have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

The current political instability relating to Ukraine and related sanctions imposed by the U.S. and the EU may have a material adverse effect on CBM

The political instability and conflict in Ukraine in 2013-2014 and following a public referendum in Crimea, heightened levels of tension between Russia and other countries, the imposition by the U.S., the E.U. and other states (including Canada, Australia, Japan, Switzerland and Norway) of sanctions and restrictive measures against Russia, certain industries and individuals, as well as the imposition by Russia of counter-measures, including import and travel restrictions, have had in the past, and may continue to have in the future, an adverse effect on the Russian economy and CBM.

Since 2014, the U.S. and the EU (as well as other nations, such as Canada, Switzerland, Australia and Japan) imposed several rounds and types of sanctions on certain Russian and Ukrainian persons and entities. A number of Russian government officials, entrepreneurs, banks and companies, as well as companies owned or controlled by such persons or entities, or certain entities that provide assistance to prohibited actions by such entities or persons, have been subject to blocking sanctions and sectoral sanctions, in particular entities in the financial, oil and gas, defence and related materials sectors.

In July 2017, the U.S. Congress adopted the Countering America's Adversaries Through Sanctions Act, which was signed into law by President Trump on 2 August 2017 ("CAATSA"). CAATSA, among other things, (a) codifies the existing sanctions against Russia established by former President Obama's executive orders, reduces the permitted terms of financing under the existing sectoral sanctions and restricts supplies of equipment and services for new deepwater, Arctic offshore, or shale projects anywhere in the world in which a Russian sanctioned entity holds a 33% or more interest; (b) gives the U.S. Treasury Secretary the power to impose sanctions against state-owned companies in Russia in the railways, metals, and mining sectors of the Russian economy; (c) requires the U.S. President, subject to the ability to claim a national interest waiver, to impose certain secondary sanctions that were discretionary under the existing U.S. sanctions legislation (including, but not limited to, secondary sanctions for investing in or supporting special Russian crude oil projects and the facilitation of

transactions on behalf of Russian Specially Designated Nationals (“SDNs”); (d) allows the U.S. President to introduce secondary sanctions on foreign persons (including those that invest in the construction or servicing of Russian energy export pipelines); and (e) requires the U.S. President, subject to the ability to claim a national interest waiver, to impose asset-blocking and travel sanctions, including certain secondary sanctions, on any person who knowingly engages in significant activities that undermine the cybersecurity of any person or government, including a democratic institution, on behalf of the Russian government. If implemented by the U.S. President, these sanctions may have a material adverse effect on the Russian financial markets and investment climate and the Russian economy generally.

The CAATSA also requires the U.S. administration to submit various reports to U.S. Congress, including reports on oligarchs and parastatal entities (submitted on 29 January 2018 under Section 241 of the CAATS Act (the “**Section 241 Report**”)), on the effects of expanding sanctions to include sovereign debt, derivative products, and on illicit finance, which could lead to further sanctions. Section 241 Report dated 29 January 2018 included Mr. Avdeev, controlling shareholder of the Group. Although inclusion of any person (or any family members of an individual categorised as such a person) affiliated with the Group, including Mr. Avdeev, in the Section 241 Report does not automatically lead to the imposition of sanctions on such person or the Group, the trading price of the Notes may be adversely affected.

On 6 April 2018, the U.S. Department of the Treasury’s Office of Foreign Assets Control added 38 Russian businessmen, officials and entities to its List of Specially Designated Nationals and Blocked Persons, issued guidance on the application of these new sanctions, and published General Licence 12 and General Licence 13 for the wind-down of certain activities related to these SDNs. These sanctions could have a significant impact on business dealings with the respective SDNs and the entities in which these SDNs have interests.

In August 2019, the U.S. Department of Treasury imposed additional sanctions related to certain U.S. bank loans and will oppose multilateral development bank assistance to the Russian Federation. U.S. banks are now prohibited from participating in the primary market for non-rouble denominated bonds issued by the Russian sovereign and from lending non-rouble denominated funds to the Russian sovereign. On 13 February 2019, a bipartisan group of U.S. senators introduced an updated and expanded version of the sanctions bill initially proposed in August 2018, Defending American Security from Kremlin Aggression Act (“**DASKA**”) and further expanded in the H.R.2500 National Defence Authorisation Act for fiscal year 2020. Among other measures, DASKA (i) introduces a prohibition for U.S. persons to hold and deal in Russian sovereign debt with a maturity exceeding 14 days; (ii) envisages the sanctioning of persons making a substantial investment in liquefied natural gas export facilities or other energy projects outside Russia if such facilities and projects are supported by a Russian parastatal entity or an entity owned or controlled by the Russian Government; and (iii) proposes to introduce blocking sanctions in respect of Russian financial institutions that provide financial or other support to Russian government interference in democratic processes and elections outside Russia. If imposed, such sanctions may have an adverse impact on the Russian economy in general and thus may negatively affect CBM’s operations.

In December 2019, the President of the U.S. signed into law the National Defense Authorization Act for Fiscal Year 2020 (“**NDAA**”), which envisages the imposition of sanctions on foreign persons engaged in the construction of the Nord Stream 2 and the TurkStream pipeline projects, which are being developed by Gazprom. The NDAA provides that the U.S. Government shall identify the vessels and foreign persons involved in the construction of the pipeline projects not later than within 60 days of the date of the enactment of the NDAA. Such persons could be subject to U.S. sanctions, such as blocking of property. Allseas, a contractor in offshore pipeline installation involved in the construction of the Nord Stream 2 pipeline, announced that it has suspended its Nord Stream 2 pipelay activities pending guidance on the application of the NDAA from the relevant U.S. authority.

No sanctions have been imposed in respect of CBM, any individual or any of CBM’s subsidiaries by either the U.S. or the EU in connection with the Ukraine crisis. However, no assurance can be given that any of those persons or entities will not be so designated in the future, or that broader sanctions

against Russia that affect CBM will not be imposed. Although none of CBM's subsidiaries are U.S. persons, some entities are EU persons and are therefore required to comply with the EU sanctions, including avoiding conducting business with any sanctioned persons. None of the proceeds of the offering will be used to fund activities or persons that are subject to sanctions introduced by the U.S. and the EU. As with many other Russian banks and credit institutions, CBM transacts with Vnesheconombank (VEB), Gazprombank, Sberbank and VTB in the ordinary course of business, as they are CBM's correspondent bank counterparties, and has among its largest clients and depositors Russian corporates that are on the EU and U.S. sectoral sanctions lists. All transactions with these financial institutions and corporates are reviewed for sanctions compliance purposes by the financial monitoring department of CBM and authorised personnel. The prevailing part of transactions with these entities are Rouble transfers limited to the territory of the Russian Federation and all of them are permissible pursuant to applicable law.

Other subsidiaries of CBM are neither U.S. persons nor EU persons, and are therefore restricted to dealings with sanctioned persons only to the extent those dealings are subject to U.S. and/or EU jurisdiction, such as through the involvement of U.S. and/or EU persons or entities, business conducted on the territory of the U.S. or EU, clearing in U.S. dollars, or some other nexus to the relevant jurisdiction. However, there can be no assurance that compliance issues under applicable U.S. and/or EU regulation, measures or similar laws and regulations will not arise with respect to CBM or its personnel. Non-compliance with applicable sanctions could result in, among other things, the inability of the relevant subsidiaries of CBM to contract with the U.S. and/or EU governments or their agencies, civil or criminal liability of such entities and/or their personnel under U.S. and/or EU law, and the imposition of significant fines and negative publicity and reputational damage. In addition, should CBM's dealings with sanctioned counterparties become material, CBM's ability to transact with U.S. or EU persons could be affected, even though such dealings would comply with applicable law. As a result, the ability of subsidiaries of CBM to raise funding from international financial institutions or the international capital markets may be inhibited.

The sanctions imposed by the U.S. and the EU in connection with the Ukraine crisis so far have had an adverse effect on the Russian economy, to which CBM is exposed significantly, prompting revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. The governments of the U.S. and certain EU member states, as well as certain EU officials, have indicated that they may consider additional sanctions should tensions in Ukraine continue.

Further confrontation in Ukraine and any escalation of related tensions between Russia and the U.S. and/or the EU, the imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a prolonged adverse impact on the Russian economy, particularly levels of disposable income, consumer spending and consumer confidence, as well as the ability of Russian banks, including CBM and its Russian clients, to sustain required liquidity levels and comply with their financial obligations. In particular, should either the U.S. or the EU expand their respective sanctions to include existing or future clients, suppliers or other counterparties of CBM, a large sector of the Russian economy or otherwise, such an expansion could result in CBM's dealings with designated persons, if any, being materially adversely impacted. In addition, the suspension or potential curtailment of business operations between CBM and the designated persons could occur, and substantial legal and other compliance costs and risks on CBM's business operations could emerge. All of the above could have a material adverse impact on CBM's business, financial condition, results of operations or prospects.

Although CBM has no reason to believe that it may be specifically targeted by the U.S. or EU sanctions, if sanctions targeting the Russian banking sector generally or CBM, the Group or any person affiliated with the Group specifically are imposed, such sanctions will likely have a material adverse impact on CBM in a number of ways. For example, CBM's ability to use international payment networks (such as those administered by Visa and MasterCard) could be impaired. CBM might become unable to deal with persons or entities bound by the relevant sanctions, including financial institutions and rating agencies, transact in U.S. dollars, raise funds from investors, or access international capital markets generally, use

international settlement, clearing and/or information exchange systems, and/or CBM's existing funds might be blocked. In addition, investors in possession or control of the Notes, who are subject to the jurisdiction of any relevant sanctions regimes, may be required to block those Notes and may be restricted in their ability to sell, transfer or otherwise deal in or receive distributions with respect to the Notes, which could make such Notes partially or completely illiquid and have a material adverse effect on their market value and their trading price.

Furthermore, any potential conflicts with other countries and the risks associated with these events could materially and adversely affect the investment environment in Russia. For example, the Ukrainian crisis has also resulted in the deterioration of Russia's relations with other countries, including members of the EU and U.S. The emergence of new or an escalation of existing tensions between Russia and other countries could negatively affect economies in the region, including the Russian economy, and could have a material adverse effect on CBM's business, financial condition and results of operations and may lead to reduced liquidity, trading volatility and a negative effect on CBM's ability to raise debt or equity capital in the international capital markets.

Risks Relating to the Russian Legal System and Legislation

CBM is a highly regulated entity

CBM is subject to strict regulation in the Russian Federation by governmental organisations, particularly the CBR. The requirements, including capital adequacy requirements, imposed by the CBR are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom CBM deals. These requirements are not designed to protect shareholders and may limit CBM's activities and increase its costs of doing business. A breach of regulatory guidelines could expose CBM and its shareholders to potential liability and other sanctions, including the loss of its general banking licence. See – *“The Banking Sector and Banking Regulation in Russia – Bankruptcy (Insolvency) and Other Related Issues”*. If the CBR was to suspend or revoke CBM's general banking licence, then this would render CBM unable to perform any banking operations (including processing payments of its customers) and/or would lead to winding-up of its business (whether by way of bankruptcy proceedings or liquidation).

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, and the regulatory framework applicable to CBM's operations is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted. If the existing interpretation of the regulations change or future regulations were to be imposed on CBM, it could have an adverse effect on its business. While CBM has in the past complied with applicable regulations in all material respects, there is no assurance that it will always be successful in doing so in the future. Certain failures on the part of CBM to comply with such regulations could result in the withdrawal of the banking licence issued by the CBR, which would have a material adverse effect on its business, financial condition, results of operations and prospects.

A failure to comply with capital adequacy requirements or deterioration in CBM's capital position may adversely affect CBM's business

CBM's business depends on the availability of adequate capital, both for compliance with applicable capital adequacy requirements, as well as for the effective conduct of its business.

Under the CBR regulations, CBM is required to comply with a number of mandatory ratios. The CBR Instruction No. 180-I “On Banks' Mandatory Economic Ratios” dated 28 June 2017, as amended (the “**Mandatory Economic Ratios Instruction**”), provides for the capital adequacy ratios consisting of common equity Tier 1 capital adequacy ratio (N1.1), Tier 1 capital adequacy ratio (N1.2), the total capital adequacy ratio (N1.0) (previously, N1 ratio) and the leverage ratio at the basic levels of 4.5%, 6.0%, 8.0% and 3.0%, respectively, calculated on the basis of RAS. In addition to mandatory economic ratio requirements, the CBR sets out three capital buffers to the common equity: (a) capital conservation buffer; (b) countercyclical buffer and (c) additional capital buffer for systemically important credit organisations. The capital conservation buffer applies to all credit institutions and amounts to 2.5% as

of 1 January 2020. The CBR has set a minimum allowed countercyclical buffer of the weighted average of countercyclical buffers set in all jurisdictions to which the bank has credit and market exposure (calculated in accordance with applicable CBR rules) to be at 100% starting from 2019. The systemically important credit organisations are subject to an additional capital buffer of 1.0% as of 1 January 2020. Starting from 1 January 2019, the CBR calculates and reports to the CBR a special exposure concentration ratio (PKC6.1) calculated and reported by systemically important credit organisations such as CBM.

As of 1 January 2020, the minimum capital adequacy ratios consisting of common equity Tier 1 capital adequacy ratio (N1.1), Tier 1 capital adequacy ratio (N1.2) and the total capital adequacy ratio (N1.0) (previously, N1 ratio) must be (not taking into account the countercyclical buffer) at least (i) 8.0%, 9.5% and 11.5% for systemically important Russian banks, respectively, and (ii) 7.0%, 8.5% and 10.5% for non-systemically important Russian banks, respectively, in each case calculated on the basis of RAS. The minimum total capital adequacy ratio for systemically important Russian banks is set at the level of at least 11.5% starting from 1 January 2020. See also *“The Banking Sector and Banking Regulation in Russia”*.

If a bank’s capital adequacy ratios were to fall below the minimum levels, the CBR could impose various sanctions, or, in the event of repeated violations, revoke such bank’s banking licence. As at 1 October 2019, CBM’s common equity Tier 1 capital adequacy ratio (N1.1), Tier 1 capital adequacy ratio (N1.2) and the total capital adequacy ratio (N1.0) were 8.4%, 11.5% and 19.6%, respectively. The CBR may amend the capital adequacy requirement, increase the capital adequacy ratios at any point or introduce additional capital requirements for systemically important credit institutions. In such circumstances, CBM would be forced to seek additional capital or alternative sources of financing to comply with these requirements, which may not be available or may only be available at commercially unsustainable prices. The shareholders of CBM are under no obligation to inject additional capital into CBM, and there can be no assurance that the shareholders will be willing or able to provide required capital and funding support to CBM in the future.

The Basel Committee on Banking Supervision (the **“Basel Committee”**) recommends a minimum risk-based total capital adequacy ratio of 8%, calculated in accordance with the International Convergence of Capital Measurement and Capital Standards of 1988 and amendment to incorporate market risks in November 2005 (**“Basel I”**). In recent years, the CBR, in cooperation with Russian banks, have started preparing for the implementation of international standards for capital adequacy of credit organisations under **“Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework”**, as issued by the Basel Committee (**“Basel II”**), as well as **“International Regulatory Framework for Banks (Basel III)”**.

In March 2013, the CBR implemented Basel III principles with respect to the composition and assessment of sufficiency of bank regulatory capital. The new regulatory capital requirements on the basis of Basel III principles were phased in gradually from 1 January 2014 to 1 January 2018. The CBR has constantly improved the regulatory capital framework with the last amendment being the introduction of Regulation No. 646-P. See also *“The Banking Sector and Banking Regulation in Russia – Regulation of Capital”*. CBM’s management believes that the impact of the respective regulatory capital requirements on CBM’s capital adequacy ratios has so far been insignificant, but there can be no assurance that the full implementation and application of the current regulations will not have a material adverse effect on CBM’s financial results and capital ratios, which means that CBM might be forced to either raise additional capital or reduce the amount of its lending.

In September 2017, the CBR included CBM in the list of systemically important Russian banks, which was recently confirmed on 14 October 2019. Whilst this is a recognition of the importance of CBM’s market share and profile in the Russian banking sector, this exposes CBM (among the other banks on the list) to additional regulatory requirements and yet higher regulatory scrutiny by the CBR, including as regards capital adequacy. See also *“The Banking Sector and Banking Regulation in Russia – List of Systemically Important Banks”*.

CBM’s total capital ratio, calculated in accordance with Basel III and based on IFRS data, amounted to 20.2%, 21.9%, 23.4% and 14.7% as at 30 September 2019, 31 December 2018, 2017 and 2016,

respectively, and CBM's core Tier 1 capital ratio was 10.4%, 10.7%, 11.6% and 9.4% as at 30 September 2019, 31 December 2018, 2017 and 2016, respectively.

If CBM is unable to raise capital when required to support its growth or if its capital position otherwise declines, its ability to implement its business strategy, and its proposed lending expansion, may be materially and adversely affected. If CBM's capital adequacy ratios were to fall below certain levels, CBM's subordinated debt instruments may be fully written down and cancelled. CBM's ability to obtain additional capital may be restricted by a number of factors, including its future financial condition, results of operations and cash flows, shareholder approvals, any necessary government regulatory approvals, general market conditions for capital raising activities by commercial banks and other financial institutions, and this could have a material adverse effect on its business, financial condition, results of operations and prospects.

CBM is exposed to the volatility and regulatory challenges of the Russian banking sector

Geopolitical instability, a decline in oil prices, disruption in the global credit markets, sharp depreciation of the Rouble, volatility of the Russian stock market and the inability of Russian companies and banks to access international capital markets have negatively impacted the Russian banking sector. Net interest margin in the Russian banking sector has narrowed, or, in some cases, has become negative. Due to the decreased quality of loan portfolios and increased expected credit losses loan impairment, interest income has slowed, or, in some cases, has declined.

Recently, a number of Russian banks have experienced various difficulties such as the failure to make sufficient credit loss allowances that have caused them to become insolvent and have their licences revoked, or to recognise large loan impairments that required steps to replenish their capital. In particular, the CBR revoked the banking licence of Tatfondbank, a major regional bank, in March 2017 and Ugra Bank, a top-35 largest bank by assets, in July 2017. In August 2017, the CBR announced the adoption of "certain measures aimed at enhancing the financial stability" of PJSC Bank Otkritie Financial Corporation ("**Bank Otkritie**"), then Russia's largest privately-owned bank, which is also included in the list of the eleven systemically important credit organisations in Russia. The measures involved an investment by CBR using the funds of CBR's recently created Russian Banking Sector Stabilisation Fund, the introduction of a temporary administration by the CBR and the effective removal of most of the bank's senior management. The measures were adopted further to the request made by Bank Otkritie for emergency funding in an amount of U.S.\$6.9 billion, one of the largest rescues in the Russian banking sector to date, reportedly made by the owners of Bank Otkritie in view of the insufficiency of its capital to cover the recent aggressive asset growth or the quality of its assets. In September 2017, the CBR announced the adoption of similar measures with respect to B&N Bank (then Russia's twelfth largest lender by assets) and certain other banks affiliated with it, similarly in response to the bank's own request for emergency funding due to insufficiency of capital to cover the asset base. Further, in December 2017, the CBR announced the adoption of similar measures with respect to Promsvyazbank (then Russia's ninth largest lender by assets) in response to, *inter alia*, the bank's insufficient provisions for impairment of loans. Further, as part of the measures aimed at strengthening the financial health and stability of Bank Otkritie and B&N Bank, the CBR merged of B&N Bank and Bank Otkritie (under the brand of Bank Otkritie) with effect from 1 January 2019.

Although the measures adopted in each case did not include the introduction of any moratorium or bail-in with respect to creditor claims, or any curtailment of the banks' activities, the fact they were adopted within a space of several months with respect to three banks previously considered part of the Russian banking sector's elite has led to market speculation that other large Russian banks may have similar regulatory capital problems, and/or may be subject to similar measures adopted by the regulator in the near future. In particular, in January 2019, similar measures were introduced by the CBR with respect to Moscow Industrial Bank, a top-35 largest bank in Russia by assets as at 1 January 2019, in response to the breach of the maximum statutory capital requirements caused by assets' impairment. Furthermore, in the case of Bank Otkritie, B&N Bank and Promsvyazbank, certain subordinated instruments, that had been issued for regulatory capital purposes, were written down or converted. See also "*The Banking Sector and Banking Regulation in Russia – Regulation of Capital – Subordinated Debt*" and "*The Banking Sector and Banking Regulation in Russia – Measures to Support the Liquidity*".

and Solvency of Russian Banks and Legal Entities since October 2008". This has contributed to the overall uncertainty in the Russian banking sector and turbulence in the Russian financial markets. Although CBM has generally managed to limit the adverse effect of this uncertainty on its business, there can be no assurance it will continue to be able to do so in the future should such turbulence continue, possibly as a result of similar measures being taken by the CBR with respect to other banks.

When there is turbulence in the Russian financial markets, the Russian Government and the CBR have historically implemented measures intended to support the liquidity and solvency of Russian banks and to significantly increase the availability of credit to businesses, of which have been seen as critical for restoring investor confidence and for supporting the Russian economy. However, there can be no assurance that the Russian Government and the CBR will continue to implement measures to improve liquidity position and financial conditions of Russian banks during financial crises or, even if taken, that such measures will succeed in the future in materially improving the liquidity position and financial condition of the affected banks.

Continued instability in the Russian financial and banking sector, intensified withdrawal of banking licences as a result of the inability of certain banks to meet the mandatory requirements of the CBR, failure to comply with anti-money laundering and other regulations, volatility in the Russian banking industry and lower investor confidence in the Russian banking system generally could all be materially adverse to CBM's business, financial condition, results of operations and prospects.

Furthermore, CBM routinely executes a high volume of transactions with numerous counterparties in the financial markets, including brokers and dealers and commercial banks. As a result, CBM is exposed to a counterparty risk and the risk of loss if counterparties default, fail or are otherwise unable to meet their obligations. Moreover, any further material problems at financial institutions in Russia could lead to reduced access to liquidity for financial institutions, and/or decline in the value of their debt or equity instruments, possibly including the Notes, with such risk being sometimes referred to as "contagion effect". A default by, or even concerns about the stability of one or more financial institutions, including entities to which CBM may not have direct exposure, or who may not even be its counterparties, could lead to further significant systematic liquidity problems, or losses or defaults by other financial institutions which could materially and adversely affect CBM's business, financial condition, results of operations and prospects.

Legal risks could affect the value of investments in the Russian Federation

The Russian Federation is still developing the legal framework required by a market economy. Business activities are subject to the rules of federal laws and decrees, orders and regulations issued by the President, the Russian Government, the federal ministries and regulatory authorities, which are, in turn, complemented by regional and local rules and regulations. These legal norms at times overlap or contradict one another. Several fundamental Russian laws have only become effective within the past five to ten years, and many have recently been amended. The relatively recent nature of much of Russian law and the rapid evolution of the Russian legal system may result in ambiguities and inconsistencies in the enactment of laws and ultimately may result in investment risks that do not exist in more developed legal systems.

Among the risks of the Russian legal system are: inconsistencies among laws, presidential decrees, and government and ministerial orders and resolutions; conflicting local, regional and federal laws and regulations; the untested nature of the independence of the judiciary and its sensitivity to economic or political influences; substantial gaps in the regulatory structure due to the delay or absence of implementing legislation; a high degree of discretion on the part of governmental authorities; reported corruption within governmental authorities; the relative inexperience of judges and courts in interpreting laws applicable to complex transactions; and the unpredictability of enforcement of foreign judgments and foreign arbitral awards. Many Russian laws and regulations are construed in a way that provides for significant administrative discretion in application and enforcement. All of these weaknesses could adversely affect the value of investments in the Russian Federation.

The independence of the Russian judiciary and its immunity from economic and political influences remains questionable. The Russian court system is understaffed and underfunded. Judges and courts

are generally inexperienced in business and corporate law. The Russian Federation is a civil law jurisdiction where judicial precedents generally have no binding effect on subsequent decisions. Many court decisions are not readily available to the public. The Russian judiciary can be slow or unjustifiably swift, and enforcement of court orders can be very difficult. Moreover, parties often use legal claims in furtherance of political objectives or special interests, which may result in frivolous and arbitrary litigation and court decisions. The Russian Government may attempt to invalidate court decisions by retroactively applying relevant legislative changes. All of these factors make judicial decisions in the Russian Federation unpredictable and effective redress uncertain.

The uncertainties also extend to property rights. During its transition from a centrally planned to a market economy, the Russian Federation has enacted laws to protect private property against expropriation and nationalisation. However, due to lack of experience in enforcing these provisions and political pressure, Russian courts may not enforce these protections in the event of an attempted expropriation or nationalisation, which may also be arbitrary or driven by politics or special interests. Expropriation or nationalisation of any of CBM's entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on CBM's business, financial condition, results of operations and prospects.

In addition, acquisition of a significant stake in a Russian company, such as CBM, by a foreign investor may require prior consent from Russian authorities. See *"Description of Share Capital and Certain Requirements of Russian Law – Certain Requirements of Russian Legislation – Foreign Ownership"*.

It may be difficult for CBM to enforce security and sureties under Russian law

CBM enters into security and surety arrangements that cover, in whole or in part, a substantial portion of its loans to legal entities and individuals. Under Russian law, security (which includes pledges and mortgages) and sureties (other than guarantees) are considered secondary obligations, which automatically terminate if the underlying obligation becomes void. Furthermore, enforcement of security under Russian law generally requires either an agreement of the parties for an out of court enforcement procedure (which is subject to certain requirements) or in certain cases a court order followed by a public sale of the collateral. In some cases, a court may delay such public sale for a period of up to one year upon a pledgor's application. A mortgage is a pledge over real property, such as land and buildings, which requires state registration to be valid. Russian law has no system for perfecting collateral other than mortgages and pledges of equity in Russian joint-stock and limited liability companies, which may lead to unexpected or conflicting claims by secured creditors over such collateral. Each of these risks could adversely affect CBM's business.

In 2014, the amendments into the Russian Civil Code became effective, which, among other things, introduced procedures for registration of pledges of movable property, including property rights and the concept of independent guarantees (the validity of which is not dependent on the validity of the underlying obligation). However, the impact that these measures will have in practice is not currently clear. While these legal amendments are generally positive for protecting the rights of secured lenders, their application and enforcement in practice are yet to be tested.

A substantial portion of CBM's loans to its corporate and retail customers is supported by sureties from individuals and other corporate customers. In addition, a certain portion of CBM's loans to corporate customers is assured by the borrower's agreement that a certain volume of its cash receivables will flow through accounts over which CBM has direct debit rights. However, if the surety's financial condition deteriorates, or if the borrower does not honour an assurance arrangement (under Russian law, a borrower is entitled to close its bank account with a Russian bank at any time), CBM may not be able to recover on sureties or assurance arrangements which may lead to losses, materially adversely affecting its business, financial condition, results of operations and prospects.

Russian banking and financial regulation is subject to change

Like most of Russia's legislation on business activities, Russia's laws on banks and banking activity were adopted in the 1990s and early 2000s. In addition to Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)" dated 10 July 2002, as amended (the "**CBR Law**"), Federal

Law No. 395-I “On Banks and Banking Activity” dated 2 December 1990, as amended (the “**Banking Law**”), and Federal Law No. 39-FZ “On the Securities Market” dated 22 April 1996, as amended (the “**Securities Market Law**”), the Russian Federation has adopted and continues to develop new banking and financial market legislation. Significant recent changes in Russian banking regulation include further development by the CBR of regulations on bank capital, as well as tightening the rules on provisioning. As of 1 October 2019, the CBR introduced add-ons to risk weights depending on a borrower’s debt service to income (“**DSTI**”) ratio. See “*Banking Sector and Banking Regulation in Russia – Financial Consumer Protection*”. In addition, various measures have been introduced that are aimed at increasing the efficiency of banking supervision. See “*Banking Sector and Banking Regulation in Russia – Role of the CBR*” and “*Banking Sector and Banking Regulation in Russia – Regulation of Capital*”.

Although CBM believes that it conducts its business in compliance with the applicable laws and regulations, no assurance can be given that its actions will not be challenged by the relevant authorities and held illegal. Furthermore, should any new laws or regulations be adopted, it may be difficult to forecast how such changes may affect the Russian banking system and the Russian securities market, and no assurance can be given that the regulatory system will not change in a way that will increase CBM’s expenses or impair CBM’s ability to provide a full range of banking services or to compete effectively, thus adversely affecting CBM’s credit ratings, business, financial condition, results of operations and prospects.

Corporate governance standards in Russia differ from those in Western jurisdictions

CBM complies with corporate governance standards applicable to publicly listed Russian companies, which are not of the same standard as those in the United Kingdom or the United States jurisdictions. Accordingly, there are fewer protections for investors than would otherwise be the case if CBM was required to comply with corporate governance principles or standards applicable to public companies in the United Kingdom or the United States.

Other Risks

Publicly available data may be unreliable

Substantially all of the information contained in this Prospectus has been derived from publicly available sources, such as Russian government agencies and the CBR. CBM has relied on the accuracy of this information without independent verification.

Some of the official data published by Russian federal, regional and local governments may not be complete or researched to the standard of Western countries. The veracity of some official data released by the Russian Government may be inaccurate. Official statistics, including those produced by the CBR, may also be produced to a different standard than those used in Western countries. Any discussion of matters with reference to publicly available sources in this Prospectus are, therefore, subject to uncertainty due to the potential inaccuracy of available official and public information.

Risks Relating to Taxation

Risks Relating to Russian Taxation

Changes in Russian tax law could adversely affect CBM’s business

Generally, Russian taxes that CBM is subject to are substantial and include, among others: income tax, value added tax, property tax, payroll related insurance payments and other taxes. CBM is also subject to duties and corresponding liabilities of a tax agent with respect to taxes due from some of its counterparties. Laws related to these taxes and duties, such as the Tax Code of the Russian Federation (the “**Tax Code**”), have been in force for a relatively short period of time in comparison with tax legislation in more developed market economies, and the Russian government’s implementation of such legislation is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in continuous changes being introduced into existing laws and the interpretation thereof.

Although the Russian tax climate and the quality of tax legislation and administration have significantly improved since the introduction of the Tax Code, the possibility exists that the Russian Federation may impose arbitrary and/or onerous taxes and penalties in the future. Russia's inefficient tax collection system increases the likelihood of such events, which could adversely affect CBM's business.

Since Russian federal, regional and local tax laws and regulations are subject to frequent change and, in addition, some of the sections of the Tax Code are comparatively new, interpretation and application of these laws and regulations is often unclear, unstable or non-existent.

Under Federal Law No. 303-FZ of 3 August 2018, the standard VAT rate increased from 18% to 20%, and the VAT rate applied to e-services rendered by foreign providers increased from 15.25% to 16.67%. The new rates are applicable to sales of goods (work, services, and property rights) made starting from 1 January 2019.

Different interpretations of tax regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to the inconsistent enforcement of these tax laws and regulations in practice.

Furthermore, the taxpayers, the Ministry of Finance and the Russian tax authorities often interpret tax laws differently. There can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Ministry of Finance to specific taxpayers' queries. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period several times. During the past several years the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of companies operating in various industries, including the financial industry.

Taxpayers often have to resort to court proceedings to defend their position against the Russian tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters by different courts relating to the same or similar circumstances may be inconsistent or contradictory. Clarifications of the Russian tax authorities and the Ministry of Finance in practice may be revised by courts in a way that is unfavourable for the taxpayer.

The Russian tax system is, therefore, impeded by the fact that, at times, it continues to be characterised by inconsistent judgment of local tax authorities and the failure by Russian tax authorities to address many of the existing problems. Consequently, it is possible that transactions and activities of CBM that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on CBM's business, financial condition and results of operations and/or prospects and the trading price of the Notes.

In July 2017, general anti-avoidance rules, which supplement the previously existing concept set by the Resolution of 12 October 2006 No. 53 of the Plenum of the Supreme Arbitration Court of the Russian Federation (**"Resolution No. 53"**), were introduced into the Tax Code. This concept defines "unjustified tax benefit" mainly by reference to circumstances such as absence of business purpose or transactions where the form does not match the substance. The application of this concept to the Group may lead to disallowance of tax benefits resulting from a transaction or the re-characterisation of a transaction for tax purposes. It can be seen from cases relating to Resolution No. 53 that have been brought to courts that the Russian tax authorities have often attempted applying the "unjustified tax benefit" concept in a broader manner than may have been intended.

Recently, Russian tax policy has focused on curtailing Russian businesses from using foreign companies mostly or only for tax reasons, and Russia has introduced policies to allow Russian tax authorities to tax foreign income attributable to Russian companies.

In light of such policies, the Tax Code was amended to include controlled foreign companies rules and other anti-avoidance instruments and impose significant limitations on tax planning. These factors raise the risk of a sudden imposition of arbitrary or onerous taxes on operations in Russia and abroad, and the application of the abovementioned rules may result in the imposition of fines, penalties and enforcement

measures, which could have a material adverse effect on the business, financial condition and results of operations of CBM.

Starting from 1 January 2017 new provisions of the Tax Code came into force, providing for the exemption of foreign companies which act as issuers of traded securities from recognition as Russian tax residents and the imposition of Russian profits tax on their profits if they are recognised as controlled foreign companies, provided that the following conditions are met:

- the foreign company which acts as issuer of traded securities is tax resident in a jurisdiction having a double tax treaty with Russia and has duly confirmed its tax residence; and
- the issue of the traded securities is connected with debts received by the Russian or foreign organisations from the foreign company which acts as issuer of the traded securities. Such connection should be duly confirmed by the loan agreement between the Russian or foreign borrower and the foreign company which acts as issuer of the traded securities or by the traded securities offering prospectus; and
- the amount of interest expenses on the traded securities incurred by the foreign company which acts as issuer of the traded securities and that is to be further paid on the traded securities in each financial year is at least 90% of all expenses of the foreign company which acts as issuer of the traded securities for the applicable financial year.

In addition, on 18 June 2019 Russia deposited the instrument of ratification for the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the “**MLI**”). The MLI came into force for Russia with effect from 1 October 2019. The implementation of the MLI will lead to the introduction of a variety of measures designed to update double tax treaties and reduce opportunities for tax avoidance. In particular, the MLI sets forth additional requirements for the purposes of application of the reduced tax rates. Currently, it is not entirely clear to what extent each individual double tax treaty to which the Russian Federation is a party would be affected by the MLI. These developments may potentially have adverse impact on the availability of double taxation treaty benefits to the investors.

The common intention of countries signing the MLI to prevent tax abuse shall be implemented through either adoption of a general anti-abuse rule on the principal purpose of a transaction (the “**PPT**”), a combination of PPT and Simplified Limitation of Benefits (the “**Simplified LOB**”) clause, or a Detailed LOB rule. Simplified LOB was the option selected by Russia and when determining the potential for a treaty abuse, Russia will not only use the PPT rule, but also a number of objective criteria that restrict most treaty benefits to so-called “qualified persons” specified in the MLI. However, most other countries selected PPT. Therefore, unless otherwise is mutually agreed by Russia and contracting jurisdiction, simplified LOB may not be applied and, instead, only the PPT will apply. The PPT seeks to disallow the benefits of a particular double tax treaty where, broadly, the principal purpose of establishing a particular transaction was to obtain the benefits of a double tax treaty.

These changing conditions create tax risks in the Russian Federation that are more significant than those typically found in jurisdictions with more developed tax systems and complicate tax planning and related business decisions of CBM. In addition, there can be no assurance that the current tax rates will not be increased, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. There also can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system.

In general, it is expected that Russian tax legislation will progressively become more sophisticated. Introduction of new taxes or amendments to current rules of taxation may affect CBM’s overall tax efficiency and may result in significant additional tax liabilities. CBM cannot provide holders of the Notes with any assurance that additional Russian tax exposures will not arise. Such additional tax exposures could have a material adverse effect on CBM’s business, financial condition and results of operations and/or prospects, and the value of the Notes.

CBM is subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities

Tax returns together with related documentation are subject to review and investigation by the tax authorities, which are authorised by Russian law to impose severe fines and penalties. Generally, tax returns remain open and subject to inspection by the tax authorities for an extra period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. However, the fact that a year has been reviewed by the tax authorities does not prevent any tax returns relating to that year from being further reviewed by the tax authorities during the three-year limitation period. In particular, a repeated tax audit may be conducted by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or in connection with the reorganisation or liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable. Therefore, previous tax audits may not preclude from subsequent tax claims relating to the audited period.

In addition, on 14 July 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax penalties to be extended beyond the three-year term set out in the Tax Code if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, the Tax Code provides for the possibility of an extension of the three-year statute of limitations for tax offences if the taxpayer obstructed the performance of the tax review, and this has become an insurmountable obstacle for the tax audit. Because the terms “obstructed”, “hindered” and “insurmountable obstacles” are not specifically defined in Russian law, the Russian tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek additional tax adjustments and penalties beyond the three-year limitation term. Therefore, the statute of limitations is not entirely effective.

Tax audits or inspections may result in additional costs to CBM, in particular if the relevant tax authorities conclude that CBM did not satisfy its tax obligations in any given year. Such audits or inspections may also impose additional burdens on CBM by diverting the attention of management resources. The outcome of these audits or inspections could have a material adverse effect on CBM’s business, financial condition and results of operations and/or prospects, and the value of the Notes.

Russian transfer pricing rules may adversely affect CBM’s business, financial condition and results of operations

Russian transfer pricing legislation had been in force since 1 January 1999 and was significantly amended by introduction of new transfer pricing rules which have been effective from 1 January 2012. The rules are technically elaborate, detailed and, to a certain extent, aligned with the international transfer pricing principles developed by the Organisation for Economic Co-operation and Development (the “OECD”).

The rules allow the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of transactions which are considered “controlled” for Russian transfer pricing purposes. The list of “controlled” transactions includes transactions performed with related parties and certain types of cross-border transactions. The rules have considerably increased the compliance burden for the taxpayers compared to the law which was in effect before 2012 due to, *inter alia*, shifting the burden of proving market prices from the Russian tax authorities to the taxpayer and obliging the taxpayer to keep specific documentation. Furthermore, the taxpayers are obliged to notify the Russian tax authorities on “controlled” transactions. Although the transfer pricing rules are supposed to be in line with international transfer pricing principles developed by the OECD, there are certain significant differences with respect to how these principles are reflected in the local rules. Special transfer pricing rules apply to transactions with securities and derivatives. It is difficult to evaluate what effect transfer pricing rules may have on CBM.

Since the date when Russian transfer pricing rules came into force transactions between affiliated parties have been examined by the Russian tax authorities for conformance with “arm’s-length principle”. It is stipulated by the Russian Tax Code that an audit of the proper calculation and payment of taxes in

connection with the conclusion of transactions between interdependent persons shall be performed by the Federal Tax Service. However, currently territorial tax authorities try to scrutinise terms and conditions in transactions concluded between related parties for “unjustified tax benefit” concept. Accordingly, due to the uncertainties in the interpretation of Russian transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge CBM’s transfer prices and make adjustments which could affect CBM’s tax position unless CBM is able to confirm the use of market prices with respect to “controlled” transactions supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing rules may have a material adverse effect on CBM’s business, financial condition, and results of operations and/or prospects, and the value of the Notes.

The Russian thin capitalisation rules allow different interpretations, which may affect CBM’s business

Russian regulations on thin capitalisation rules expressly restrict the ability to deduct interest charged on foreign controlled debt (“**Foreign Controlled Debt**”), which includes loans and other debt received by a Russian organisation (i) from a foreign person (legal entity or individual) acknowledged as a related party for Russian transfer pricing purposes, if this foreign person directly or indirectly holds shares in the Russian organisation’s charter capital; (ii) from another person that is a related party of the aforementioned foreign person; or (iii) which are guaranteed or otherwise secured by any of the above mentioned persons.

The ability to deduct interest is restricted to the extent that Foreign Controlled Debt exceeds net assets by more than 3 times (12.5 for banks and leasing companies). Interest on excess debt is non-deductible and treated as a dividend subject to withholding tax. In the event the taxpayer has negative net assets, the whole amount of interest accrued on the controlled debt will be non-deductible and treated as a dividend.

Debt obligations to foreign sister companies are included into the scope of controlled debt by a direct provision of the Russian Tax Code. Debt obligations with foreign organisations arising in connection with the issuance by foreign organisations of tradable bonds (as defined in the section “*CBM’s payments under the Loan may be subject to Russian withholding tax*” below), are exempt from the definition of Foreign Controlled Debt.

CBM may be materially and adversely affected by the thin capitalisation rules in Russia if at any time it is a recipient of Foreign Controlled Debt.

Introduction of the Common Reporting Standard may result in adverse consequences for investors and/or CBM

The Organisation for Economic Co-operation and Development has developed a global standard for the automatic exchange of financial information between tax authorities (the “**CRS**”). The Russian Federation signed the Multilateral Competent Authority Agreement on 12 May 2016, and the CRS was implemented by virtue of Federal Law No. 340-FZ dated No. 27 November 2017 “On amending Parts I and II of the Tax Code of the Russian Federation in respect of the implementation of international automatic exchange of information and documentation on international groups of companies” and the Resolution of the Government of the Russian Federation No. 693 dated 16 June 2018 “On implementation of the international automatic exchange of financial information with the competent authorities of foreign states (territories)”. The Russian Federation conducted its first exchange of information with tax authorities of other signatory jurisdictions in September 2018 as regards reportable financial information gathered in relation to 2017. The legislation in effect in the Russian Federation imposes certain obligations on CBM since it is considered to be a “Reporting Financial Institution” under the CRS. Thus, CBM is required to conduct enhanced due diligence procedures and obtain confirmation on the tax residency of its account holders as well as information on their CRS status in order to fulfil its obligations under the CRS.

Risks Relating to Irish Taxation

OECD Action Plan on Base Erosion and Profit Shifting

Fiscal and taxation policy and practice is constantly evolving and recently the pace of change has increased due to a number of developments. In particular, a number of changes of law and practice are occurring as a result of the OECD Base Erosion and Profit Shifting project (“**BEPS**”). Investors should note that certain action points which form part of the OECD BEPS project (such as Action 4, which can deny deductions for financing costs, see “—*EU Anti-Tax Avoidance Directive*” below or Action 6 on the prevention of treaty abuse) may be implemented in a manner which affects the tax position of the Issuer.

EU Anti-Tax Avoidance Directive

As part of its anti-tax avoidance package, and to provide a framework for a harmonised implementation of a number of the BEPS conclusions across the EU, the EU Council adopted Council Directive (EU) 2016/1164 (the “**Anti-Tax Avoidance Directive**”) on 12 July 2016.

The EU Council adopted Council Directive (EU) 2017/952 (the “**Anti-Tax Avoidance Directive 2**”) on 29 May 2017, amending the Anti-Tax Avoidance Directive, to provide for minimum standards for counteracting hybrid mismatches involving EU member states and third countries.

EU member states must implement the Anti-Tax Avoidance Directive by 2019 (subject to derogations for EU member states which have equivalent measures in their domestic law) and have until 31 December 2019 to implement the Anti-Tax Avoidance Directive 2 (except for measures relating to reverse hybrid mismatches, which must be implemented by 31 December 2021).

The Directives contain various measures that could, depending on their implementation in Ireland, potentially result in certain payments made by the Issuer ceasing to be fully deductible. This could increase the Issuer’s liability to tax and reduce the amounts available for payments on the Notes.

There are two measures of particular relevance.

Firstly, the Anti-Tax Avoidance Directive provides for an “interest limitation rule” which restricts the deductible interest of an entity to 30% of its earnings before interest, tax, depreciation and amortisation. However, the interest limitation only applies to the net borrowing costs of an entity (being the amount by which its borrowing costs exceed its taxable interest revenues and other economically equivalent taxable revenues). This measure has not yet been implemented in Ireland. The exact scope of the measure and its impact on the Issuer’s tax position will depend on how this is implemented in Ireland.

Secondly, the Anti-Tax Avoidance Directive (as amended by the Anti-Tax Avoidance Directive 2) provides for hybrid mismatch rules. These rules apply in Ireland with effect from 1 January 2020 and are designed to neutralise arrangements where amounts are deductible from the income of one entity but are not taxable for another, or the same amounts are deductible for two entities. These rules could potentially apply to the Issuer where: (i) the interest that it pays under the Notes, and claims deductions from its taxable income for, is not brought into account as taxable income by the relevant Noteholder, either because of the characterisation of the Notes, or the payments made under them, or because of the nature of the Noteholder itself; and (ii) the mismatch arises between associated enterprises, between the Issuer and an associated enterprise or under a structured arrangement. It is not clear if the Issuer will have any associated enterprise, however if the Issuer has an associated enterprise holding Notes, then the measures should not impact payments on the Notes to that enterprise where the amounts of the payment are fully included for tax purposes and brought into account as taxable income by that enterprise.

For the purposes of the hybrid rules, a structured arrangement is one involving a mismatch outcome where the mismatch outcome is priced into the terms of the arrangement or the arrangement was designed to give rise to a mismatch outcome. Absent any guidance from the Irish Revenue Commissioners on how they will approach structured arrangements, it is not yet clear if this would apply to the transaction to bring it within scope of the hybrid rules.

Any adverse change to the Issuer's tax position as a result of these measures could increase the costs payable by CBM, or, failing which, result in the Issuer having insufficient funds after payment of applicable tax to fulfil its obligations under the Notes.

Risks Relating to the Issuer, the Loan, the Notes and the Trading Market

The trading price for the Notes could be adversely affected by changes in certain credit ratings

Outstanding Eurobonds of the Russian Federation are rated "Baa3" by Moody's, "BBB-" by S&P and "BBB" by Fitch. CBM has "Ba3" long-term global and local currency deposit rating, "E+" financial strength rating and "Ba2" counterparty risk assessment from Moody's. Fitch assigned to CBM "BB" long-term issuer default and "B" short-term issuer default ratings. CBM also has "BB-" long-term counterparty default and "B" short-term counterparty default ratings from S&P. Local rating agencies ACRA and ExpertRA have assigned "A(RU)" and "ruA" credit ratings to CBM, respectively. In November 2019, China Lianhe Credit Rating Co., Ltd assigned an "AA+" credit rating on the Chinese national scale to CBM. As at the date of this Prospectus, all of CBM's credit ratings had a stable outlook.

A significant number of CBM's debt obligations have credit ratings, upon which investors rely in varying degrees, and which may be a prerequisite to certain investors holding such debt obligations. The credit rating agencies are constantly revising the criteria that they use to determine the credit ratings of debt obligations and/or changing their credit ratings of companies and their rated obligations. Any change in the methodology used by rating agencies could result in a downgrade in the ratings of a company or its rated obligations. Any downgrade in the ratings of a company and/or its rated obligations could make it more difficult and/or expensive for such companies to raise capital going forward and may adversely affect the price of their outstanding debt obligations. CBM's rating is also sensitive to changes in the sovereign rating of the Russian Federation. Any such downgrade in corporate or sovereign ratings may cause the ratings of the Notes to be reassessed or downgraded, which could affect the value of such Notes and increase CBM's cost of raising capital.

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment and credit ratings assigned to CBM or to other instruments issued by or to fund CBM do not necessarily mean that an investment in CBM or such instruments is suitable. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any negative change in the credit ratings of CBM or the Russian Federation could adversely affect the trading price for the Notes. The significance of each rating should be analysed independently from any other rating.

The Borrower may be unable to repay the Loan at maturity or prepay the Loan upon the occurrence of certain events set forth in the Loan Agreement

At the time of maturity, the Borrower may not have the funds to fulfil their respective obligations under the Loan Agreement and may not be able to arrange for additional financing. Furthermore, if the maturity date of the Loan occurs at a time when other arrangements prohibit the Borrower from repaying the Loan, the Borrower would try to obtain waivers of such prohibitions from the lenders under those arrangements, or the Borrower could attempt to refinance the borrowings that contain the restrictions. If the Borrower were unable to obtain the requisite waivers or refinance these borrowings, the Borrower would be unable to repay the Loan.

In addition, as set forth in the Loan Agreement, the Issuer may require the Borrower to prepay the Loan in full if it becomes unlawful for the Issuer to allow all or part of the Loan to remain outstanding under the Loan Agreement; allow the Notes to remain outstanding; maintain or give effect to any of its obligations in connection with the Loan Agreement; or charge, raise or to be paid interest at the rate applicable in relation to the Loan or the Notes.

In case of any such prepayment, all outstanding Notes would be redeemable at the principal amount thereof together with accrued interest. The Borrower may not have sufficient cash available to make such prepayment at that time.

Limited recourse obligations of the Issuer

The Issuer is a special purpose vehicle with no business other than issuing notes and advancing loans under the Loan Agreement and loan agreements in connection with previous issuances of loan participation notes and has no assets other than such loans. The Issuer has an obligation under the “*Terms and Conditions of the Notes*” and the Trust Deed to pay such amounts of principal and interest, and additional amounts (if any) as are due in respect of the Notes. However, the Issuer’s obligation to pay is equal to the amount of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer from CBM pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights (as defined in the Trust Deed). Consequently, if CBM fails to meet its payment obligations under the Loan Agreement in full or any such payment obligations are determined to be unenforceable in Russia, this will result in the Noteholders receiving less than the scheduled amount of principal and/or interest and/or other amounts (if any) payable on the Notes.

There is no direct recourse of the Noteholders to CBM

At maturity, CBM may not have the funds to fulfil its obligations under the Loan Agreement and it may not be able to arrange for additional financing. Except as otherwise expressly provided in “*Terms and Conditions of the Notes*” and in the Trust Deed, no proprietary or other direct interest in the Issuer’s rights under or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the Loan Agreement or have direct recourse to CBM as borrower except through action by the Trustee under the Security Interests (as defined in the Trust Deed) granted to the Trustee in the Trust Deed.

In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by CBM of its obligations under the Loan Agreement. Neither the Issuer nor the Trustee under the Assigned Rights (as defined under “*Terms and Conditions of the Notes*”) shall be required to monitor CBM’s financial performance or status or to enter into proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments of principal and/or interest and/or other amounts (if any) by CBM under the Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Issuer’s obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or CBM after such payment is made.

There is currently no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of CBM. Although application has been made to Euronext Dublin for the Notes to be admitted to trading on the regulated market of Euronext Dublin there is no assurance that any such application will be accepted or that a liquid market will develop or be maintained for the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. There can be no assurance that Noteholders will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value.

Even if a market for the Notes develops, the market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the operating results of CBM’s competitors, adverse business developments, changes to the regulatory environment in which CBM operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes

and other factors, including those set forth in “*Risk Factors*”. Any such disruptions may harm Noteholders. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, could affect the market price of the Notes without regard to our results of operations, prospectus or financial condition.

The Notes are subject to modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for convening meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may agree, without the consent of the Noteholders, (i) to any modification of any provision of the Notes, the Conditions and the Trust Deed or, following the creation of the Security Interests, the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification and any waiver or authorisation of any breach or proposed breach of any provision of the Notes, the Conditions and the Trust Deed or, following the creation of the Security Interests, the Loan Agreement which in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders or (iii) the substitution of CBM as principal debtor under the Notes in place of the Issuer, in the circumstances described in “*Terms and Conditions of the Notes – 10 Meetings of Noteholders; Modification; Waiver; Substitution of the Lender*”.

The Issuer may issue further Notes with identical terms that may have a negative impact on the market value of the original Notes

The Issuer may from time to time, without the consent of the Noteholders of outstanding Notes, issue further notes with identical terms. These further Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, may be treated as a separate series not fungible with the original Notes for U.S. federal income tax purposes. If the further Notes are not fungible with the original Notes for U.S. federal income tax purposes and are not otherwise distinguishable from the original Notes, the market value of the original Notes may be negatively impacted in the event that the further Notes are issued with original issue discount for U.S. federal income tax purposes.

The Notes may be redeemed prior to maturity

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Russian Federation or Ireland or any political subdivision thereof or any authority therein or thereof having power to tax, the Borrower would be required to increase amounts payable under the Loan Agreement. In such circumstances, the Borrower may prepay the Loan, in which case the Issuer would redeem all outstanding Notes in accordance with the Conditions.

In addition, the Notes shall be redeemed in whole, but not in part, upon giving notice to the Noteholders at any time at their outstanding principal amount together with accrued interest to the date of redemption and any additional amounts in respect thereof, in the event that it becomes unlawful for the Issuer to fund the Loan or to allow it to remain outstanding under the Loan Agreement, or to allow the Notes to remain outstanding, all as more fully described in Clause 5 (*Repayment and prepayment*) of the Loan Agreement. See “*Loan Agreement*”. As with the optional repayment feature of the Loan referred to above, it may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate. See also Condition 6 of the Terms and Conditions of the Notes.

CBM’s controlling shareholder may have interests that have an adverse impact on CBM and the Noteholders

Concern Rossium controls 56.07% of CBM’s share capital. The majority participant of Concern Rossium is Mr. Roman Avdeev, who is an ultimate controlling party of CBM. As such, he exercises

significant control over CBM. While CBM believes that it adheres to best corporate governance practices and that the interests of the controlling shareholder will remain consistent with those of CBM, there can be no assurance that such interests will always be consistent or that his rights will be exercised for CBM's benefit or for the benefit of the Noteholders. See – “*Related Party Transactions*”.

CBM's payments under the Loan may be subject to Russian withholding tax

In general, interest payments on borrowed funds made by a Russian legal entity or organisation to a non-resident legal entity or organisation having no registered presence and/or no permanent establishment in the Russian Federation, are subject to Russian withholding tax at a rate of 20%, unless such withholding tax is reduced or eliminated pursuant to the Tax Code or the terms of an applicable double tax treaty.

Where a beneficial owner of interest payments, or part thereof, from the Loan is an individual, personal income tax at a rate of 13% (30% in case of Noteholders that are not Russian tax residents) would apply to the gross payment subject to application or provision of a relevant double tax treaty.

A Russian organisation or a foreign organisation that operates in Russia through a permanent establishment that pays interest income to a foreign organisation should withhold the tax at each payment, except for, *inter alia*, the interest payments made to foreign organisations on debt obligations, arising in connection with issuance by foreign organisations of traded bonds, provided that the foreign organisation receiving interest income is tax resident in a jurisdiction having double tax treaty with Russia and has duly confirmed its tax residence prior to the date of receiving the interest income.

For the purpose of the above exemption, the term “traded bonds” means bonds and other debt obligations listed and/or traded on one or several foreign stock exchanges and/or rights to which are recorded by recognised depository clearing organisations, provided that such foreign stock exchanges and depository clearing organisations are specified in a list that was approved by the Central Bank of the Russian Federation in its Directive No. 4393-U of 30 May 2017. The fact that bonds are “traded” must be confirmed by the relevant Russian company based on information provided by foreign stock exchanges, depository clearing organisations, offering memoranda or other documents relating to the issue of the bonds and publicly available information.

A debt obligation is treated as connected with the issuance of traded bonds by foreign organisations if it is explicitly stated in the agreement governing the relevant debt obligation, and (or) terms and conditions, and (or) prospectus of issuance of quoted bonds or if this fact is confirmed by the actual transfer of funds upon the issuance of traded bonds.

As at the date of this Prospectus, there is no requirement and mechanism in the Russian tax legislation for foreign income recipients – legal entities to self-assess and pay the tax to the Russian tax authorities if the tax was not withheld at source. The Russian Ministry of Finance has acknowledged in an information letter published on its website that the release of Russian companies from the obligation to act as a tax agent means, in effect, that tax at source within Russia should not arise in connection with Eurobonds, since there is neither a mechanism nor obligation for a non-resident to independently calculate and pay such tax. There can be no assurance that rules on self-assessment and payment of the respective withholding taxes by non-residents will not be introduced in the future or that the Russian tax authorities would not change their position on the matter in connection with Eurobond structures or will not make attempts to collect the tax from the foreign income recipients including the Issuer, the Noteholders (as such term is defined in the section “*Taxation—Russian Federation*”) and/or the Trustee.

CBM believes that under the abovementioned provisions of the Tax Code and the Agreement between the Government of Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation with respect to Taxes on Income signed on 29 April 1994 (the “**Convention**”) it will be exempt from the obligation to withhold tax from the Issuer's interest income if the Issuer is a tax resident in Ireland and has submitted to CBM a special confirmation of its tax residency prior to the relevant settlement.

In circumstances where payments under the Loan Agreement become payable to the Trustee pursuant to the security arrangements described herein, there is uncertainty as to whether the Borrower will be

released from the obligation to withhold the Russian withholding tax from interest payments made to the Trustee. In such a case payments of interest under the Loan Agreement to the Trustee may become subject to the Russian withholding tax at a rate of 20%, or such other rate as may be effective at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In addition, whilst some Noteholders may be eligible for an exemption from, or a reduction in, the Russian withholding tax under applicable double tax treaties, there is no assurance that in this case the respective treaty relief will be available to them in practice. If payments under the Loan are subject to the Russian withholding tax (as a result of which the Issuer would reduce payments made under the Notes by the amount of the tax withheld), CBM will be obliged under the terms of the Loan Agreement to pay such additional amounts as may be necessary to ensure that the net payments received by the Issuer and/or the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging CBM to gross-up interest payments under the Loan will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that the interest payments made by CBM under the Loan Agreement will be reduced by the amount of the Russian income tax withheld by CBM at the rate of 20%, or such other rate as may be in force at the time of payment. See *“Taxation – Russian Taxation – Taxation of the Non-Resident Noteholders – Legal Entities – Taxation of Interest on the Loan”*.

Tax might be withheld on dispositions of the Notes in the Russian Federation reducing their value

Where proceeds from disposition of the Notes are received from a source within the Russian Federation by an individual Noteholder that is a non-Russian resident for tax purposes, a personal income tax at a rate of 30% would apply to the gross proceeds from the disposition of the Notes decreased by any available documented cost deductions (including the acquisition cost of the Notes).

In the case of Noteholders that are Russian non-residents for tax purposes, such tax may be reduced or eliminated under an applicable tax treaty subject to compliance with the treaty clearance formalities. See *“Taxation—Russian Taxation—Taxation of non-resident noteholders—Individuals”* for more information on the double tax treaty relief. In practice, individuals may not be able to obtain in advance treaty relief in relation to proceeds from a source within the Russian Federation whilst obtaining a refund of taxes which have been withheld can be extremely difficult and in some cases impossible.

With respect to income received from securities transactions, the Tax Code is typically interpreted so that only the following may be recognised as tax agents for tax withholding purposes in Russia and may be obliged to withhold personal income tax from payments associated with the disposition of securities made to a non-Russian individual, and other categories of companies/foreign companies/individual entrepreneurs:

- a licensed broker or an asset manager, or
- other party that is a Russian legal entity or an organisation, or
- any other person, including a foreign company with a permanent establishment or, arguably, any registered presence in the Russian Federation or an individual entrepreneur registered in the Russian Federation who carries out operations under an asset management agreement, brokerage service agreement, agency agreement, a commission agreement or commercial mandate agreement.

If the tax has not been withheld by the tax agent correctly (including cases where no withholding tax on Russian source income was applied), a personal obligation for the Noteholder to file an individual income tax return may arise.

Interest payments made to foreign organisations on debt obligations, arising in connection with issuance by foreign organisations of traded bonds, provided that the foreign organisation receiving interest income is tax resident in a jurisdiction having double tax treaty with Russia and has duly confirmed its tax residence prior to the date of receiving the interest income, should be treated as exempt from withholding tax in Russia.

However, there is a risk that Russian tax authorities may try to challenge the exemption from the withholding tax of the amounts of accrued interest (coupon) income on the Notes paid to non-resident seller under disposal of the Notes on the secondary market. Although in its clarifications Russian Ministry of Finance adheres to an unambiguous opinion that accrued interest income paid by Russian legal entities to non-resident foreign entities as part of purchase price at disposal of “traded” bonds issued by foreign organisations should not be subject to withholding tax in Russia, court practice with respect to Russian withholding tax on dispositions of “traded” bonds is inconsistent and negative rulings exist. There is a risk that payments from Russian counterparties to non-resident Noteholders under disposal of the Notes could be considered as income derived from sources in the Russian Federation and thus subject to Russian withholding tax.

The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See “*Taxation – Russian Taxation – Taxation of the Notes*”. In addition, while some Noteholders might be eligible for an exemption from or a reduction in the Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under these circumstances.

The U.S. Foreign Account Tax Compliance Act rules could materially affect CBM, the Issuer and Noteholders

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the provisions commonly known as “**FATCA**”) were enacted in 2010 to prevent U.S. tax evasion by requiring foreign banks and investment funds to provide information to the United States Internal Revenue Service (the “**IRS**”) about U.S. customers and investors. This is achieved through a comprehensive information reporting regime that requires foreign financial institutions (such as CBM and the Issuer) to conduct diligence on their account holders and investors to determine whether their accounts are “U.S. accounts”, and either provide detailed information about these U.S. accounts to the IRS or suffer a 30% withholding tax on certain payments. Although the U.S. Treasury Department has released final regulations clarifying the statutory language of FATCA, these regulations do not currently provide guidance on a number of issues. Accordingly, the scope and application of FATCA is uncertain at this time. It is possible that FATCA could operate to impose U.S. withholding tax on (i) payments to CBM and the Issuer in respect of certain types of income from sources in the United States if CBM or the Issuer (as the case may be) is not compliant with FATCA, (ii) beginning no earlier than the date (the “**Grandfathering Date**”) that is two years after the date the term “foreign pass-thru payment” is first defined in the regulations published in the U.S. Federal Register, (a) certain “pass-thru payments” to CBM and the Issuer, if CBM or the Issuer (as the case may be) are not compliant with FATCA, or (b) certain “pass-thru payments” from the Issuer to certain Noteholders, if the Issuer is FATCA compliant but the payee, including any paying agent is not FATCA compliant. It is also possible that CBM and the Issuer could incur material costs in implementing information-gathering systems to comply with FATCA. FATCA will not apply to the Notes, however, unless (i) they are treated as equity for U.S. federal income tax purposes or (ii) they are treated as Indebtedness of Issuer and either (x) the Issuer substitutes another entity as issuer of the Notes pursuant to Condition 10(C), which substitution results in a change of payment expectations with respect to the Notes, or (y) the terms and conditions of the Notes are significantly modified, in either case, after the date that is six months after the Grandfathering Date.

By purchasing the Notes, Noteholders agree to provide an IRS form W-9 or W-8 (as applicable), and whatever other information may be necessary for CBM and the Issuer to comply with these reporting obligations should either CBM or the Issuer qualify as a “foreign financial institution” under FATCA. FATCA may also apply to certain payments from the Issuer to Noteholders. If an amount of, or in respect of, U.S. withholding tax were to be deducted or withheld from interest or other payments on the Notes as a result of an investor’s failure to comply with these rules, neither CBM nor the Issuer nor any paying agent nor any other person would be required to pay additional amounts with respect to any Notes as a result of the deduction or withholding of such tax.

COMI, examiners, preferred creditors and floating charges may give rise to additional risks for the Notes

COMI

The Issuer has its registered office in Ireland. Under Regulation (EU) No. 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings (recast) (the “**Recast EU Insolvency Regulation**”), the Issuer’s centre of main interest (“**COMI**”) is presumed to be the place of its registered office (i.e. Ireland) in the absence of proof to the contrary and provided that the Issuer did not move its registered office within the 3 months prior to a request to open insolvency proceedings.

As the Issuer’s COMI is presumed to be Ireland, any main insolvency proceedings in respect of the Issuer would fall within the jurisdiction of the courts of Ireland. As to what might constitute “proof to the contrary” regarding the location of a company’s COMI, the key decision is that in *Re Eurofood IFSC Ltd* (2004 4 IR 370 (Irish High Court); 2006 IESC 41 (Irish Supreme Court); 2006 Ch 508; ECJ Case C-341/04 (European Court of Justice)), given in respect of the equivalent provision in the previous EU Insolvency Regulation (Regulation (EC) No. 1346/2000). In that case, on a reference from the Irish Supreme Court, the European Court of Justice concluded that “factors which are both objective and ascertainable by third parties” would be needed to demonstrate that a company’s actual situation is different from that which the location of its registered office is deemed to reflect. For instance, if a company with its registered office in Ireland does not carry on any business in Ireland, that could rebut the presumption that the company’s COMI is in Ireland.

As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has retained an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut the presumption that its COMI is located in Ireland, although this would ultimately be a matter for the relevant court to decide based on the circumstances existing at the time when it was asked to make that decision. If the Issuer’s COMI was found to be in another EU jurisdiction and not in Ireland, main insolvency proceedings would be opened in that jurisdiction instead.

Examinership

Examinership is a court moratorium/protection procedure which is available under Irish company law to facilitate the survival of Irish companies in financial difficulties. Where a company, which has its COMI in Ireland is, or is likely to be, unable to pay its debts an examiner may be appointed on a petition to the relevant Irish court under Section 509 of the Companies Act 2014.

The Issuer, the shareholders, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has wide powers binding on the company.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the relevant Irish court when a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals and the relevant Irish court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

The fact that the Issuer is a special purpose entity, and that all its liabilities are of a limited recourse nature and the structure of the transaction, means that it is unlikely that an examiner would be appointed to the Issuer.

If however, for any reason, an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- (i) the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and

- (ii) a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

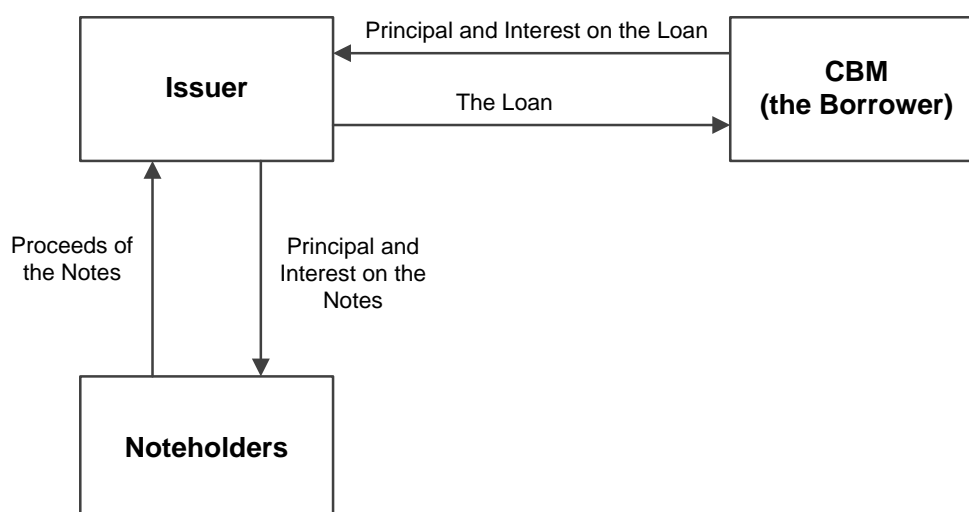
- (i) under the terms of the Trust Deed, the Notes will be secured in favour of the Trustee for the benefit of itself and the Noteholders by security over the Loan Agreement and sums held in the related account with the Principal Paying Agent. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE, local property tax and VAT;
- (ii) under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge, such as the Charge, may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and
- (iii) in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

DESCRIPTION OF THE TRANSACTION

The following summary description contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set out under “Terms and Conditions of the Notes” and “Loan Agreement” appearing elsewhere in this Prospectus.

The transaction will be structured in the form of a loan to the Borrower by the Issuer. The Issuer will issue the Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the Loan to the Borrower. The Loan will be made on the terms of the Loan Agreement and will have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. The Notes will be constituted by, be subject to, and have the benefit of the Trust Deed. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Trustee and the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) the Issuer actually receives and retains (net of tax) by or for its account from the Borrower pursuant to the Loan Agreement or that are deposited in the Account, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed). The Issuer will have no other financial obligations under the Notes and no other assets of the Issuer will be available to the Noteholders. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received, recovered or retained, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

Set out below is a diagrammatic representation of the transaction structure:



As provided in the Trust Deed, the Issuer has charged with full title guarantee in favour of the Trustee for itself and for the benefit of the Noteholders as security for its payment obligations in respect of the Notes:

- (a) its rights to all principal, interest and additional amounts (if any) payable by the Borrower under the Loan Agreement;
- (b) its right to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement; and
- (c) its rights, title and interest in and to all sums of money now or in the future deposited in accounts with the Principal Paying Agent in the name of the Issuer, together with the debt represented thereby (the “**Account**”),

(collectively, the “**Charged Property**”), in each case other than the Reserved Rights (as defined in the Trust Deed) and amounts relating thereto.

In addition, the Issuer has assigned absolutely certain administrative rights under the Loan Agreement to the Trustee for the benefit of the Noteholders. The Borrower will be obliged to make payments under

the Loan to the Issuer in accordance with the terms of the Loan Agreement to the Account or, following a Relevant Event, as otherwise instructed by the Trustee.

The Issuer has covenanted not to agree to any amendments to, or any modification or waiver of, or to authorise any breach or potential breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent (in each case except in relation to the Reserved Rights).

The Issuer (save as expressly provided in the Trust Deed, the Loan Agreement or with the consent of the Trustee) shall not pledge, charge or otherwise deal with the Loan or the Charged Property or the administrative rights assigned to the Trustee or any right or benefit either present or future arising under or in respect of the Loan Agreement or the Account or any part thereof or any interest therein or purport to do so (in each case except in relation to the Reserved Rights). Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) of the "*Terms and Conditions of the Notes*" and will be binding on the Noteholders.

The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in "*Terms and Conditions of the Notes*".

Payments in respect of the Notes will be made without any deduction or withholding for, or on account of, taxes of Ireland or the Russian Federation, except as required by law. See "*Terms and Conditions of the Notes – Taxation*". In that event, the Issuer will only be required to pay an additional amount to the extent it receives and retains (net of tax) corresponding amounts from the Borrower under the Loan Agreement. The Loan Agreement provides for the Borrower to pay such corresponding amounts in these circumstances. In addition, payments under the relevant Loan Agreement will be made without any deduction or withholding for, or on account of, any taxes in the Russian Federation or any jurisdiction from, or through, which any payments are made, except as required by law, in which event the Borrower will be obliged to increase the amounts payable under the Loan Agreement. See "*Risk Factors – Risks Related to the Issuer, the Loan, the Notes and the Trading Market – CBM's payments under the Loan may be subject to Russian withholding tax*".

The Borrower may prepay the Loan at its principal amount, together with accrued interest and additional amounts (if any), in the event that the Borrower is required to increase the amount payable or to pay additional amounts on account of taxes of the Russian Federation or Ireland or if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. In each case (to the extent that the Issuer has actually received the relevant funds from the Borrower), the Issuer will prepay the Notes together with accrued interest and additional amounts (if any) thereon. See Clause 5.2 (*Prepayment in the event of Taxes or increased costs*) and Clause 5.3 (*Prepayment in the Event of Illegality*) of the Loan Agreement.

USE OF PROCEEDS

The Issuer will use the gross proceeds of the offering of the Notes for the sole purpose of financing the Loan to CBM. CBM will use the proceeds of the Loan for general banking purposes. In connection with the Loan, CBM will pay the Issuer a facility fee.

Total commissions and expenses relating to the offering of the Notes (represented by the facility fee payable under the Loan and other costs) are expected to be U.S.\$1,676,613.55. The net proceeds that CBM will receive from the offering, after deducting estimated commissions and expenses incurred in connection with the offering (represented by the facility fee and other costs), will be U.S.\$598,323,386.45.

CBM will not, directly or indirectly, use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purposes of financing, directly or indirectly, any activities in or involving any country or territory, or with or involving any person or entity, that is the subject of any sanctions or other similar restrictive measures administered and/or enforced by (a) the Security Council of the United Nations; (b) the competent governmental institutions and agencies of the United States of America, the United Kingdom, the European Union, a member state of the European Union, including, without limitation, the Office of Foreign Assets Control of the US Department of the Treasury, the United States Department of State, the United States Department of Commerce and Her Majesty's Treasury; (c) Swiss Secretariat for Economic Affairs SECO; and (d) any other equivalent governmental or regulatory authority, institution or agency which administers economic, financial or trade sanctions.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth CBM's capitalisation as at 30 September 2019 derived from the Interim Financial Statements. For further information regarding CBM's financial position, see "*Operating and Financial Review*" and the Financial Statements included elsewhere in this Prospectus.

	<u>As at 30 September 2019</u>
	<u>RUB millions</u>
Liabilities	
Due to credit institutions	535,202
Due to customers	1,269,029
Debt securities issued	159,794
Financial liabilities measured at fair value through profit or loss.....	5,237
Deferred tax liability	5,505
Other liabilities	10,361
Total liabilities	1,985,128
Equity	
Share capital.....	27,942
Additional paid-in capital	46,247
Perpetual debt issued	43,084
Revaluation surplus for buildings	490
Fair value reserve for securities	774
Change in fair value of financial liability attributable to changes in the credit risk	10
Retained earnings.....	80,524
Total equity.....	199,071
Total liabilities and equity	2,184,199

In October 2019, CBM placed in full a bond issue series 001P-01 with a nominal value of RUB10 billion. The bonds were placed by public subscription and bear interest of 8.35% per annum payable semi-annually.

In October 2019, CBM placed in full a bond issue series BSO-P05 with a nominal value of RUB350 million. The bonds were placed by public subscription and bear interest of 3.25% per annum payable annually and additional income calculated in accordance with the terms of the issue.

In November 2019, CBM issued additional shares for an aggregate amount of RUB14.7 billion through a public offering on the Moscow Exchange. CBM used the proceeds from the offering to improve its core Tier 1 capital.

In November 2019, CBM placed in full a bond issue series BSO-P07 with a nominal value of RUB500 million. The bonds were placed by public subscription and bear interest of 3.00% per annum payable annually and additional income calculated in accordance with the terms of the issue.

In November 2019, CBM redeemed a portion of its outstanding U.S.\$600 million 7.5% Subordinated Loan Participation Notes due 2027 (of which U.S.\$557 million were outstanding) (the "**2027 Notes**") and U.S.\$700 million 8.875% Perpetual Callable Loan Participation Notes (the "**Perpetual Notes**") (of which U.S.\$670 million were outstanding). Upon the partial redemption, U.S.\$440 million in aggregate principal amount of the 2027 Notes and U.S.\$540 million in aggregate principal amount of the Perpetual Notes remain outstanding.

In December 2019, CBM placed in full a bond issue series 001P-02 with a nominal value of RUB7 billion. The bonds were placed by public subscription and bear interest of 7.75% per annum payable semi-annually.

In December 2019, CBM placed in full a bond issue series BSO-P08 with a nominal value of RUB600 million. The bonds were placed by public subscription and bear interest of 2.55% per annum payable annually and additional income calculated in accordance with the terms of issue.

In December 2019, CBM placed in full a bond issue series BSO-P09 with a nominal value of RUB900 million. The bonds were placed by public subscription and bear interest of 1.55% per annum payable annually and additional income calculated in accordance with the terms of issue.

In December 2019, CBM placed in full a bond issue series BSO-P10 with a nominal value of RUB300 million. The bonds were placed by public subscription and bear interest of 0.01% per annum payable annually and additional income calculated in accordance with the terms of issue.

In December 2019, CBM signed a syndicated loan agreement for a loan facility with an eventual limit of up to RMB2 billion (approximately U.S.\$280 million) with large Chinese regional banks.

Except as set forth above, as at the date of this Prospectus there have been no material changes in the consolidated capitalisation and indebtedness of CBM.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The financial information set forth below as at and for the nine-month periods ended 30 September 2019 and 30 September 2018 and for the years ended 31 December 2018, 2017 and 2016 has been extracted without material adjustment from the Financial Statements. The financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and related notes included elsewhere in this Prospectus and “Operating and Financial Review”.

Selected Statement of Comprehensive Income Information

	Nine-month periods ended 30 September		Year ended 31 December		
	2019	2018	2018	2017	2016
	RUB millions				
Interest income calculated using the effective interest method ⁽¹⁾	105,988	99,271	133,287	122,358	113,398
Other interest income ⁽²⁾	3,086	3,249	4,646	4,601	-
Interest expense	(76,945)	(65,927)	(89,518)	(81,679)	(73,099)
Net interest income	32,129	36,593	48,415	45,280	40,299
Charge for credit losses on debt financial assets ⁽³⁾	(2,978)	(4,408)	(2,221)	(18,597)	(29,783)
Net interest income after charge for credit losses on debt financial assets	29,151	32,185	46,194	26,683	10,516
Fee and commission income	11,176	11,403	15,829	15,510	13,394
Fee and commission expense	(2,712)	(2,500)	(3,483)	(3,002)	(2,247)
Net (loss)/gain on loans to customers at fair value through profit or loss	(1,060)	(3,224)	(5,611)	-	-
Net gain on trading financial assets ⁽⁴⁾	-	-	-	341	1,208
Net gain (loss) on financial assets at fair value through profit or loss	784	(180)	-	-	-
Net gain (loss) of investment financial assets at fair value through other comprehensive income	(221)	(71)	(251)	-	-
Net realised gain (loss) on investment financial assets at amortised cost ⁽⁵⁾	199	-	(189)	773	235
Net foreign exchange (losses) gains	(8,531)	-	2,723	2,701	6,065
Net gain on change in financial liabilities measured at fair value through profit or loss....	24	-	-	-	-
Impairment (losses)/recoveries on other non-financial assets, credit (losses)/recoveries on other financial assets and credit related commitments and other provisions	3,626	(1,906)	(2,895)	(264)	(778)
State deposit insurance scheme contributions .	(1,944)	(1,363)	(1,906)	(1,286)	(920)
Operating lease income	34	68	81	1,634	1,252
Net income from disposal of subsidiaries	-	637	637	1,076	-
Other net operating income/(expense)	(311)	2,024	3,366	(593)	(549)
Non-interest income	1,064	5,061	8,301	16,890	17,660
Operating income	30,215	37,246	54,495	43,573	28,176
Salaries and employment benefits	(10,994)	(8,620)	(12,290)	(9,516)	(7,700)
Administrative expenses	(3,357)	(3,856)	(6,085)	(5,377)	(5,260)
Depreciation of premises and equipment and right-of-use assets	(1,418)	(768)	(1,051)	(1,863)	(1,481)
Operating expense	(15,769)	(13,244)	(19,426)	(16,756)	(14,441)
Profit before income taxes	14,446	24,002	35,069	26,817	13,735
Income tax	(2,564)	(5,647)	(7,845)	(6,114)	(2,861)
Profit for the period	11,882	18,355	27,224	20,703	10,874
Total comprehensive income for the period	14,500	15,022	23,950	20,501	11,062

Notes:

- (1) For the year ended 31 December 2016, this line item should be treated as *Interest income*.
- (2) No such line item was presented for the year ended 31 December 2016. As CBM implemented IFRS 9 in 2018, only comparative line items for the year ended 31 December 2017 were presented in accordance with new requirements.
- (3) For the years ended 31 December 2017 and 2016, this line item should be treated as *Provision for impairment of loans*.

- (4) For the years ended 31 December 2017 and 2016, this line item should be treated as *Net realised gain and impairment of available for sale assets*.
- (5) For the years ended 31 December 2017 and 2016, this line item should be treated as *Net (loss) gain on other financial instruments at fair value through profit or loss*.

Selected Statement of Financial Position Information

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
	RUB millions			
Cash and cash equivalents	829,613	1,162,779	934,033	373,327
Obligatory reserves with the Central Bank of the Russian Federation	16,460	13,065	8,884	7,287
Due from credit and other financial institutions	346,349	13,183	16,369	403,480
Trading financial assets ⁽¹⁾	13,029	15,665	117,282	83,909
Loans to customers	735,468	709,045	768,676	626,535
Investment financial assets ⁽²⁾	223,415	214,481	25,066	45,903
Investments in associates	2,350	2,275	-	-
Property and equipment	9,860	7,182	7,866	21,278
Deferred tax asset	71	113	281	-
Other assets	7,584	8,139	9,734	6,250
Total assets	2,184,199	2,145,927	1,888,191	1,567,969
Deposits by the Central Bank of the Russian Federation	-	-	-	247,170
Due to credit institutions	535,202	552,930	639,861	381,624
Due to customers	1,269,029	1,272,175	941,724	689,496
Financial liabilities measured at fair value through profit or loss	5,237	6,253	-	-
Debt securities issued	159,794	105,305	116,280	137,203
Deferred tax liability	5,505	4,248	3,779	190
Other liabilities	10,361	13,843	8,958	8,885
Total liabilities	1,985,128	1,954,754	1,710,602	1,464,568
Total equity	199,071	191,173	177,589	103,401
Total liabilities and equity	2,184,199	2,145,927	1,888,191	1,567,969

Notes:

- (1) For the years ended 31 December 2017 and 2016, financial instruments at fair value through profit or loss are presented under the *Trading financial assets* line item.
- (2) For the years ended 31 December 2017 and 2016, available-for-sale securities are presented under the *Investment financial assets* line item.

Selected Non-IFRS Financial Ratios and Other Non-IFRS Information

	As at or for the nine-month period ended 30 September	As at or for the year ended 31 December		
	2019	2018	2017	2016
	%			
Financial Performance				
Return on average assets ⁽¹⁾	0.7	1.4	1.2	0.8
Return on average equity ⁽²⁾	10.6	19.9	17.8	11.1
Cost-to-income ratio ⁽³⁾	51.5	29.8	26.8	24.6
Net Interest Margin ⁽⁴⁾	2.1	2.6	2.9	3.3
Liquidity				
Net loans to total deposits ratio	58.0	55.7	81.6	90.9
Total liquid assets ⁽⁵⁾ / total assets	64.7	65.5	57.9	57.8
Capital Adequacy				
<i>Basel III ratio⁽⁶⁾</i>				
Total capital ratio	20.2	21.9	23.4	14.7
Core Tier 1 capital ratio	10.4	10.7	11.6	9.4
Tier 1 capital ratio	13.3	14.1	15.0	9.4
<i>CBR total capital adequacy ratio⁽⁷⁾</i>	19.6	20.2	20.5	12.6
<i>CBR common equity Tier 1 capital adequacy ratio (N1.1)⁽⁷⁾</i>	8.4	8.2	8.35	7.28
<i>CBR Tier 1 capital adequacy ratio (N1.2)⁽⁷⁾</i>	11.5	11.6	11.58	7.28

Credit Quality

Non-performing loans as a proportion of the gross loans to customers (NPL ratio) ⁽⁸⁾	3.7	1.6	2.4	2.3
Credit loss allowance to non-performing loans ratio (NPL coverage ratio)	130.4	260.0	253.7	263.3
Total credit loss allowance as a proportion of overdue loans	114.3	88.7	172.0	208.3
Charge for credit losses on debt financial assets as a proportion of average loan portfolio ⁽⁹⁾	5.0	4.2	6.7	6.3

Notes:

- (1) This measure is an APM. Return on average assets is calculated as profit for the period divided by the average balance of total assets.
- (2) This measure is an APM. Return on average equity is calculated as profit for the period divided by the average of total equity, excluding perpetual bonds.
- (3) This measure is an APM. Cost-to-income ratio is calculated as operating expense (excluding provisions for impairment of other assets and credit related commitments for the years ended 31 December 2018, 2017 and 2016) divided by operating income (excluding charge for credit losses on loans for the years ended 31 December 2018, 2017 and 2016).
- (4) This measure is an APM. Net interest margin is calculated as net interest income before charge for credit losses on loans divided by average Interest-Earning Assets.
- (5) This measure is an APM. Total liquid assets are the sum of cash and cash equivalents, trading financial assets, investment financial assets and deposits in credit and other financial institutions.
- (6) Calculated in accordance with Basel III requirements as adopted in the Russian Federation, based on IFRS financial information, as described in Note 27 to each of the Annual Financial Statements. See “*Operating and Financial Review – Capital Adequacy – Basel Capital Adequacy*”.
- (7) Calculated in accordance with CBR requirements under Regulation 646-P based on data prepared in accordance with RAS. See “*Operating and Financial Review – Capital Adequacy*”.
- (8) This measure is an APM. Non-performing loans are defined as loans with overdue payments of principal loan amount and/or interest by more than 90 days.
- (9) This measure is an APM. Calculated as the ratio of credit loss allowance to the average balance of gross loans at the relevant date.

Total liquid assets ratio

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
	RUB millions			
Cash and cash equivalents	829,613	1,162,779	934,033	373,327
Investment financial assets ⁽¹⁾	223,415	214,481	25,066	45,903
Trading financial assets ⁽²⁾	13,029	15,665	117,282	83,909
Due from credit and other financial institutions	346,349	13,183	16,369	403,480
Total liquid assets	1,412,406	1,406,108	1,092,750	906,619
Total assets.....	2,184,199	2,145,927	1,888,191	1,567,969
Total liquid assets ratio	64.7%	65.5%	57.9%	57.8%

Cost of risk

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
	RUB millions			
Net charge of credit loss allowance ⁽³⁾	3,336	1,666	18,597	29,783
Net loss on loans to customers at fair value through profit or loss.....	1,060	5,611	-	-
Average gross total loan.....	737,224	733,852	751,628	640,929
Cost of risk.....	0.8%	1.0%	2.5%	4.6%

Cost-to-income ratio

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
	RUB millions			
Operating expense ⁽⁴⁾	15,769	19,426	16,756	14,441
Adjusted operating income ⁽⁵⁾	30,627	65,222	62,434	58,737
Cost-to-income ratio	51.5%	29.8%	26.8%	24.6%

Notes:

- (1) For the years ended 31 December 2017 and 2016, available-for-sale securities are presented under the *Investment financial assets* line item.
- (2) For the years ended 31 December 2017 and 2016, financial instruments at fair value through profit or loss are presented under the *Trading financial assets* line item.
- (3) For the years ended 31 December 2017 and 2016, should be treated as *Provision for impairment of loans*.
- (4) For the years ended 31 December 2017 and 2016, should be treated as *Operating expense (excluding recovery of/(provisions for) impairment of other assets and credit related commitments)*.
- (5) Calculated as operating income excluding charge for credit losses on debt financial assets (provision for impairment of loans for the years ended 31 December 2017 and 2016), net (loss) gain on loans to customers at fair value through profit or loss and impairment gain (losses) on other financial assets, credit gain (losses) on other financial assets and credit related commitments and other provisions.

SELECTED STATISTICAL INFORMATION

The following tables present certain of CBM's selected statistical information for the periods indicated. The information set out below should be read in conjunction with the Financial Statements, "Operating and Financial Review" and "Presentation of Financial and Other Information". The statistical information presented below, as well as discussion and analysis set out under "Operating and Financial Review" for the nine-month periods ended 30 September 2019 and 2018 and for the years ended 31 December 2018, 2017 and 2016 are presented solely for the convenience of the reader for analytical purposes and on the basis of Industry Guide 3 under the Securities Act (Statistical Disclosure by Bank Holding Companies) ("Guide 3"). Limitations in CBM's existing financial reporting system prevent it from generating certain information pursuant to Guide 3.

Average Balance Sheet and Interest Rate Data

The following tables set out the average balances of Interest-Earning Assets and Interest-Bearing Liabilities of CBM for the nine-month periods ended 30 September 2019 and 2018 and the years ended 31 December 2018, 2017 and 2016. The average balances of Interest-Earning Assets and Interest-Bearing Liabilities for the years ended 31 December 2018, 2017 and 2016 presented in this Prospectus represent the average of the opening (31 December of the previous year), quarter-end (31 March, 30 June, 30 September) and closing (31 December) balances for the applicable year. The average balances of Interest-Earning Assets and Interest-Bearing Liabilities for the nine-month periods ended 30 September 2019 and 2018 presented in this Prospectus represent the average of the opening (31 December of the previous year), quarter-end (31 March and 30 June) and closing (30 September) balances for the applicable nine-month period. See "Presentation of Financial and Other Information – Non-IFRS Measures – Average Balance Sheet and Interest Rate Data".

Average Interest-Earning Assets and Interest-Bearing Liabilities

The following tables set out for the nine-month periods ended 30 September 2019 and 2018 and for the years ended 31 December 2018, 2017 and 2016: (i) the average balances of Interest-Earning Assets and Interest-Bearing Liabilities of CBM; (ii) the interest income received on each of Interest-Earning Assets and the interest expense paid for each of Interest-Bearing Liabilities; and (iii) the average yield for Interest-Bearing Assets and the average rate paid for Interest-Bearing Liabilities.

	For the nine-month period ended 30 September					
	2019			2018		
	Average amount for the period	Interest income / expense	Average yield / rate paid	Average amount for the period	Interest income / expense	Average yield / rate paid
RUB millions, except percentages						
Interest-Earning Assets						
Loans to customers ⁽¹⁾	701,771	48,797	9.3%	685,462	52,298	10.2%
Debt securities ⁽²⁾	225,612	10,817	6.4%	162,592	7,337	6.0%
Due from credit institutions	1,060,487	49,460	6.2%	924,309	42,885	6.2%
Total Interest-Earning Assets.	1,987,869	109,074	7.3%	1,772,363	102,520	7.7%
Other assets	153,892			134,675		
Total Assets	2,141,761			1,907,038		
Interest-Bearing Liabilities						
Deposits by customers and lease liabilities	1,222,110	50,155	5.5%	962,653	33,846	4.7%
Debt securities issued	147,059	6,864	6.2%	116,518	6,822	7.8%
Due to credit institutions	560,219	19,926	4.7%	618,425	25,259	5.4%
Total Interest-Bearing Liabilities	1,929,388	76,945	5.3%	1,697,596	65,927	5.2%
Other liabilities	19,494			32,195		
Total Liabilities	1,948,882			1,729,791		
Net interest income		32,129			36,593	
Net interest spread⁽³⁾			2.0%			2.5%
Net interest margin⁽⁴⁾			2.1%			2.7%

Notes:

- (1) Net of impairment allowance.
- (2) Includes available-for-sale securities and financial instruments at fair value through profit or loss and excludes derivative financial instruments.
- (3) This measure is an APM. Net interest spread is defined the difference between the average yield (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”) earned on Interest-Earning Assets and the average rate paid (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”) on Interest-Bearing Liabilities.
- (4) This measure is an APM. Net interest margin is calculated as net interest income before charge for credit losses on loans divided by average Interest-Earning Assets (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”).

	For the year ended 31 December								
	2018			2017			2016		
	Average amount for the year	Interest income / expense	Average yield / rate paid	Average amount for the year	Interest income / expense	Average yield / rate paid	Average amount for the year	Interest income / expense	Average yield / rate paid
RUB millions, except percentages									
Interest-Earning Assets									
Loans to customers ⁽¹⁾	690,179	68,912	10.0%	707,899	82,324	11.6%	600,623	81,818	13.6%
Debt securities ⁽²⁾	175,152	10,935	6.2%	111,713	8,841	7.9%	143,410	12,130	8.5%
Due from credit institutions	957,094	58,086	6.1	693,849	35,794	5.2%	480,255	19,450	4.0%
Total Interest-Earning Assets	1,822,425	137,933	7.6%	1,513,461	126,959	8.4%	1,224,289	113,398	9.3%
Other assets	132,391			149,336			110,490		
Total Assets	1,954,815			1,662,797			1,334,779		
Interest-Bearing Liabilities									
Current accounts and deposits by customers.....	1,021,138	48,636	4.8%	812,615	42,710	5.3%	858,548	53,928	6.3%
Debt securities issued.....	114,276	8,811	7.7%	128,126	11,212	8.8%	116,647	10,773	9.2%
Due to credit institutions	605,326	32,071	5.3%	552,461	27,757	5.0%	253,989	8,398	3.3%
Total Interest-Bearing Liabilities	1,740,740	89,518	5.1%	1,493,202	81,679	5.5%	1,229,184	73,099	5.9%
Other liabilities	34,044			29,057			7,555		
Total Liabilities....	1,774,783			1,522,259			1,236,739		
Net interest income.....		48,415			45,280			40,299	
Net interest spread⁽³⁾			2.5%			2.9%			3.3%
Net interest margin⁽⁴⁾			2.6%			2.9%			3.3%

Notes:

- (1) Net of credit loss allowance.
- (2) Includes available-for-sale securities and financial instruments at fair value through profit or loss and excludes corporate shares and derivatives.
- (3) This measure is an APM. Net interest spread is defined the difference between the average yield (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”) earned on Interest-Earning Assets and the average rate paid (calculated as described under “Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data”) on Interest-Bearing Liabilities.

- (4) This measure is an APM. Net Interest Margin is calculated as net interest income before charge for credit losses on debt financial assets divided by average Interest-Earning Assets (calculated as described under “Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data”).

Changes in Interest Income and Interest Expense

The following table sets out, for the nine-month periods ended 30 September 2019 and 2018 and for the years ended 31 December 2018, 2017 and 2016, changes in interest income/expense due to changes in volume and interest rates for the principal components of Interest-Earning Assets and Interest-Bearing Liabilities set out in the tables above.

	Nine-month period ended 30 September 2019/nine-month period ended 30 September 2018			2018/2017			2017/2016		
	Change in interest income / expense	Change in volume	Change in rates	Change in interest income / expense	Change in volume	Change in rates	Change in interest income / expense	Change in volume	Change in rates
	RUB millions								
Loans to customers ⁽¹⁾	(3,501)	2,679	(6,180)	(13,412)	(1,769)	(11,643)	506	12,476	(11,970)
Debt securities ⁽²⁾	3,480	2,869	611	2,094	3,961	(1,867)	(3,289)	(2,509)	(780)
Due from credit and other financial institutions and CBR.....	6,575	6,277	298	22,292	15,976	6,316	16,344	11,019	5,325
Total Interest- Earning Assets	6,554	11,824	(5,270)	10,974	18,168	(7,194)	13,561	20,986	(7,425)
Deposits by customers.....	16,309	8,761	7,548	5,926	10,061	(4,135)	(11,218)	(2,414)	(8,804)
Debt securities issued.....	42	1,887	(1,845)	(2,401)	(1,068)	(1,333)	439	1,005	(565)
Deposits by credit institutions and CBR.....	(5,333)	(983)	(4,350)	4,314	2,801	1,513	19,359	14,996	4,363
Total Interest- Bearing Liabilities	11,018	9,665	1,353	7,839	11,794	(3,955)	8,580	13,586	(5,006)

Notes:

- (1) Net of impairment allowance.
- (2) For the year ended 31 December 2018, includes investment financial assets and trading financial assets and excludes corporate shares and derivatives. For the years ended 31 December 2017 and 2016, included available-for-sale securities and financial instruments at fair value through profit or loss and excludes corporate shares and derivatives.

Securities Held – Maturity Profile

The following table sets out the maturity range of CBM’s debt securities portfolio as at 30 September 2019. For the average yield of the debt securities portfolio for the years ended 31 December 2018, 2017 and 2016, see “– Average Balance Sheet and Interest Rate Data – Average Interest-Earning Assets and Interest-Bearing Liabilities”.

	As at 30 September 2019						Total
	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	No Stated Maturity	
	RUB millions						
Federal loan bonds (OFZ bonds)....	23,941	209	-	-	79	-	24,229
Russian Government Eurobonds....	19,126	-	-	-	-	-	19,126
CBR bonds	76,451	-	-	-	-	-	76,451
Municipal and sub-federal bonds...	-	-	-	-	-	-	-

Corporate bonds	53,960	15	1,273	16,096	22,531	-	93,875
Total debt securities portfolio⁽¹⁾ ..	173,478	224	1,273	16,096	22,610	-	213,681

Note:

(1) Includes investment financial assets and trading financial assets and excludes derivative financial instruments and promissory notes.

Due to customers

The following table presents the average amount of due to customers in the categories indicated for the nine-month period ended 30 September 2019 and for the years ended 31 December 2018, 2017 and 2016.

Average Value of Due to Customers

	Nine-month period ended 30 September	Year ended 31 December		
	2019	2018	2017	2016
			RUB millions	
Individuals				
Current/demand accounts	40,118	18,437	14,351	12,301
Term deposits and other payables to customers	381,403	310,060	256,874	205,458
Total due to individuals	421,521	328,498	271,225	217,759
Corporate customers				
Current/settlement accounts	64,145	73,711	56,272	44,049
Term deposits and other payables to customers	693,687	593,889	475,999	574,770
Subordinated	42,228	41,348	26,559	19,864
Term notes	529	789	831	2,106
Total due to corporate customers	800,589	709,737	559,699	640,789
Total due to individuals and corporate customers	1,222,110	1,038,235	830,924	858,548

OPERATING AND FINANCIAL REVIEW

The following discussion of CBM's financial condition and results of operations should be read in conjunction with the Financial Statements and the other information included elsewhere in this Prospectus. This section contains forward-looking statements that involve risks and uncertainties. CBM's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements".

Overview

Established in 1992, CBM is one of the leading non-state universal commercial banks in Russia, which focuses on providing banking products and services to corporate customers and individuals primarily in the Moscow Area. CBM is a publicly-traded financial institution whose shares are listed on the Moscow Exchange and included in the MOEX Russia Index and RTS Index. The CBR has recognised CBM as a systemically important bank.

CBM offers a comprehensive range of banking services, which are divided into four principal business lines:

- Corporate banking which comprises corporate lending, overdraft lending, factoring, financial and operating leasing, letters of credit, guarantees, corporate deposit services, settlements and money transfers. CBM focuses on large and medium sized Russian companies operating in various industry sectors, especially those that are most resistant to macroeconomic instability, such as the oil and gas sectors, and has a strong emphasis on customers' credit quality.
- Retail banking which comprises retail demand and term deposit services, retail lending (including cash and mortgage loans), money transfers, private banking services, banking card products, settlements and money transfers. CBM's retail business strategy concentrates on consumer and mortgage loans to high quality retail customers, with a particular emphasis on cross-selling of retail products to the employees and clients of its corporate customers.
- Treasury which comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes, as well as a diverse range of investment banking services.
- Cash operations which comprises all operations connected with cash, cash handling, calculation and transportation. CBM has developed a strong cash-handling platform that is designed to serve as an entry point to start new corporate customer relationships and enhance customer loyalty. Along with that, CBM's cash handling platform provides strategic benefits from a risk management perspective enabling CBM to monitor the cash flows of its corporate customers operating in cash-intensive industries (such as retail sales and services), thus supporting quality risk management and asset quality.

While CBM's business is mainly concentrated in Moscow and the Moscow Area, CBM also has a network of regional offices primarily aimed at attracting customer bank deposits from corporate and individual clients. Through its multichannel distribution network, including offices, ATMs, payment terminals and online services, CBM is able to deliver superior services to its retail customers. CBM is focused on delivering customer-centred services, with quick and user-friendly service and high levels of responsiveness. Coupled with the development of the retail banking business, which has contributed to benefits in customer acquisition, advertising and cost efficiency, CBM's broad payment terminal network became a reliable risk management tool for retail lending. This has provided CBM with the ability to understand consumer patterns and to use its vast database of customers to reduce fraud targeting its customers and banking products. As at 1 January 2020, CBM had 130 branches, 28 cash offices, over 1,100 ATMs and over 6,800 payment terminals mainly concentrated in the Moscow Area. In July 2018, in the process of winding up proceedings with respect to Sovietsky Bank, CBM received the retail deposits and accounts of Sovietsky Bank, as well as the operational branch network of Sovietsky Bank, comprising 28 branches across 17 regions in Russia. This network has been fully

integrated into CBM's branch network which allows CBM to distribute products and services generating fees and commissions under CBM's brand. See "*Business – Business Operations – Distribution Network*".

As at 30 September 2019, CBM's total assets comprised RUB2,184.2 billion. CBM's total gross loans to customers amounted to RUB772.6 billion, with gross loans to corporate clients and gross loans to individuals accounting for 86.4% and 13.6% of total gross loans respectively. As at 30 September 2019, CBM's total equity constituted RUB199.1 billion. For the nine months ended 30 September 2019, CBM generated a profit of RUB11.9 billion.

As at the date of this Prospectus, CBM has "Ba3" long-term global and local currency deposit rating from Moody's. Fitch has assigned to CBM "BB" long-term issuer default and "B" short-term issuer default ratings. CBM also has "BB-" long-term counterparty default and "B" short-term counterparty default ratings from S&P, "A(RU)" credit rating from ACRA and "ruA" creditworthiness rating from ExpertRA. In addition, CBM has an "AA+" credit rating on the Chinese national scale from China Lianhe Credit Rating Co., Ltd, and Rating-Agentur Expert RA GmbH assigned a BBB[esg] rating to CBM, with a BB[e] environmental rating, BB[s] social rating and A[g] governance rating.

Significant Factors Affecting Results of Operations and Financial Position

Economic Conditions in the Russian Federation

CBM's operations and financial condition results are substantially affected by macroeconomic conditions in Russia. The Russian economy is, to a significant degree, dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. Dramatic decreases in the prices of these commodities in the world market lead to sharp decreases in revenues of the Russian Government and revenues of privately held Russian companies operating in these sectors, which, in turn, negatively impacts on the overall Russian economy.

The Russian economy faced a number of serious challenges in the past decade. According to the World Bank, the Russian economy has recently been impacted by two negative factors: (i) Russia's integration into the world economy through the exports of natural resources and, consequently, its dependence upon the world commodity markets, and (ii) geopolitical tensions with respect to Ukraine. As a result of the first factor, a sharp decrease in oil prices in 2014-2015 caused a shock to the Russian economy due to the deterioration in trade conditions for Russia and the significant devaluation of the Rouble against the U.S. Dollar and Euro. This, in turn, had a negative impact on already weakening consumer confidence. The cost of funds increased as a result of actions of the CBR to tighten the monetary policy, which resulted in further freezing of lending and a reduction of net interest margins in the banking sector. The second factor related to the geopolitical tensions that began in March 2014 with respect to Ukraine and which then led to economic sanctions against certain Russian individuals and entities adopted by, among others, the EU and the U.S. Against the background of this tension, investors became more cautious about investing in Russia and the cost of foreign loans for Russian banks and companies rose significantly. While the Russian economy has been stabilising since the initial shock, these negative developments continued to affect the Russian economy in 2016-2018. According to Rosstat, Russia's real GDP grew by 0.3% in 2016, 1.6% in 2017 and by 2.3% in 2018. Based on CBR estimates, Russia's GDP increased by 0.8-1.3% in 2019.

According to Rosstat, a large portion of Russia's economic activity is concentrated in the Moscow Area and its gross regional product in 2018 accounted for more than a quarter of Russia's GDP. According to Rosstat, the Moscow Area also had a population of approximately 20.2 million at the beginning of 2019, approximately 13.7% of Russia's total population. According to Rosstat, the average monthly income in Moscow in 2019 was more than twice the Russian average. CBM believes that it is relatively less exposed to adverse macroeconomic trends than banks operating in other Russian regions due to the nature of the economic environment in the Moscow Area. Nevertheless, and given the recent expansion of CBM's business to 17 new Russian regions as a result of receipt of certain assets and liabilities of Soviety Bank, the ability of CBM's borrowers to repay amounts due, and the value of the collateral that secures loans, may decrease during periods of deteriorating economic activity. In particular, developments such as increased unemployment, rising inflation, reduced corporate liquidity and

profitability, increased corporate and personal insolvencies and increased interest rates may adversely affect the ability of CBM's customers to repay loans. Reduced creditworthiness amongst CBM's customers also may tend to possibly significantly increase CBM's charge for credit losses on loans to customers during such periods, resulting in a possible decrease in net interest income and narrowing net interest margin.

Stronger economic conditions tend to result in increased demand for CBM's banking products and services, including loans, deposits, cash handling and trade finance, though in recent years the banking sector in Russia, in the Moscow Area in particular, has been growing at a rate in excess of that of the Russian economy overall. According to the CBR, total loans extended by Russian banks increased by 3.5% in 2017 and by 13.9% in 2018, whereas total deposits of Russian banks increased by 4.8% in 2017 and by 6.0% in 2018. Any deterioration of the Russian economy typically affects the Russian banking sector which translates into the reduction of profits, accumulation of losses and growth in the percentage of non-performing loans. The sanctions arising from the crisis in Ukraine also reduced, to a certain extent, the ability of Russian companies to raise new debt and/or refinance existing debt in international capital markets. While CBM's business focuses on the Russian market, it has historically tapped wholesale capital and loan markets for funding, including term loans and deposits from other banks, issuance of debt securities, and loans and other borrowings. Investors' lack of confidence in the banking industry globally has caused volatility in wholesale funding markets, leading to higher borrowing costs and restricting access to liquidity for banks.

Business Mix

CBM's business, as measured by assets, has grown significantly in recent years, and has grown in excess of the rate of growth of the Russian banking market generally. CBM expects its business to continue its growth in the future at a slower pace, which is generally in line with the market. In light of Russian macroeconomic instability, CBM will focus on high-quality corporate customers in target industries and reliable retail customers with increased sale of banking products generating fee and commission income. CBM's total assets increased from RUB1,567,969 million as at 31 December 2016 to RUB1,888 billion as at 31 December 2017, to RUB2,146 billion as at 31 December 2018 and further to RUB2,184 billion as at 30 September 2019, and its total (Basel III) capital increased from RUB159,806 million as at 31 December 2016 to RUB274,417 million as at 31 December 2017, to RUB297,391 million as at 31 December 2018 and further to RUB300,282 million as at 30 September 2019. The growth in 2016-2019 has had a significant impact on CBM's results of operations, in particular leading to increased net interest income, as well as fee and commission income, reflecting the increased volume of banking operations.

CBM's corporate business has historically constituted the largest portion of its business. Total gross loans to corporate customers were RUB566,168 million as at 31 December 2016, RUB731,105 million as at 31 December 2017, RUB643,529 million as at 31 December 2018 and RUB667,773 million as at 30 September 2019. The sharp increase in corporate loan portfolio in 2017 was mainly due to origination of several significant loans to the clients in the oil and gas sector, which were repaid in early 2018, explaining the decrease in portfolio in 2018. The decrease of gross loan portfolio in 2018 was also attributable to the settlement of several problem loans which were impaired but not overdue, thus improving the overall quality of CBM's loan portfolio. The increase in the corporate loan portfolio as at 30 September 2019 as compared to 31 December 2018 was in line with market conditions and reflected CBM's strategy of natural growth of portfolio. CBM expects that its corporate loan portfolio will expand gradually in line with the market. CBM intends to continue to focus on providing loans to companies operating in the oil and gas sector, as well as to enterprises in the industrial production and construction sectors.

CBM's gross loans to individuals was RUB100,570 million as at 31 December 2016, RUB87,711 million as at 31 December 2017, RUB96,602 million as at 31 December 2018 and RUB104,839 million as at 30 September 2019. The retail loan book has been decreasing in 2017 due to unstable market conditions in the Russian banking sector, the natural amortisation of the loan portfolio and tightened lending standards in light of deteriorating macroeconomic conditions; however, in 2018 it turned to an upward trend due to growth of unsecured cash loans. In the course of 2015-2019, CBM expanded its

branch network in Moscow and the Moscow Area aiming to attract new retail deposits. In addition, in July 2018 CBM received the branch network and client base of Sovietsky Bank, which may serve as a basis for further expansion of CBM's retail portfolio in the future. See "*Business – Distribution Network – Branches and Cash Offices*". While CBM plans to gradually increase its retail loan portfolio through the offering of unsecured cash loans and mortgage loans to high quality customers, such as employees of its corporate clients, CBM will continue focusing on the quality of its loan book. Subject to market conditions, CBM targets to increase the proportion of the retail loans to improve profitability of the overall loan portfolio.

Macroeconomic uncertainty in Russia restrained CBM's risk appetite and resulted in an increased proportion of lower-risk assets such as liquid debt securities with high credit ratings and in-demand assets mainly consisting of reverse repo agreements backed by highly liquid securities included in the CBR Lombard List. Thus, assets of CBM's treasury segment (which includes investment banking operations) increased from RUB887,856 million, or 56.6% of total assets as at 31 December 2016 to RUB 1,392,744 million, or 63.8% of total assets, as at 30 September 2019. While the changes in the composition of CBM's assets resulted in the decrease of net interest margin, the generated liquidity cushion enabled CBM to significantly mitigate liquidity and credit risks without compromising the ability to fund further expansion of the loan portfolio.

Changes in Funding Base

During the period under review, the structure of CBM's funding base has significantly changed, which correspondingly affected the structure of CBM's assets. Due to customers represents a principal source of funding for CBM. In 2017, due to customers significantly increased from RUB689,496 million as at 31 December 2016 to RUB941,724 million, or 55.1% of total liabilities, due to an increase in corporate deposits. Due to customers further increased from RUB941,724 million, or 55.1% of total liabilities, as at 31 December 2017 to RUB1,272,175 million, or 65.1% of total liabilities, as at 31 December 2018, which was a result of organic growth in the customer deposits of CBM, as well as the transfer of the customer deposits of Sovietsky Bank in the amount of approximately RUB37 billion to the balance of CBM. Due to customers slightly decreased to RUB1,269,029 million, or 63.9% of total liabilities as at 30 September 2019 as a result of a 9.7% decline in corporate deposits on the back of currency revaluation and outflow of pension funds in the first quarter of 2019 due to changes in Russian laws that require pension funds to maintain funds under management with Russian banks having certain rating.

Loan Portfolio and Provisioning

During periods of deteriorating economic activity, the ability of CBM's borrowers to repay amounts due, and the value of the collateral that secures loans, may decrease. In particular, developments such as reduced corporate liquidity and profitability, foreign currency exchange rate fluctuations, restrictions on funding, increased unemployment, rising inflation, increased corporate and personal insolvencies and increased interest rates may adversely affect the ability of CBM's customers to repay loans. Reduced creditworthiness amongst CBM's customers also may tend to increase CBM's charge for credit losses on loans to customers during such periods. At the same time, CBM's charge for credit losses on loans to customers is usually lower during periods characterised by stronger economic conditions.

In the period under review, CBM's net loans to customers increased from RUB626,535 million as at 31 December 2016 to RUB768,676 million as at 31 December 2017, and decreased to RUB709,045 million as at 31 December 2018 and increased to RUB735,468 million as at 30 September 2019. The increase in corporate loan portfolio in 2017 was mainly due to the origination of several significant loans to clients in the oil and gas sector, which were repaid in early 2018, explaining the decrease in portfolio as at 31 December 2018. The decrease of gross loan portfolio in 2018 was also attributable to the settlement of several problem loans, which were impaired but not overdue, thus improving the overall quality of CBM's loan portfolio. The increase in the loan portfolio as at 30 September 2019 as compared to 31 December 2018 was mainly attributable to a 3.0% organic growth of the corporate loan portfolio in line with the market trend. CBM's credit loss allowance amounted to RUB40,203 million as at 31 December 2016, RUB50,140 million as at 31 December 2017, RUB31,086 million as at 31 December 2018 and RUB37,144 million as at 30 September 2019. Movements in CBM's credit loss allowance in the period under review were in line with fluctuations in the gross loan portfolio. As at 31

December 2016, 2017 and 2018 and as at 30 September 2019, NPLs accounted for 2.3%, 2.4%, 1.6% and 3.7% of the total gross loan portfolio, respectively. The decrease in NPLs in 2018 was mainly due to the repayment of NPLs by several large borrowers, CBM's conservative lending approach and risk management, while the increase in NPLs in the nine-month period ended 30 September 2019 was mainly attributable to the deteriorated financial condition of a large corporate borrower operating in the oil and gas sector. As at 30 September 2019, CBM's Stage 3 and POCI ratio (calculated as Stage 3 and purchased or originated credit-impaired loans divided by gross loans to customers at amortised cost) comprised 4.1%, whereas the Stage 3 and POCI ratio of CBM's retail loan portfolio (calculated as Stage 3 and purchased or originated credit-impaired loans to individuals divided by gross loans to individuals at amortised cost) amounted to 3.9%.

For the year ended 31 December 2018, CBM recognised a total charge for credit losses on loans to customers (comprising charge for credit losses on loans to customers at amortised cost and loss on loans to customers at fair value through profit and loss) of RUB7,277 million, a decrease of RUB11,320 million, or 60.9%, from RUB18,597 million for the year ended 31 December 2017, which in turn was a decrease of RUB11,186 million, or 37.6% from RUB29,783 million for the year ended 31 December 2016. The decrease in the charge for credit losses on debt financial assets and credit loss allowance in 2018 as compared to 2017 and 2016 reflected changes in provisioning standards applied in accordance with the adoption of IFRS 9 (see Note 5 to the 2018 Annual Financial Statements) and the improvement in the quality of CBM's loan portfolio. For the nine-month period ended 30 September 2019, CBM recognised a total charge for credit losses on loans to customers (comprising charge for credit losses on loans to customers at amortised cost and loss on loans to customers at fair value through profit and loss) of RUB4,396 million as compared to RUB7,643 million for the nine-month period ended 30 September 2018, mainly attributable to the improved quality of loan portfolio quality. CBM's management believes that the level of credit loss allowance as at 30 September 2019 covers total expected credit losses on loans to customers. See also “– *Financial Position – Past Due Loans – Credit Loss Allowance*”.

In light of the adoption of IFRS 9, charge for credit losses on other financial assets at amortised cost (interbank assets and securities at amortised cost), which do not form a part of CBM's loan portfolio, is also included in the total charge for credit losses on debt financial assets. Due to adoption of IFRS 9 by CBM starting from 1 January 2018, certain comparative information may not be comparable.

Volatility of Currencies

CBM is exposed to volatility in foreign currency rates. Assets and liabilities of CBM are denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. CBM plans to continue to access the international capital markets and syndicated loan markets, which subjects it to risks inherent in currency fluctuations and the uncertainty of these markets as a reliable funding source. In order to better balance the foreign currency structure of its assets and liabilities, currently CBM extends foreign currency loans only to customers that are engaged in businesses with foreign currency components. As at 30 September 2019, 67.9% of CBM's loans to customers were denominated in Roubles, 26.0% in U.S. dollars and the remaining 6.1% in other currencies.

Due to high currency volatility in the period under review, in the years ended 31 December 2018 and 2017, the Group's net foreign exchange gains amounted to RUB2,723 million and RUB2,701 million, respectively, as compared to net foreign exchange gains of RUB6,065 million in the year ended 31 December 2016. The foreign exchange gains in 2016 was one of the key positive contributors to the Group's non-interest income in the period under review. These are one-off events that may not reoccur in the future. Furthermore, CBM recorded a net foreign exchange loss of RUB8,531 million in the nine-month period ended 30 September 2019 as compared to a net foreign exchange gain of RUB173 million in the nine-month period ended 30 September 2018. The sharp increase in foreign exchange loss in 2019 was mainly attributable to accounting specifics of U.S. Dollar-denominated perpetual subordinated Eurobonds in Tier I capital of CBM on the back of Rouble appreciation in the beginning of 2019. Any depreciation of the Rouble against the U.S. Dollar could negatively affect CBM in a number of ways, including, among other things, by increasing the actual cost to CBM of financing its U.S. Dollar based

liabilities and by making it more difficult for Russian borrowers to service their U.S. Dollar loans, meanwhile Rouble depreciation would revert the negative impact on the FX gains of CBM. See “*Risk Factors – Risks Relating to CBM’s Business and Industry – Devaluation of the Rouble against the U.S. Dollar and other currencies may have a material adverse effect on CBM’s business*”.

Interest Rate Environment, Funding Costs and Narrowing Net Interest Margin

Movements in short and long-term interest rates have affected both CBM’s interest income and interest expense, as well as CBM’s level of gains and losses on its securities portfolio. The interest rate environment in the Russian Federation reflects factors such as expectations regarding inflation, changes in interest rates set by the CBR, and conditions in international financial markets. High-rate inflation and competition for high-profile customers, particularly during periods when banks operating in Russia may have faced reduced access to wholesale funding markets, tend to raise interest rates payable on new customer deposits for banks operating in the Russian market, while competitive pressures, concerns about customer defaults and fixed rates on existing loan commitments and facilities may restrict CBM’s ability to increase interest rates on loans, primarily to retail customers. During the period under review, CBM has generally been able to offset volatile interest rates payable on deposits by adjusting rates on corporate loans. This was achieved as a result of short-term nature of the loan portfolio, although with apparent trends toward the increase of maturities in new loans origination, CBM retains the ability to renegotiate contract interest rates with corporate clients in CBM’s favour. In addition, CBM has been able to manage its funding costs through competent management of the weighted maturity and profitability of the liability base. Accordingly, following the macroeconomic trends that affected the Russian banking market, margins narrowed noticeably overall in the industry. CBM’s net interest margin has been decreasing from 3.3% for 2016 to 2.9% for 2017, 2.6% for 2018 and further to 2.1% for the nine-month period ended 30 September 2019. Nevertheless, CBM’s net interest income to risk-weighted assets amounted to 4.4% for 2016, 4.5% for 2017, 4.4% for 2018, 4.5% for the nine-month period ended 30 September 2018 and 3.4% for the nine-month period ended 30 September 2019, which demonstrates that the margin is kept generally at the market level and therefore evidences CBM’s ability to adapt to the changing macroeconomic environment. A decline in net interest margin is explained by the increase in the share of liquid assets with lower interest rates in CBM’s asset mix as a result of CBM’s conservative approach to liquidity management and lending operations in response to the uncertain economic environment in Russia, as well as increased funding costs resulting from the unfavourable interest rate environment triggered by the decreasing CBR key rate and increasing competition for high-quality borrowers among banks.

Segmentation

CBM has four reportable segments which are strategic business units. These strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the reportable segments:

- Corporate banking: comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guarantees, corporate deposit taking, settlements and money transfer, currency conversion;
- Retail banking: comprises retail demand and term deposit services; retail lending, including mortgages and other loans to individuals, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals;
- Treasury: comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes. This segment also includes the operations of CBM’s investment banking business line; and
- Cash operations: comprises all operations connected with cash, cash handling, calculation and transportation.

Results of Operations for the Nine-Month Periods Ended 30 September 2019 and 2018

For the nine-month period ended 30 September 2019, CBM generated a profit of RUB11,882 million, a decrease of RUB6,473 million, or 35.3%, from RUB18,355 million for the nine-month period ended 30 September 2018.

The following table sets forth the components of CBM's profit for the periods indicated.

	Nine-month period ended 30 September	
	2019	2018
	RUB millions	
Interest income calculated using the effective interest method	105,988	99,271
Other interest income	3,086	3,249
Interest expense	(76,945)	(65,927)
Net interest income	32,129	36,593
Charge for credit losses on debt financial assets	(2,978)	(4,408)
Net interest income after charge for credit losses on debt financial assets	29,151	32,185
Fee and commission income	11,176	11,403
Fee and commission expense	(2,712)	(2,500)
Net (loss)/gain on loans to customers at fair value through profit or loss	(1,060)	(3,224)
Net gain on trading financial assets	-	-
Net gain (loss) on financial assets at fair value through profit or loss	784	(180)
Net gain (loss) of investment financial assets at fair value through other comprehensive income	(221)	(71)
Net realised gain (loss) on investment financial assets at amortised cost	199	-
Net foreign exchange (losses) gains	(8,531)	173
Net gain on change in financial liabilities measured at fair value through profit or loss	24	-
Impairment (losses)/recoveries on other non-financial assets, credit (losses)/recoveries on other financial assets and credit related commitments and other provisions	3,626	(1,906)
State deposit insurance scheme contributions	(1,944)	(1,363)
Operating lease income	34	68
Net income from disposal of subsidiaries	-	637
Other net operating income/(expense)	(311)	2,024
Non-interest income	1,064	5,061
Operating income	30,215	37,246
Salaries and employment benefits	(10,994)	(8,620)
Administrative expenses	(3,357)	(3,856)
Depreciation of premises and equipment and right-of-use assets	(1,418)	(768)
Operating expense	(15,769)	(13,244)
Profit before income taxes	14,446	24,002
Income tax	(2,564)	(5,647)
Profit for the period	11,882	18,355

Net Interest Income

Net interest income has historically been the largest component of CBM's operating income. The following table sets forth CBM's net interest income before charge for credit loss on debt financial assets for the periods indicated.

	Nine-month period ended 30 September	
	2019	2018
	RUB millions, except percentages	
Interest income	109,074	102,520
Interest expense	(76,945)	(65,927)
Net interest income before charge for credit losses on debt financial assets	32,129	36,593
Net interest margin⁽¹⁾	2.1%	2.7%

Note:

- (1) This measure is an APM. Net interest margin is calculated as net interest income before charge for credit losses on debt financial assets divided by average Interest-Earning Assets (calculated as described under “Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data”).

For the nine-month period ended 30 September 2019, net interest income before charge for credit loss on debt financial assets decreased by RUB4,464 million, or 12.2%, from RUB36,593 million for the nine-month period ended 30 September 2018. This decrease mainly resulted from a 16.7% increase in interest expense, in particular, a 47.6% increase in interest expense on due to customers in the nine-month period ended 30 September 2019 as compared to the nine-month period ended 30 September 2018 due to increased interest rates on several large corporate deposits and growing corporate and retail deposits. For the reasons described above, CBM’s net interest margin decreased to 2.1% in the nine-month period ended 30 September 2019 from 2.7% in the nine-month period ended 30 September 2018.

Interest Income

CBM’s interest income for the nine-month period ended 30 September 2019 amounted to RUB109,074 million, an increase of 6.4%, from RUB102,520 million for the nine-month period ended 30 September 2018.

The following table sets forth the principal components of CBM’s interest income for the periods indicated.

	Nine-month period ended 30 September			
	2019		2018	
	RUB millions	% of total	RUB millions	% of total
Loans to customers	46,209	42.4%	49,824	48.6%
Due from credit and other financial institutions and the CBR	49,460	45.3%	42,885	41.8%
Other financial assets	1,202	1.1%	518	0.5%
Debt financial assets measured at fair value through other comprehensive income	9,117	8.4%	6,044	5.9%
Interest income calculated using the effective interest method	105,988	97.2%	99,271	96.8%
Loans to customers at fair value through profit or loss	2,588	2.4%	2,474	2.4%
Other financial instruments at fair value through other comprehensive income	498	0.5%	775	0.8%
Other interest income	3,086	2.8%	3,249	3.2%
Total interest income	109,074	100.0%	102,520	100.0%
Average interest yield on Interest-Earning Assets⁽¹⁾		7.3%		7.7%

Note:

- (1) Calculated as the ratio of total interest income to average Interest-Earning Assets. See “Selected Statistical Information”.

The increase in CBM’s interest income during the period under review resulted from (i) an increase in interest income from due from credit and other financial institutions and the CBR as a result of a general increase in the volume of interbank operations together with an increase in the share of RUB-denominated interbank balances, which on average earn higher interest, and (ii) an increase in debt financial assets measured at fair value through other comprehensive income on the back of an increase of securities portfolio. This increase was partially offset by a decrease in interest income on loans to customers in line with the decline of the loan portfolio and the decrease in the average interest yield on Interest-Earning Assets from 7.7% in the nine-month period ended 30 September 2018 to 7.3% for the nine-month period ended 30 September 2019, which reflects the declining interest rates as a result of gradual reduction of the key rate by the CBR, rising competition in the banking sector, and growth in the share of highly liquid assets in CBM’s asset mix resulting from CBM’s conservative approach to liquidity risk management.

Interest Income on Loans to Customers

A large part of CBM's interest income received in the periods under review was attributable to interest income on loans to customers.

Interest income on loans to customers (including loans to customers at fair value through profit or loss) represented 44.7% and 51.0% of total interest income for the nine-month periods ended 30 September 2019 and 2018, respectively. Interest income on loans to customers decreased by RUB3,501 million, or 6.7%, for the nine-month period ended 30 September 2019 as compared to the nine-month period ended 30 September 2018. The decrease is attributable to declining interest rates in line with the market environment driven by the reduction of key rate by the CBR, as well as increasing competition for high-quality borrowers in the Russian banking sector.

Interest Income on Due from Credit and Other Financial Institutions and the CBR

Interest income on due from credit and other financial institutions and the CBR represented 45.3% and 41.8% of total interest income for the nine-month periods ended 30 September 2019 and 2018, respectively. Interest income on due from credit and other financial institutions and the CBR increased by RUB6,575 million, or 15.3%, for the nine-month period ended 30 September 2019 as compared to the nine-month period ended 30 September 2018. This increase was primarily due to the increased volumes of transactions on the interbank lending market, in particular, reverse repo transactions, as part of CBM's conservative approach to liquidity management, aimed at increasing the share of more liquid assets with lower interest income in CBM's asset mix. The average interest rate on due from credit and other financial institutions and the CBR amounted to 6.2% in both nine-month periods ended 30 September 2019 and 2018.

Interest Income on Debt Financial Instruments

Interest income on debt financial instruments consists of interest income on other financial assets, debt financial assets measured at fair value through other comprehensive income and other financial instruments at fair value through other comprehensive income. Interest income on debt financial instruments represented 9.9% and 7.2% of total interest income for the nine-month period ended 30 September 2019 and 2018, respectively. Interest income on debt financial instruments increased by RUB3,480 million, or 47.4%, from RUB7,337 million for the nine-month period ended 30 September 2018 to RUB10,817 million for the nine-month period ended 30 September 2019. The average interest rate received by CBM on debt financial instruments increased from 6.0% for the nine-month period ended 30 September 2018 to 6.4% for the nine-month period ended 30 September 2019.

Interest Expense

CBM's total interest expense increased by RUB11,018 million, or 16.7%, to RUB76,945 million for the nine-month period ended 30 September 2019 from RUB65,927 million for the nine-month period ended 30 September 2018. The following table sets forth the principal components of CBM's interest expense for the periods indicated.

	Nine-month period ended 30 September			
	2019		2018	
	RUB millions	% of total	RUB millions	% of total
Due to customers	49,931	64.9%	33,840	51.3%
Due to credit institutions	19,926	25.9%	25,259	38.3%
Debt securities issued	6,864	8.9%	6,822	10.3%
Lease liabilities	224	0.3%	6	0.01%
Total interest expense	76,945	100%	65,927	100.0%
Average interest rate on Interest-Bearing liabilities⁽¹⁾		5.3%		5.2%

Note:

(1) Calculated as the ratio of total interest expense to average Interest-Bearing Liabilities. See "Selected Statistical Information".

The overall increase in CBM's interest expense for the nine-month period ended 30 September 2019 mainly resulted from an increase in interest expense on due to customers as a result of growing volume of corporate and retail deposits. The average interest rate on interest bearing liabilities increased from 5.2% for the nine-month period ended 30 September 2018 to 5.3% for the nine-month period ended 30 September 2019.

Interest Expense on Due to Customers

Interest expense on due to customers was the largest component of CBM's total interest expense in the periods under review, representing 65.2% and 51.3% of total interest expense for the nine-month periods ended 30 September 2019 and 2018, respectively. Interest expense on due to customers increased by RUB16,309 million, or 48.2%, in the nine-month period ended 30 September 2019 as compared to the nine-month period ended 30 September 2018 due to increased interest rates on several large corporate deposits and growing corporate and retail deposits.

Interest Expense on Due to Credit Institutions

Interest expense on due to credit institutions represented 25.9% and 38.3% of total interest expense for the nine-month periods ended 30 September 2019 and 2018, respectively. Interest expense on due to credit institutions decreased by RUB5,333 million, or 21.1%, for the nine-month period ended 30 September 2019 as compared to the nine-month period ended 30 September 2018. This result was due to a decrease of average interest rates paid by CBM on due to credit institutions from 5.4% for the nine-month period ended 30 September 2018 to 4.7% for the nine-month period ended 30 September 2019, as well as a decrease of average balances of due to credit institutions from RUB618,425 million for the nine-month period ended 30 September 2018 to RUB560,219 million for the nine-month period ended 30 September 2019.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 8.9% and 10.3% of total interest expense for the nine-month periods ended 30 September 2019 and 2018, respectively. Interest expense on debt securities issued remained largely unchanged in the nine-month period ended 30 September 2019 as compared to the nine-month period ended 30 September 2019. While the average interest rate paid by CBM on debt securities issued decreased from 7.8% for the nine-month period ended 30 September 2018 to 6.2% for the nine-month period ended 30 September 2019 in line with the market environment, the average balances of debt securities issued increased from RUB116,518 million for the nine-month period ended 30 September 2018 to RUB147,059 million for the nine-month period ended 30 September 2019 as a result of placement of foreign currency denominated Eurobonds on the international capital markets and Rouble-denominated bonds on the local market in light of favourable market conditions.

Charge for Credit Losses on Debt Financial Assets and Loss on Modifications

Charge for credit losses on debt financial assets represents the provision charge for loans to customers during a given period. The following tables set forth the breakdown of CBM's charge for credit losses on debt financial assets for the periods indicated.

	Nine-month period ended 30 September	
	2019	2018
	RUB millions	
Charge for credit losses on loans to corporate customers at amortised cost	(584)	(3,090)
Auto loans.....	12	11
Mortgage loans	94	85
Credit card loans	(159)	(78)
Consumer loans	(2,699)	(1,347)
Total charge for credit losses on loans to individuals at amortised cost	(2,752)	(1,329)
Recovery of provision on cash and cash equivalents, due from credit and other financial institutions and investment financial assets	358	10
Total charge for credit losses on debt financial assets	(2,978)	(4,408)

For the nine-month period ended 30 September 2019, CBM recognised a total charge for credit losses on debt financial assets of RUB2,978 million, a decrease of RUB1,431 million from RUB4,408 million for the nine-month period ended 30 September 2018. The decrease in charge for credit losses on debt financial assets mainly reflected the improvement of financial condition of a large problem corporate borrower operating in the oil and gas sector and the underlying collateral provided by the borrower to secure this loan. In light of the adoption of IFRS 9, charge for credit losses on other financial assets at amortised cost (interbank assets and securities at amortised cost), which do not form a part of CBM's loan portfolio, is also included in the total charge for credit losses on debt financial assets. The ratio of credit loss allowance to NPLs decreased to 130.4% as at 30 September 2019 from 260.0% as at 31 December 2018. This decrease is mainly attributable to the deteriorated financial condition of a large corporate borrower. This corporate borrower is well provisioned and CBM does not expect any negative impact on net income from this borrower. CBM's management believes that the level of credit loss allowance as at 30 September 2019 covers total expected credit losses on debt financial assets. See also “—Financial Position—Past Due Loans—Credit Loss Allowance”.

Non-interest Income

The table below sets forth the components of CBM's non-interest income for the periods indicated.

	Nine-month period ended 30 September	
	2019	2018
	RUB millions, except percentages	
Fee and commission income.....	11,176	11,403
Fee and commission expense.....	(2,712)	(2,500)
Net (loss)/gain on loans to customers at fair value through profit or loss.....	(1,060)	(3,224)
Net gain (loss) on financial assets at fair value through profit or loss .	784	(180)
Net gain (loss) of investment financial assets at fair value through other comprehensive income	(221)	(71)
Net realised gain (loss) on investment financial assets at amortised cost.....	199	-
Net foreign exchange (losses) gains.....	(8,531)	173
Net gain on change in financial liabilities measured at fair value through profit or loss	24	-
Impairment (losses)/recoveries on other non-financial assets, credit (losses)/recoveries on other financial assets and credit related commitments and other provisions	3,626	(1,906)
State deposit insurance scheme contributions	(1,944)	(1,363)
Operating lease income.....	34	68
Net income from disposal of subsidiaries	-	637
Other net operating income/(expense)	(311)	2,024
Non-interest income	1,064	5,061
Non-interest income as % of operating income.....	3.5%	10.8%

Fee and Commission Income

The largest source of CBM's non-interest income is its fee and commission income. CBM's fee and commission income is primarily comprised of commissions generated by other cash operations, settlements and wire transfers, plastic cards, insurance contracts processing, guarantees and letters of credit and cash handling.

The following table sets forth the components of CBM's fee and commission income for the periods indicated.

	Nine-month period ended 30 September			
	2019		2018	
	RUB millions	% of total	RUB millions	% of total
Other cash operations	2,222	19.9%	1,792	15.7%
Settlements and wire transfers	1,625	14.5%	1,884	16.5%
Plastic cards	1,656	14.8%	1,752	15.4%
Insurance contracts processing	1,564	14.0%	1,673	14.7%
Guarantees and letters of credit.....	1,598	14.3%	1,554	13.6%

Cash handling	1,225	11.0%	1,430	12.5%
Currency exchange and brokerage commission....	759	6.8%	682	6.0%
Opening and maintenance of bank accounts	399	3.6%	423	3.7%
Other	128	1.1%	213	1.9%
Total fee and commission income	11,176	100.0%	11,403	100.0%

CBM's total fee and commission income decreased by RUB227 million, or 2.0%, in the nine-month period ended 30 September 2019 as compared to the nine-month period ended 30 September 2018. Increased competition made the expansion of fee and commission income more challenging. The structure of fee and commission income has remained stable with other cash operations, settlements and wire transfers, plastic cards, insurance contracts processing and guarantees and letters of credit fee and commission income being its main components. Other cash operations fee income, which partly includes cash handling, increased by 24.0% due to general business development.

Fee and Commission Expense

Fee and commission expense is principally comprised of plastic cards fees, settlements, wire transfers and plastic cards and guarantees and other credit related facilities received related fees. For the nine-month period ended 30 September 2019, fee and commission expense increased by RUB212 million, or 8.5%, as compared to the nine-month period ended 30 September 2018. The increase was due to growth in plastic cards and guarantees and other credit related facilities received as a result of an increase in the volume of business and corresponding growth in expenses payable to third parties to support the payment infrastructure.

Net Loss on Loans to Customers at Fair Value through Profit or Loss

Net loss on loans to customers at fair value through profit or loss amounted to RUB1,060 million for the nine-month period ended 30 September 2019 as compared to a net loss of RUB3,224 million for the nine-month period ended 30 September 2018. Net loss on loans to customers at fair value through profit or loss resulted from changes in the accounting policy due to the adoption of IFRS 9 and reflects changes in fair value of corporate loans to customers at fair value through profit or loss.

Net Gain on Financial Assets at Fair Value through Profit or Loss

CBM recorded a net gain on financial assets at fair value through profit or loss of RUB784 million for the nine-month period ended 30 September 2019 as compared to a net loss on financial assets at fair value through profit or loss of RUB180 million for the nine-month period ended 30 September 2018 mainly as a result of revaluation of securities.

Net Loss from Sale and Redemption of Investment Financial Assets at Fair Value through Other Comprehensive Income

CBM recorded a net loss from sale and redemption of investment financial assets at fair value through other comprehensive income of RUB221 million for the nine-month period ended 30 September 2019 as compared to a net loss from sale and redemption of investment financial assets at fair value through other comprehensive income of RUB71 million for the nine-month period ended 30 September 2018.

Net Foreign Exchange Losses

CBM's net foreign exchange gains or losses primarily represent net gains or losses from currency transactions, net gains or losses on open foreign currency positions and the purchasing and selling by CBM of currency derivatives for hedging the currency risks of its clients. CBM generates income from net foreign exchange transactions where CBM's selling price for a particular instrument is higher than its purchase price. In the periods under review, CBM generated profit from its derivative transactions, which are aimed at limiting CBM's foreign currency exposure and managing its liquidity position. CBM does not engage in derivative transactions for speculative purposes.

CBM's net foreign exchange losses increased sharply to RUB8,531 million for the nine-month period ended 30 September 2019 from a gain of RUB173 million for the nine-month period ended 30 September 2018. The increase is mainly attributable to accounting specifics of U.S. Dollar-denominated

perpetual subordinated Eurobonds in Tier I capital on the back of Rouble appreciation in the beginning of 2019. For the nine-month period ended 30 September 2019, the Rouble strengthened against the U.S. Dollar by RUB5.1 or 7.3%. According to the IFRS accounting rules, the foreign currency in capital is revalued through capital, not falling into statement of profit or loss directly. Therefore, CBM's assets decreased in 2019 as a result of revaluation, thus negatively affecting the profit or loss statement, whereas perpetual Eurobond, which is recognised in the Financial Statements in equity, also decreased thus having positive effect, but reflected in Retained Earnings, not in profit or loss statement. Should there be any opposite foreign currency movements, than CBM is to record foreign exchange gains in profit or loss statement. See "*Risk Management – Market Risk – Currency Risk*".

Impairment gain /(Losses) on Other Non-Financial Assets, (Charge for)/Recoveries of Credit Losses on Other Financial Assets and Credit Related Commitments and Other Provisions

CBM recorded impairment gain on other non-financial assets of RUB3,626 million in for the nine-month period ended 30 September 2019 as compared to impairment losses of RUB1,906 million for the nine-month period ended 30 September 2018 mainly as a result of CBM receiving a collateral on one large guarantee that fully covered it, thus allowing CBM to recover previously made reserves.

State Deposit Insurance Scheme Contributions

State deposit insurance scheme consists of amounts that CBM pays for membership in the state mandatory system of retail deposit insurance, and are assessed in proportion to the volume of due to retail customers. Such contributions increased to RUB1,944 million for the nine-month period ended 30 September 2019 from RUB1,363 million for the nine-month period ended 30 September 2018 as a result of the expansion of CBM's retail deposit portfolio.

Operating Expense

The following table sets forth the principal components of CBM's operating expense for the periods indicated.

	Nine-month periods ended 30 September			
	2019		2018	
	RUB millions	% of total	RUB millions	% of total
Salaries and employment benefits.....	10,994	69.7%	8,620	65.1%
Administrative expenses	3,357	21.3%	3,856	29.1%
Depreciation of property and equipment.....	1,418	9.0%	768	5.8%
Total operating expense.....	15,769	100.0%	13,244	100.0%
Cost-to-income ratio ⁽¹⁾		51.5%		28.3%

Note:

- (1) This measure is an APM. Cost to income ratio is calculated as operating expense (excluding recovery of/(provision for) impairment of other assets and credit related commitments) divided by operating income (excluding charge for credit losses on debt financial assets).

CBM's operating expense increased by RUB2,525 million, or 19.1%, for the nine-month period ended 30 September 2019 as compared to the nine-month period ended 30 September 2018. The increase was primarily due to an increase in salaries and employment benefits in connection with the payment of annual bonuses and the hiring of new employees to enhance CBM's business development as well as labour market competition.

CBM's cost-to-income ratio was 51.5% and 28.3% for the nine-month periods ended 30 September 2019 and 2018, respectively. The increase in the cost-to-income ratio in the first nine months of 2019 is mainly attributable to an increase in net foreign exchange loss, which in turn is mainly connected with the accounting specifics of U.S. Dollar-denominated perpetual subordinated Eurobonds in Tier I capital of CBM due to Rouble appreciation in the beginning of 2019.

Salaries and Employment Benefits

	Nine-month periods ended 30 September			
	2019		2018	
	RUB millions	% of total	RUB millions	% of total
Salaries	9,049	82.3%	6,876	79.8%
Social security costs.....	1,945	17.7%	1,744	20.2%
Total salaries and employment benefits.....	10,994	100%	8,620	100%

Salaries and employment benefits include employee salaries, social security costs and other related expenses, and constitute the largest component of CBM's operating expense. Salaries and employment benefits increased by RUB2,374 million, or 27.5%, in the nine-month period ended 30 September 2019 as compared to the nine-month period ended 30 September 2018. This increase was primarily due to salary increases resulting from inflation and an increasing competition in the market for qualified personnel in connection with the payment of annual bonuses and the hiring of new employees to enhance CBM's business development.

Administrative Expenses

	Nine-month periods ended 30 September			
	2019		2018	
	RUB millions	% of total	RUB millions	% of total
Operating taxes	565	16.8%	416	10.8%
Property maintenance	511	15.2%	478	12.4%
Security.....	422	12.6%	405	10.5%
Advertising and business development.....	604	18.0%	762	19.8%
Legal and consulting services	266	7.9%	226	5.9%
Communications	255	7.6%	203	5.3%
Write-off of low-value fixed assets.....	200	6.0%	166	4.3%
Occupancy	141	4.2%	857	22.2%
Computer maintenance and software expenses....	150	4.5%	121	3.1%
Insurance.....	113	3.4%	103	2.7%
Transport.....	107	3.2%	95	2.5%
Other.....	23	0.7%	24	0.6%
Administrative expenses.....	3,357	100.0%	3,856	100.0%

Administrative expenses consist primarily of expenses incurred in respect of operating taxes (exclusive of income tax), property maintenance occupancy, security, advertising and business development and other expenses. CBM's administrative expenses decreased by RUB499 million, or 12.9% in the nine-month period ended 30 September 2019 as compared to the nine-month period ended 30 September 2018.

Operating taxes. For the nine-month period ended 30 September 2019, operating taxes increased by RUB149 million or 35.8% as compared to the nine-month period ended 30 September 2018. The dynamics of operating taxes in the periods under review primarily reflects VAT charges. Since 1 January 2019, VAT rate in Russia increased from 18% to 20%.

Property maintenance. For the nine-month period ended 30 September 2019, property maintenance expenses increased by RUB33 million as compared to the nine-month period ended 30 September 2018 due to expansion of CBM's distribution network.

Security. Security includes expenses relating to security services rendered by third parties primarily in connection with cash handling operations. For the nine-month period ended 30 September 2019, the security expenses increased by RUB17 million as compared to the nine-month period ended 30 September 2018.

Advertising and business development. For the nine-month period ended 30 September 2019, CBM's advertising and business development expenses increased by RUB149 million, or 35.8% as compared to the nine-month period ended 30 September 2018.

Occupancy. For the nine-month period ended 30 September 2019, CBM's occupancy expenses decreased by RUB716 million, or 83.5% as compared to the nine-month period ended 30 September 2018 as a result of adoption of IFRS 16 standards, according to which large rental costs are now included in the Note Depreciation of premises and equipment and right-of-use assets.

Income Tax

Income tax comprises CBM's current income tax charge and changes in deferred income tax. Taxes other than income taxes, such as property tax, are recorded within administrative expenses. The following table sets forth the components of CBM's income tax for the periods indicated.

	Nine-month periods ended 30 September	
	2019	2018
	RUB millions	
Current tax charge.....	2,521	2,739
Deferred taxation.....	43	2,908
Income tax expense.....	2,564	5,647

CBM's income tax expense was RUB2,564 million and RUB5,647 million for the nine-month periods ended 30 September 2019 and 2018, respectively. The decrease was primarily attributable to the decreased amount of income generated during the nine-month period ended 30 September 2019. CBM's effective tax rate as at 30 September 2019 was 17.7%, compared to 23.5% as at 30 September 2018.

Profit for the Period

For the reasons described above, CBM's profit for the period decreased by RUB6,473 million, or 35.3%, to RUB11,882 million for the nine-month period ended 30 September 2019 from RUB18,355 million for the nine-month period ended 30 September 2018.

Other Comprehensive Income

Other comprehensive income consists of movement in fair value reserve on available-for-sale securities, exchange differences on translation and income tax related to other comprehensive income. Other comprehensive income (net of income tax) in the nine-month period ended 30 September 2019 amounted to RUB2,618 million as compared to the other comprehensive loss (net of income tax) of RUB3,333 million recorded in the nine-month period ended 30 September 2018. The movement in other comprehensive income was primarily driven by net change in fair value of debt instruments reserves.

Results of Operations for the Years Ended 31 December 2018, 2017 and 2016

For the year ended 31 December 2018, CBM's profit for the year increased by RUB6,521 million to RUB27,224 million from RUB20,703 million for the year ended 31 December 2017, which in turn was an increase by RUB9,829 million to RUB20,703 million from RUB10,874 million for the year ended 31 December 2016.

The following table sets forth the components of CBM's profit for the period for the years indicated.

	Year ended 31 December		
	2018	2017	2016
	RUB millions		
Interest income calculated using the effective interest method ⁽¹⁾ ..	133,287	122,358	113,398
Other interest income.....	4,646	4,601	-
Interest expense.....	(89,518)	(81,679)	(73,099)
Net interest income.....	48,415	45,280	40,299
Charge for credit losses on debt financial assets ⁽²⁾	(2,221)	(18,597)	(29,783)
Net interest income after charge for credit losses on debt financial assets.....	46,194	26,683	10,516
Fee and commission income.....	15,829	15,510	13,394
Fee and commission expense.....	(3,483)	(3,002)	(2,247)
Net (loss)/gain on loans to customers at fair value through profit or loss.....	(5,611)	-	-

Net (loss)/gain on other financial instruments at fair value through profit or loss	(189)	773	235
Net loss from sale and redemption of financial assets at fair value through other comprehensive income	(251)	-	-
Net realised gain/(loss) on available-for-sale assets.....	-	341	1,208
Net foreign exchange gains.....	2,723	2,701	6,065
Impairment (losses)/recoveries on other non-financial assets, credit (losses)/recoveries on other financial assets and credit related commitments and other provisions	(2,895)	(264)	(778)
State deposit insurance scheme contributions	(1,906)	(1,286)	(920)
Operating lease income.....	81	1,634	1,252
Net income on disposal of subsidiaries	637	1,076	-
Other net operating income/(expense)	3,366	(593)	(549)
Non-interest income	8,301	16,890	17,660
Operating income.....	54,495	43,573	28,176
Salaries and employment benefits.....	(12,290)	(9,516)	(7,700)
Administrative expenses	(6,085)	(5,377)	(5,260)
Depreciation of property and equipment.....	(1,051)	(1,863)	(1,481)
Operating expense	(19,426)	(16,756)	(14,441)
Profit before income taxes	35,069	26,817	13,735
Income tax	(7,845)	(6,114)	(2,861)
Profit for the period	27,224	20,703	10,874
Total comprehensive income for the period	23,950	20,501	11,062

Note:

- (1) For the year ended 31 December 2016, this line item should be treated as *Interest income*.
- (2) For the years ended 31 December 2017 and 2016, this line item should be treated as *Provision for impairment of loans*.

Interest Income

For the year ended 31 December 2018, CBM's interest income increased by RUB10,974 million, or 8.6%, to RUB137,933 million from RUB126,959 million for the year ended 31 December 2017, which in turn was an increase of RUB13,561 million, or 12.0%, to RUB126,959 million from RUB113,398 million for the year ended 31 December 2016.

The following table sets forth the principal components of CBM's interest income for the years indicated.

	Year ended 31 December					
	2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Financial assets measured at amortised cost						
Loans to customers	65,515	47.5%	82,324	64.8%	81,818	72.2%
Due from credit and other financial institutions and the CBR.....	58,086	42.1%	35,794	28.2%	19,450	17.2%
Other financial assets	1,010	0.7%	4,240	3.3%	-	-
Debt financial instruments measured at fair value through other comprehensive income.....	8,676	6.3%	-	-	12,130	10.6%
Interest income calculated using the effective interest method	133,287	96.6%	122,358	96.4%	113,398	100.0%
Loans to customers at fair value through profit or loss	3,397	2.5%	-	-	-	-
Other financial assets at fair value through profit or loss.....	1,249	0.9%	4,601	3.6%	-	-
Other interest income.....	4,646	3.4%	4,601	3.6%	-	-
Total interest income	137,933	100.0%	126,959	100.0%	113,398	100.0%
Average yield on Interest-Earning Assets⁽²⁾ ..		7.6%		8.4%		9.3%

Note:

- (1) Calculated as the ratio of total interest income to average Interest-Earning Assets. See "Selected Statistical Information".

The increases in CBM's interest income during the periods under review resulted primarily from increases in interest income from due from credit and other institutions as a result of a general increase in the volume of interest-bearing products, which was partially offset by a gradual decrease in the average interest yield on Interest-Earning Assets from 9.3% for the year ended 31 December 2016 to 8.4% the year ended 31 December 2017 and further to 7.6% in the year ended 31 December 2018, reflecting the declining interest rates due to persistent key rate cuts, increased competition in the banking sector, increase of RUB denominated assets and a greater share of highly liquid assets held pursuant to CBM's conservative approach to liquidity risk management and lending in the environment of moderate recovery of economic growth.

Interest Income on Loans to Customers

The majority of CBM's interest income received in the periods under review was attributable to interest income on loans to customers. Interest income on loans to customers represented 50.0%, 64.8% and 72.2% of total interest income for the years ended 31 December 2018, 2017 and 2016, respectively.

For the year ended 31 December 2018, interest income on loans to customers declined by RUB13,412 million, or 16.3%, to RUB68,912 million. The decrease was attributable to lowering interest rates in line with the lower interest rate environment triggered by the decreasing CBR key rate and increasing competition for high-quality borrowers among banks. In addition, the repayment of several large loans in the first quarter of 2018 contributed to the decrease in interest income from loans to customers. The average balance of loans to customers decreased to RUB690,179 million for the year ended 31 December 2018 from RUB707,899 million for the year ended 31 December 2017. CBM's average yield on loans to customers decreased from 11.6% for the year ended 31 December 2017 to 10.0% for the year ended 31 December 2018 due to decreasing interest rates in line with the general market trend of lower interest rates.

For the year ended 31 December 2017, interest income on loans to customers rose by RUB506 million, or 0.6%, to RUB82,324 million. Moderate growth of interest income on loans to customers is in line with the market trend of declining interest rates (see “– *Significant Factors Affecting Results of Operations and Financial Position – Interest Rate Environment, Funding Costs and Narrowing Net Interest Margin*”) and reflects a high share of prime corporate borrowers, which was the main source of portfolio expansion. The average balance of loans to customers increased to RUB707,899 million for the year ended 31 December 2017 from RUB600,623 million for the year ended 31 December 2016. CBM's average yield on loans to customers decreased from 13.6% for the year ended 31 December 2016 to 11.6% for the year ended 31 December 2017 due to decreasing interest rates in line with the general market trend of lower interest rates due to the decreasing CBR key rate.

Interest income is further pressured by the banking sector becoming increasingly competitive, mainly because of state-owned banks having access to less expensive domestic sources of funding. CBM's deposit base has shorter maturities compared to the loan portfolio, which allowed CBM to maintain a comfortable level of profitability by reacting promptly to key rate cuts.

Interest Income on Due from Credit and Other Financial Institutions and the CBR

Interest income on due from credit and other financial institutions and the CBR represented 42.1%, 28.2% and 17.2% of total interest income for the years ended 31 December 2018, 2017 and 2016, respectively. Interest income on due from credit and other financial institutions and the CBR increased by RUB22,292 million, or 62.3%, for the year ended 31 December 2018 as compared to the year ended 31 December 2017, which in turn was an increase of RUB16,344 million, or 84.0%, to RUB35,794 million from RUB19,450 million for the year ended 31 December 2016. These increases were primarily due to the increased volumes of transactions on the interbank lending market, particularly reverse repo transactions, as part of CBM's conservative approach to liquidity management, aimed at increasing the share of more liquid assets with lower interest income in CBM's asset mix. CBM's average yield on due from credit and other financial institutions and the CBR amounted to 6.1% for the year ended 31 December 2018 as compared to 5.2% for the year ended 31 December 2017 and 4.0% for the year ended 31 December 2016. The average yield increased in 2017 and 2018 as a result of a greater volume of higher-yield rouble repo agreements.

Interest Income on Financial Assets

Interest income on financial assets (which includes trading financial assets and investment financial assets) represented 7.9%, 7.0% and 10.7% of total interest income for the years ended 31 December 2018, 2017 and 2016, respectively. For the year ended 31 December 2018, interest income on financial assets increased by RUB2,094 million, or 23.7%, to RUB10,935 million from RUB8,841 million for the year ended 31 December 2017 as a result of a significant increase of securities portfolio volume, as CBM being a systematically important bank has to comply with a mandatory ratio that implies maintaining a large portion of high quality liquid securities on the balance sheet. For the year ended 31 December 2017, interest income on financial assets decreased by RUB3,289 million, or 27.1%, to RUB8,841 million from RUB12,130 million for the year ended 31 December 2016 as a result of a general decrease in interest rates resulting from gradual cuts in the CBR key rate and corresponding market decline in interest rates. The average interest rate earned on financial assets declined to 6.2% for the year ended 31 December 2018 from 7.9% for the year ended 31 December 2017 on the back of CBR key rate cuts and a larger portion of Russian government securities that have lower interest rates. The average interest rate earned on financial assets decreased to 7.9% for the year ended 31 December 2017 as compared to 8.5% for the year ended 31 December 2016 reflecting interest rates decline in the market.

Interest Expense

For the year ended 31 December 2018, CBM's total interest expense increased by RUB7,839 million, or 9.6%, to RUB89,518 million from RUB81,679 million for the year ended 31 December 2017, which in turn was an increase of RUB8,580 million, or 11.8%, to RUB81,679 million from RUB73,099 million for the year ended 31 December 2016.

The following table sets forth the principal components of CBM's interest expense for the years indicated.

	Year ended 31 December					
	2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Due to customers	48,636	54.3%	42,710	52.3%	53,928	73.8%
Debt securities issued	8,811	9.8%	11,212	13.7%	10,773	14.7%
Deposits by credit and other financial institutions and the CBR	32,071	35.8%	27,757	34.0%	8,398	11.5%
Total interest expense	89,518	100.0%	81,679	100.0%	73,099	100.0%
Average rate on Interest- Bearing Liabilities⁽¹⁾	5.1%		5.5%		5.9%	

Note:

(1) Calculated as the ratio of total interest expense to average Interest-Bearing Liabilities. See "Selected Statistical Information".

The overall increase in CBM's interest expense during the periods under review mainly resulted from increases in interest expense on deposits by credit and other financial institutions and the CBR. The average interest rate paid by CBM on interest bearing liabilities decreased from 5.9% to 5.5% and further 5.1% for the years ended 31 December 2016, 2017 and 2018, respectively.

Interest Expense on Due to Customers

Interest expense on due to customers was the largest component of CBM's total interest expense during the periods under review, representing 54.3%, 52.3% and 73.8% of total interest expense for the years ended 31 December 2018, 2017 and 2016, respectively.

For the year ended 31 December 2018, interest expense on due to customers increased by RUB5,926 million, or 13.9%, to RUB48,636 million from RUB42,710 million for the year ended 31 December 2017. Interest expense increased mainly due to the general increase in due to customers by 35.1% to RUB1,272,175 million for 2018 as compared to RUB941,724 million for 2017, accompanied by an increase in CBR's key rate in the second half of 2018. The average interest rate on current accounts and

deposits by customers decreased from 5.3% in 2017 to 4.8% in 2018 following the general trend in the Russian economy towards lower interest rates.

For the year ended 31 December 2017, interest expense on due to customers decreased by RUB11,218 million, or 20.8%, to RUB42,710 million from RUB53,928 million for the year ended 31 December 2016. Interest expense decreased mainly because of falling interest rates in the Russian economy triggered by a decrease in CBR's key rate in the same period. CBM managed to benefit from declining rates and optimised its cost of funding due to relatively short contractual maturities of a material portion of deposits. The average interest rate on current accounts and deposits by customers decreased from 6.3% in 2016 to 5.3% in 2017 following the general trend in the Russian economy towards lower interest rates.

CBM also took steps to reduce its cost of funding. Retail deposits were traditionally a more "expensive" source of funding as compared to corporate deposits, but in 2017 the situation reversed and the cost of corporate deposits exceeded that of retail deposits. CBM maintained a relatively stable share of retail deposits in its deposit portfolio, with retail deposits comprising 38.3%, 36.4% and 29.5% of CBM's deposit portfolio as at 31 December 2016, 2017 and 2018, respectively. As at 31 December 2018, the total gross amount of due to customers to the top ten counterparties (or groups of related counterparties) was RUB769,258 million, or 60.5% of the Group's total gross amount of due to customers. As compared to RUB524,486 million, or 55.7%, in 2017.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 9.8%, 13.7% and 14.7% of total interest expense for the years ended 31 December 2018, 2017 and 2016, respectively.

For the year ended 31 December 2018, interest expense on debt securities issued decreased by RUB2,401 million, or 21.4%, to RUB8,811 million from RUB11,212 million as at 31 December 2017. The decrease in interest expense was due to the early redemption by CBM of its debt securities and an interest rate decrease on non-Rouble-denominated debt as a large portion of debt securities issued by CBM was denominated in U.S. dollars. One of the main factors contributing to the decrease in interest rate on non-Rouble denominated debt was the redemption of 2018 Eurobond with interest rate of 7.7% using the proceeds of the new issuance of 2023 Eurobond with interest rate of 5.5%. As a result, the average interest rate paid by CBM on debt securities issued decreased from 8.8% in 2017 to 7.7% in 2018.

For the year ended 31 December 2017, interest expense on debt securities issued increased by RUB439 million, or 4.1%, to RUB11,212 million from RUB10,773 million as at 31 December 2016. The average interest rate paid by CBM on debt securities issued reduced from 9.2% in 2016 to 8.8% in 2017 as interest rates generally declined. CBM was able to diversify and restructure its funding base by refinancing outstanding debt with new debt instruments that have more attractive interest rates

Interest Expense on Deposits by Credit and other Financial Institutions and the CBR

Interest expense on deposits by credit and other financial institutions and the CBR represented 35.8%, 34.0% and 11.5% of total interest expense for the years ended 31 December 2018, 2017 and 2016, respectively.

For the year ended 31 December 2018, interest expense on deposits by credit and other financial institutions and the CBR increased by RUB4,314 million, or 15.5%, to RUB32,071 million from RUB27,757 million for the year ended 31 December 2017, which in turn was a sharp increase of RUB19,359 million, or 230.5%, to RUB27,757 million from RUB8,398 million for the year ended 31 December 2016. These increases were due to an increase in the volume of direct repo transactions that correlates with the growth in reverse repo transactions to address the funding requirements to finance the growth of business, as well as diversification of the funding base. The average interest rate paid by CBM on deposits by credit and other financial institutions and the CBR amounted to 5.3%, 5.0% and 3.3% for the years ended 2018, 2017 and 2016, respectively.

Net Interest Income

Net interest income has historically been the largest component of CBM's operating income. The following table sets forth CBM's net interest income before charge for credit losses on debt financial assets for the years indicated.

	Year ended 31 December		
	2018	2017	2016
	RUB millions, except percentages		
Interest income calculated using the effective interest method..	133,287	122,358	113,398
Other interest income.....	4,646	4,601	-
Interest expense	89,518	(81,679)	(73,099)
Net interest income before charge for credit losses on debt financial assets.....	48,415	45,280	40,299
Net interest margin⁽¹⁾.....	2.6%	2.9%	3.3%
Net interest spread⁽²⁾.....	2.5%	2.9%	3.3%

Note:

- (1) This measure is an APM. Net interest margin is calculated as the ratio of net interest income before charge for credit losses on debt financial assets to average Interest-Earning Assets.
- (2) This measure is an APM. Net interest spread is defined the difference between the average yield (calculated as described under "Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data") earned on Interest-Earning Assets and the average rate paid (calculated as described under "Presentation of Financial and Other Information - Average Balance Sheet and Interest Rate Data") on Interest-Bearing Liabilities.

For the year ended 31 December 2018, net interest income before charge for credit losses on debt financial assets increased by RUB3,135 million, or 6.9%, to RUB48,415 million from RUB45,280 million for the year ended 31 December 2017, which in turn was an increase of RUB4,981 million, or 12.4%, to RUB45,280 million from RUB40,299 million for the year ended 31 December 2016. CBM's net interest margin was 2.6%, 2.9% and 3.3% for the years ended 31 December 2018, 2017 and 2016, respectively. A gradual decline in net interest margin in the periods under review is explained by the increase of share of liquid assets with lower income in CBM's asset mix (such as debt securities) as a result of its conservative approach to liquidity management and lending operations in response to the uncertain economic environment in Russia, as well as increased funding costs as a result of unfavourable interest rate environment.

Charge for Credit Losses on Loans to Customers

Charge for credit losses on loans to customers represents the provision charge for loans to customers during a given period. The following table sets forth the breakdown of CBM's charge for credit losses on debt financial assets for the years indicated.

	Year ended 31 December		
	2018	2017	2016
	RUB millions		
Charge for credit losses on loans to customers:			
Total loans to corporate customers	6,009	14,847	22,579
Auto loans.....	(13)	-	-
Mortgage loans	(60)	(178)	801
Credit card loans	45	155	237
Consumer loans	1,296	3,773	6,166
Total loans to individuals	1,268	3,750	7,204
Total charge for credit losses on loans to customers	7,277	18,597	29,783
Cost of risk	1.0%	2.5%	4.6%

For the year ended 31 December 2018, CBM recognised a charge for credit losses on loans to customers of RUB7,277 million, a decrease of RUB11,320 million, or 60.9%, from RUB18,597 million for the year ended 31 December 2017, which in turn was a decrease of RUB11,186 million, or 37.6%, from RUB29,783 million for the year ended 31 December 2016. These decreases in the charge for credit losses on debt financial assets and credit loss allowance is attributable to reduction of NPL loans and

qualitative improvement of CBM's loan portfolio, in particular through the sale of impaired loans in 2018.

The ratio of credit loss allowance on loans to NPLs fluctuated and was 260.0%, 253.7% and 263.3% as at 31 December 2018, 2017 and 2016, respectively. CBM's cost of risk ratio amounted to 1.0%, 2.5% and 4.6% in the years ended 31 December 2018, 2017 and 2016, respectively. The movements in cost of risk in the period under review were mainly driven by the general increase in the quality of CBM's loan portfolio, in particular through the sale of impaired loans.

Non-interest Income

The table below sets forth the components of CBM's non-interest income for the periods indicated.

	Year ended 31 December		
	2018	2017	2016
	RUB millions, except percentages		
Fee and commission income.....	15,829	15,510	13,394
Fee and commission expense.....	(3,483)	(3,002)	(2,247)
Net (loss)/gain on loans to customers at fair value through profit or loss.....	(5,611)	-	-
Net (loss)/gain on financial instruments at fair value through profit or loss.....	(189)	773	235
Net loss from sale and redemption of financial assets at fair value through other comprehensive income.....	(251)	-	-
Net realised gain/(loss) and impairment of available-for-sale assets.....	-	341	1,208
Foreign exchange gains	2,723	2,701	6,065
Impairment (losses)/recoveries on other non-financial assets, credit (losses)/recoveries on other financial assets and credit related commitments and other provisions	(2,895)	(264)	(778)
State deposit insurance scheme contributions	(1,906)	(1,286)	(920)
Operating lease income.....	81	1,634	1,252
Net income from disposal of subsidiaries	637	1,076	-
Other operating income/(expense).....	3,366	(593)	(549)
Non-interest income	8,301	16,890	17,660
Non-interest income as % of operating income	15.2%	38.8%	62.7%

Fee and Commission Income

The largest source of CBM's non-interest income is its fee and commission income. CBM's fee and commission income primarily comprises commissions generated by cash handling, plastic cards, guarantees and letters of credit, insurance contracts processing, settlements and wire transfers and other cash operations.

The following table sets forth the components of CBM's fee and commission income for the years indicated.

	Year ended 31 December					
	2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Plastic cards	2,414	15.3%	2,661	17.2%	2,384	17.8%
Settlements and wire transfers	2,642	16.7%	2,298	14.8%	1,755	13.1%
Guarantees and letters of credit.....	2,177	13.8%	2,246	14.5%	2,009	15.0%
Other cash operations ⁽¹⁾	2,556	16.1%	2,060	13.3%	1,655	12.4%
Cash handling ⁽²⁾	1,954	12.3%	2,031	13.1%	2,589	19.3%
Insurance contracts processing	2,324	14.7%	1,952	12.6%	1,932	14.4%
Currency exchange and brokerage commission	976	6.2%	1,340	8.6%	473	3.5%
Other	786	5.0%	922	5.9%	597	4.5%
Total fee and commission income	15,829	100.0%	15,510	100.0%	13,394	100.0%

Notes:

- (1) Includes ATM access fees, fees on recalculation and verification of bank notes and fees for preparation of cash for delivery to clients' cash offices.
- (2) Includes fees from cash handling and related services such as crediting of clients' cash to their bank accounts, calculation of cash amounts, delivery of bank cheques and delivery of fractional currency (bank notes and coins).

CBM's total fee and commission income increased by RUB319 million, or 2.1%, to RUB15,829 million for the year ended 31 December 2018 from RUB15,510 million for the year ended 31 December 2017. Increased competition made the expansion of fee and commission income more challenging. The structure of fee and commission income has remained stable with settlements and wire transfers, other cash operations, plastic cards, insurance contracts processing and guarantees and letters of credit fee and commission income being its main components. Currency exchange commission decreased by 27.2% due to the effect of a significant one-off currency transaction in the first half of 2017.

CBM's total fee and commission income increased by RUB2,116 million, or 15.8%, to RUB15,510 million for the year ended 31 December 2017 from RUB13,394 million for the year ended 31 December 2016. This increase was driven by the growth of almost all components of fee income, including, most prominently, brokerage fees generated by CBM's newly established investment business. Apart from that, significant contributions came from plastic card transactions due to growth of that business line and from settlements and wire transfers due to increased amounts of transactions processed by CBM. Guarantees and letters of credit generated more fees owing to higher demand for these services. Other cash operation fees rose, in particular, as a result of the development of CBM's network of payment terminals.

Fee and commission income grew moderately in 2018 and 2017 because of increased competition, which put pressure on pricing of fee-generating products.

Fee and Commission Expense

For the year ended 31 December 2018, fee and commission expense increased by RUB481 million, or 16.0%, to RUB3,483 million from RUB3,002 million for the year ended 31 December 2017. The increase was due to growth in settlements and wire transfers as a result of an increase in the volume of business and growth in expenses under payment card cashback and loyalty programmes.

For the year ended 31 December 2017, fee and commission expense increased by RUB755 million, or 33.6%, to RUB3,002 million from RUB2,247 million for the year ended 31 December 2016. This increase is primarily attributable to the growth in settlements and plastic cards as a result of the increased number of card transactions and, accordingly, a greater amount of commission paid to payment card systems.

Net Fee and Commission Income

For the reasons described above, for the year ended 31 December 2018, CBM had net fee and commission income of RUB12,346 million as compared to net fee and commission income of RUB12,508 million for the year ended 31 December 2017 and RUB11,147 million for the year ended 31 December 2016.

Net Loss on Loans to Customers at Fair Value through Profit or Loss

Net loss on loans to customers at fair value through profit or loss amounted to RUB5,611 million for the year ended 31 December 2018 and resulted from changes in the accounting policy due to the adoption of IFRS 9 and reflects changes in fair value of corporate loans to customers at fair value through profit or loss.

Net Gain/(Loss) on Financial Instruments at Fair Value Through Profit or Loss

For the year ended 31 December 2018, CBM had a net loss on financial instruments at fair value through profit or loss of RUB189 million as compared to a net gain of RUB773 million for the year ended 31 December 2017 and net gain of RUB235 million for the year ended 31 December 2016. CBM enters

into securities operations mainly for interest income, deployment of extra liquidity and servicing its clients by facilitating their trades. CBM does not engage in transactions with securities for speculative purposes.

Net loss from sale and redemption of financial assets at fair value through other comprehensive income

For the year ended 31 December 2018, CBM recorded a net loss from sale and redemption of financial assets at fair value through other comprehensive income of RUB251 million. There was no net loss from sale and redemption of financial assets at fair value through other comprehensive income in 2017 and 2016.

Net Realised Gain on Available-for-sale Assets

CBM's available-for-sale assets are government, municipal and corporate bonds. CBM had a net gain on available-for-sale securities of RUB341 million for the year ended 31 December 2017 and a net gain on available-for-sale securities of RUB1,208 million for the year ended 31 December 2016 mainly due to the changes in market valuation of the securities portfolio.

Net Foreign Exchange Gains/(Losses)

CBM's income or expense from net foreign exchange gains or losses primarily represents net gains or losses from currency transactions, net gains or losses on open foreign currency positions and the purchasing and selling by CBM of currency derivatives for hedging the currency risks of its clients. CBM generates income from net foreign exchange transactions where CBM's sale price for a particular instrument is higher than its purchase price, and typically incurs losses on its derivative transactions, which are hedging expenses incurred in order to limit CBM's foreign currency exposure and to manage its liquidity position. CBM does not engage in derivative transactions for speculative purposes.

CBM had a net foreign exchange gain of RUB2,723 million for the year ended 31 December 2018 as compared to a net foreign exchange gains of RUB2,701 million for the year ended 31 December 2017 and RUB6,065 million for the year ended 31 December 2016. The high net foreign exchange gains for the year ended 31 December 2016 as compared to the years ended 31 December 2017 and 2018 were mainly due to income generated from currency swap contracts, as well as from currency conversion operations conducted by CBM on behalf of its customers. These are one-off events that may not reoccur in the future. See "Risk Management – Market Risk – Currency Risk".

Impairment (Losses)/Recoveries on Other Non-Financial Assets, Credit (Losses)/Recoveries on Other Financial Assets and Credit Related Commitments and Other Provisions

CBM recorded losses on impairment on other non-financial assets and credit related commitments and other provisions of RUB2,895 million for the year ended 31 December 2018 as compared to losses of RUB264 million for the year ended 31 December 2017, mainly as a result of an increase in net charge for provisions for claims and other provisions, partially offset by an increase in net recovery for provisions for financial guarantees and credit related commitments.

State Deposit Insurance Scheme Contributions

State deposit insurance scheme contributions include amounts that CBM pays for membership in the state mandatory system of retail deposit insurance, and are assessed in proportion to the volume of due to retail customers. Such contributions amounted to RUB1,906 million in 2018, RUB1,286 million in 2017 and RUB920 million in 2016. The increases are explained by the growth of CBM's retail deposit portfolio.

Operating Lease Income

For the year ended 31 December 2018, CBM's operating lease income was RUB81 million as compared to RUB1,634 million and RUB1,252 million in the years ended 31 December 2017 and 2016, respectively. The significant decrease was due to the sale of CBM Ireland Leasing Limited in December 2017, CBM's subsidiary which leased aircraft acquired by CBM in 2015 as a result of enforcement of collateral under letters of credit.

Net Income from Disposal of Subsidiaries

In 2018, CBM recognised gain from disposal of a subsidiary in the amount of RUB637 million based on the sale of 100% share in its subsidiary “MKB-Leasing” to a third party for cash consideration of RUB1,550 million. In December 2017, CBM sold a 100% share in its non-core subsidiary CBM Ireland Leasing Limited to a third party for a consideration of U.S\$10,860 thousand. CBM recognised gain from disposal of a subsidiary in the amount of RUB1,076 million.

Other Operating Income/(Expense)

For the year ended 31 December 2018, CBM’s other operating income was RUB3,366 million as compared to other operating loss of RUB593 million and RUB549 million for the years ended 31 December 2017 and 2016, respectively. Increase in other operating income in 2018 was mainly due to income from operations with own securities (including income from redemption of loan participation notes due 2027 and perpetual Eurobonds) and obtained fees. The other operating loss recorded in 2017 and 2016 primarily reflected the devaluation of assets for sale and goodwill devaluation.

Operating Expense

The following table sets forth the principal components of CBM’s operating expense for the years indicated.

	Year ended 31 December					
	2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Salaries and employment benefits....	12,290	63.3%	9,516	56.8%	7,700	53.3%
Administrative expenses	6,085	31.3%	5,377	32.1%	5,260	36.4%
Depreciation of property and equipment	1,051	5.4%	1,863	11.1%	1,481	10.3%
Total operating expense.....	19,426	100.0%	16,756	100.0%	14,441	100.0%
Cost-to-income ratio⁽¹⁾		29.8%		26.8%		24.6%

Note:

- (1) This measure is an APM. Cost-to-income ratio is calculated as operating expense (excluding recovery of/(provision for) impairment of other assets and credit related commitments) divided by operating income (excluding charge for credit losses on debt financial assets).

For the year ended 31 December 2018, CBM’s operating expense increased by RUB2,670 million, or 15.9%, to RUB19,426 million from RUB16,756 million for the year ended 31 December 2017, which in turn was an increase of RUB2,315 million, or 16.0%, to RUB16,756 million from RUB14,441 million for the year ended 31 December 2016. These increases were primarily due to the increases in salaries and employment benefits and administrative expenses.

CBM’s cost-to-income ratio was 29.8%, 26.8% and 24.6% for the years ended 31 December 2018, 2017 and 2016, respectively. The moderate increase in the cost-to-income ratio in 2018 and 2017 was mainly driven by growth in salaries.

Salaries and Employee Benefits

	Year ended 31 December					
	2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Salaries	9,873	80.3%	7,642	80.3%	6,183	80.3%
Social security costs.....	2,417	19.7%	1,874	19.7%	1,517	19.7%
Total salaries and employment benefits.....	12,290	100.0%	9,516	100.0%	7,700	100.0%

Salaries and employee benefits increased by RUB2,774 million, or 29.2%, to RUB12,290 million for the year ended 31 December 2018 from RUB9,516 million for the year ended 31 December 2017, which

in turn was an increase of RUB1,816 million, or 23.6%, to RUB9,516 million for the year ended 31 December 2017 from RUB7,700 million for the year ended 31 December 2016. These increases were primarily due to salary increases resulting from inflation and an increasing competition in the market for qualified personnel. This increase is also partially attributable to the acquisition of the branch network of Sovietsky Bank by CBM and the respective transfer of such branches' employees onto CBM's payroll. CBM had 9,305 employees as at 31 December 2018, 7,733 employees as at 31 December 2017 and 8,274 employees as at 31 December 2016.

Administrative Expenses

	Year ended 31 December					
	2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Advertising and business development.....	1,335	21.9%	1,155	21.5%	907	17.2%
Occupancy	1,185	19.5%	1,035	19.2%	1,121	21.3%
Property maintenance	749	12.3%	707	13.1%	660	12.5%
Operating taxes	589	9.7%	666	12.4%	586	11.1%
Security	557	9.2%	577	10.7%	619	11.8%
Legal and consulting services	313	5.1%	222	4.1%	182	3.5%
Communications	298	4.9%	200	3.7%	185	3.5%
Write-off of low value fixed assets ..	265	4.4%	190	3.5%	336	6.4%
Computer maintenance and software expenses.....	187	3.1%	179	3.3%	164	3.1%
Property insurance	141	2.3%	175	3.3%	183	3.5%
Transport.....	151	2.5%	144	2.7%	123	2.3%
Loss on revaluation of buildings	279	4.6%	82	1.5%	69	1.3%
Other	36	0.6%	45	0.8%	125	2.4%
Administrative expenses.....	6,085	100.0%	5,377	100.0%	5,260	100.0%

For the year ended 31 December 2018, CBM's administrative expenses increased by RUB708 million, or 13.2%, to RUB6,085 million from RUB5,377 million for the year ended 31 December 2017, which in turn was an increase of RUB117 million, or 2.2%, to RUB5,377 million from RUB5,260 million for the year ended 31 December 2016. The increases reflect the expansion of CBM's corporate and retail banking activities, the diversification of the products and services offered by CBM to its customers, further development of branch network (including ATMs and payment terminals) and the growth of cash handling services provided to CBM's customers.

Advertising and business development. For the year ended 31 December 2018, CBM's advertising and business development expenses increased by RUB180 million, or 15.6%, to RUB1,335 million from RUB1,155 million for the year ended 31 December 2017, which in turn was an increase of RUB248 million, or 27.3%, to RUB907 million for the year ended 31 December 2016. CBM increased advertising expenses in 2018 and 2017 to diversify its funding base retail-wise. The advertising campaign resulted in a greater share of retail depositors in the funding base and a wider brand awareness.

Occupancy. For the year ended 31 December 2018, CBM's rent expenses increased by RUB150 million, or 14.5%, to RUB1,185 million from RUB1,035 million for the year ended 31 December 2017, which in turn was a decrease of RUB86 million, or 7.7%, to RUB1,035 million from RUB1,121 million for the year ended 31 December 2016. The 2018 increase mainly reflected the acquisition of the branch network of Sovietsky Bank by CBM, while the decrease in 2017 was primarily attributable to CBM's efforts on effective cost management and a decrease in the costs of renting offices.

Property maintenance. For the year ended 31 December 2018, property maintenance expenses increased by RUB42 million, or 5.9%, to RUB749 million from RUB707 million for the year ended 31 December 2017, which in turn was an increase of RUB47 million, or 7.1%, to RUB707 million from RUB660 million for the year ended 31 December 2016. The increase primarily resulted from the expansion of CBM's distribution network.

Operating taxes. For the year ended 31 December 2018, operating taxes decreased by RUB77 million, or 11.6%, to RUB589 million from RUB666 million for the year ended 31 December 2017, which in turn was an increase of RUB80 million, or 13.7%, to RUB666 million from RUB586 million for the year ended 31 December 2016. The dynamics of operating taxes in the periods under review primarily reflects VAT charges.

Security. For the year ended 31 December 2018, expenses relating to security decreased by RUB20 million, or 3.5%, to RUB557 million from RUB577 million for the year ended 31 December 2017, which in turn was a decrease of RUB42 million, or 6.8%, to RUB577 million from RUB619 million for the year ended 31 December 2016.

Depreciation of Property and Equipment

For the year ended 31 December 2018, depreciation of property and equipment decreased by RUB812 million, or 43.6%, to RUB1,051 million from RUB1,863 million for the year ended 31 December 2017, which in turn was an increase of RUB382 million, or 25.8%, to RUB1,863 million from RUB1,481 million for the year ended 31 December 2016. The decrease in 2018 mainly reflected the sale of CBM Ireland Leasing Limited, while the increase in 2017 was mainly attributable to depreciation of aircrafts.

Income Tax

Income tax comprises CBM's current income tax charge and changes in deferred income tax. Taxes (other than income taxes) such as property tax are recorded within administrative expenses. The following table sets forth the components of CBM's income tax expense for the years indicated.

	Year ended 31 December		
	2018	2017	2016
	RUB millions		
Current tax charge.....	3,025	2,891	5,096
Deferred taxation	4,820	3,223	(2,235)
Income tax expense.....	7,845	6,114	2,861

CBM's income tax expense was RUB7,845 million, RUB6,114 million and RUB2,861 million for the years ended 31 December 2018, 2017 and 2016, respectively. A corresponding fluctuation in income tax correlated with movements in profit before income taxes for the periods under review.

The statutory income tax rate for CBM was 20% in 2018, 2017 and 2016. The effective income tax rate differs from the statutory income tax rate due to differences in accounting policies for taxable income and expenses between RAS and IFRS standards. The effective income tax rate for CBM amounted to 22.4%, 22.8% and 20.8% in 2018, 2017 and 2016, respectively.

Profit for the Period

For the reasons described above, CBM's profit for the period was RUB27,224 million, RUB20,703 million and RUB10,874 million for the years ended 31 December 2018, 2017 and 2016, respectively.

Other Comprehensive Income/(Loss)

For the year ended 31 December 2018, CBM reported other comprehensive loss (net of income tax) of RUB3,274 million as compared to other comprehensive loss (net of income tax) of RUB202 million for the year ended 31 December 2017 and other comprehensive income (net of income tax) of RUB188 million for the year ended 31 December 2016. These changes reflect the one-off effects of revaluation reserves for debt instruments.

Financial Position

The following discussion of CBM's assets and liabilities should be read in conjunction with "Risk Management" and, in particular, with the data provided under "Risk Management - Credit Risk", "Risk Management - Market Risk" and "Risk Management - Liquidity Risk".

Total Assets

As at 30 September 2019, CBM had total assets of RUB2,184,199 million as compared to RUB2,145,927 million at 31 December 2018, RUB1,888,191 million as at 31 December 2017 and RUB1,567,969 million as at 31 December 2016. The increase in total assets by RUB38,272 million, or 1.8%, as at 30 September 2019 as compared to 31 December 2018 was mainly attributable to a RUB26,423 million increase in loans to customers. The increase in total assets by RUB257,736 million, or 13.7% as at 31 December 2018 as compared to 31 December 2017, was mainly driven by increases in cash and cash equivalents and investment financial assets, mainly representing the development of CBM's short-term repo business coupled with an increase in CBM's high-quality corporate and government bonds portfolio. The increase in total assets by RUB320,222 million, or 20.4%, as at 31 December 2017 as compared to 31 December 2016 is primarily attributable to the increases in cash and cash equivalents, trading financial assets and loans to customers.

The following table sets forth the principal components of CBM's total assets as at the dates set forth below.

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Cash and cash equivalents	829,613	38.0%	1,162,779	54.2%	934,033	49.5%	373,327	23.8%
Loans to customers	735,468	33.7%	709,045	33.0%	768,676	40.7%	626,535	40.0%
Due from credit and other financial institutions.....	346,349	15.9%	13,183	0.6%	16,369	0.9%	403,480	25.7%
Investment financial assets ⁽¹⁾	223,415	10.2%	214,481	10.0%	25,066	1.3%	45,903	2.9%
Trading financial assets ⁽²⁾	13,029	0.6%	15,665	0.7%	117,282	6.2%	83,909	5.3%
Obligatory reserves with the Central Bank of the Russian Federation.....	16,460	0.8%	13,065	0.6%	8,884	0.5%	7,287	0.5%
Investments in associates	2,350	0.8%	2,275	0.1%	-	-	-	-
Property and equipment..	9,860	0.5%	7,182	0.3%	7,866	0.4%	21,278	1.4%
Deferred tax asset	71	0.0%	113	0.0%	281	0.0%	-	-
Other assets.....	7,584	0.3%	8,139	0.4%	9,734	0.5%	6,250	0.4%
Total assets	2,184,199	100.0%	2,145,927	100.0%	1,888,191	100.0%	1,567,969	100.0%

Notes:

- (1) For the years ended 31 December 2017 and 2016, available-for-sale securities are presented under the *Investment financial assets* line item.
- (2) For the years ended 31 December 2017 and 2016, financial instruments at fair value through profit or loss are presented under the *Trading financial assets* line item.

Cash and Cash Equivalents

Cash and cash equivalents represent items that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value. As at 30 September 2019, CBM's cash and cash equivalents amounted to RUB829,613 million, representing a RUB333,166 million, or 28.7%, decrease as compared to 31 December 2018 on the backdrop of slight extension of the terms of reverse repo transactions which partly moved to due from credit and other financial institutions. As at 31 December 2018, CBM had cash and cash equivalents of RUB1,162,779 million as compared to RUB934,033 million as at 31 December 2017, representing an increase of 24.5%. As at 31 December 2017, CBM had cash and cash equivalents of RUB934,033 million as compared to RUB373,327 million as at 31 December 2016, representing an increase of 150.2%. The increases in 2018 and 2017 were mainly the result of the increases in deposits in banks and other financial institutions with maturities below one month. Such growth was mostly driven by CBM's increased reverse repo transactions activity in the interbank lending market pursuant to its liquidity management strategy.

Loans to Customers

Loans to customers (net of credit loss allowance) are one of the largest components of CBM's total assets, accounting for 33.7%, 33.0%, 40.7% and 40.0% of total assets as at 30 September 2019 and 31 December 2018, 2017 and 2016, respectively.

As at 30 September 2019, loans to customers (net of credit loss allowance) amounted to RUB735,468 million, representing a 3.7% increase from RUB709,045 million as at 31 December 2018. The increase in loans to customers in the first nine months of 2019 was mainly driven by organic growth of CBM's loan portfolio, both corporate and retail, in line with CBM's strategy.

As at 31 December 2018, loans to customers (net of credit loss allowance) amounted to RUB709,045 million, representing a 7.8% decrease from RUB768,676 million as at 31 December 2017. The decrease in loans to customers in 2018 was primarily attributable to the repayment of several sizeable loans extended in 2017 to corporate clients in the oil and gas sector, outpacing new loan origination within the same period due to CBM's shift to a more conservative loan origination policy. The decrease of loan portfolio in 2018 was also attributable to the settlement of several problem loans which were impaired but not overdue, thus improving the overall quality of CBM's loan portfolio.

As at 31 December 2017, loans to customers (net of credit loss allowance) amounted to RUB768,676 million, representing a 22.7% increase from RUB626,535 million as at 31 December 2016. The increase in loans to customers in 2017 as compared to 2016 is primarily attributable to a 29.1% increase in the corporate loan portfolio due to the extension of several sizeable loans to clients in the oil and gas sector, which were subsequently repaid in 2018.

Distribution of Loans by Economic Sectors

The following table sets out the distribution of CBM's total gross loans to customers as at the dates indicated:

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Total gross loans to individuals	104,839	13.6%	96,602	13.1%	87,711	10.7%	100,570	15.1%
Crude oil production and trading	211,693	27.4%	175,881	23.8%	182,716	22.3%	44,201	6.6%
Petroleum refining / production and trading	111,422	14.4%	140,819	19.0%	132,982	16.2%	72,484	10.9%
Property rental	64,575	8.4%	50,961	6.9%	47,187	5.8%	65,680	9.9%
Residential and commercial construction and development	59,819	7.7%	55,230	7.5%	55,611	6.8%	55,345	8.3%
Automotive, motorcycles and spare parts	53,604	6.9%	51,457	7.0%	53,294	6.5%	49,693	7.5%
Equipment leasing	35,392	4.6%	33,360	4.5%	5,147	0.6%	318	0.0%
Industrial chemicals	22,793	3.0%	30,558	4.1%	27,949	3.4%	1,453	0.2%
Financial companies	25,359	3.3%	17,920	2.4%	8,350	1.0%	20,881	3.1%
Food and farm products	15,527	2.0%	18,567	2.5%	40,947	5.0%	72,252	10.8%
Metallurgical	21,623	2.8%	24,783	3.3%	35,726	4.4%	46,230	6.9%
Services	16,482	2.1%	13,739	1.9%	32,229	3.9%	33,606	5.0%
Industrial equipment and machinery	7,085	0.9%	7,023	0.9%	25,649	3.1%	20,221	3.0%
Consumer electronics, appliances and computers ...	6,109	0.8%	8,424	1.1%	8,349	1.0%	7,823	1.2%
Clothing, shoes, textiles and sporting goods	5,494	0.7%	5,268	0.7%	6,467	0.8%	8,599	1.3%
Consumer chemicals, perfumes and hygiene products	3,568	0.5%	3,485	0.5%	2,299	0.3%	917	0.1%

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Transport infrastructure contractors.....	2,377	0.3%	1,968	0.3%	1,092	0.1%	5,042	0.8%
Industrial and infrastructure construction.....	2,272	0.3%	1,271	0.2%	15,977	2.0%	12,855	1.9%
Other	2,580	0.3%	2,815	0.4%	49,134	6.0%	48,568	7.3%
Total gross loans to corporate customers.....	667,774	86.4%	643,529	86.9%	731,105	89.3%	566,168	84.9%
Total gross loans to customers.....	772,613	100.0%	740,131	100.0%	818,816	100.0%	666,738	100.0%

The majority of CBM's loan portfolio consists of loans to corporate customers. As part of its strategy, CBM has broadened its focus to larger corporate clients and, to a lesser extent, to medium-sized enterprises in industry sectors more enduring to the economic conditions, such as oil and gas. During the periods under review, CBM has maintained a sizeable aggregate share of customers operating in the crude oil production and trading and petroleum refining sectors in its total loan portfolio, comprising 41.8% as at 30 September 2019, 42.8% as at 31 December 2018 and 38.6% as at 31 December 2017. Companies operating in these sectors, historically the strongest sectors of Russian economy, tend to generate stable cash flows sufficient for repayment of their debt obligations. See "*Risk Factors – Risks Relating to CBM's Business and Industry – The industry and key client concentration in CBM's loan and deposit portfolios could adversely affect CBM's business and financial condition*".

Distribution of Loans by Geographic Location of Borrower

As at 30 September 2019, 70.0% of CBM's net loans to customers were to borrowers registered in Russia as compared to 64.6% as at 31 December 2018, 83.4% as at 31 December 2017 and 80.6% as at 13 December 2016. The following table sets forth the distribution of CBM's loans by geographical location of the borrower as at the dates indicated:

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Russia.....	515,148	70.0%	458,374	64.6%	640,752	83.4%	505,266	80.6%
OECD	97,558	13.3%	127,983	18.1%	80,744	10.5%	50,452	8.1%
Other non-OECD	122,762	16.7%	122,688	17.3%	47,180	6.1%	70,817	11.3%
Total net loans to customers.....	735,468	100.00%	709,045	100.0%	768,676	100.0%	626,535	100.0%

Distribution of Loans by Maturity

Of CBM's net loan portfolio as at 30 September 2019, RUB438,810 million, or 59.7%, had a maturity of more than one year, RUB84,087 million, or 11.4%, had a maturity profile of between six months and one year, RUB108,777 million, or 14.8%, had a maturity of between three months and six months and RUB91,946 million, or 12.5%, had a maturity of between one day and three months.

Of CBM's net loan portfolio as at 31 December 2018, RUB373,296 million, or 52.6%, had a maturity of more than one year, RUB115,452 million, or 16.3%, had a maturity profile of between six months and one year, RUB121,229 million, or 17.1%, had a maturity of between three months and six months and RUB91,692 million, or 12.9%, had a maturity of between one day and three months.

Of CBM's net loan portfolio as at 31 December 2017, RUB414,402 million, or 53.9%, had a maturity of more than one year (of which RUB42,167 million, or 10.2%, had a maturity of over 5 years), RUB88,109 million, or 11.5%, had a maturity profile of between six months and one year, RUB51,699 million, or 6.7%, had a maturity of between three months and six months, and RUB203,272 million, or 26.4%, had a maturity of between one day and three months.

Of CBM's net loan portfolio as at 31 December 2016, RUB323,355 million, or 51.6%, had a maturity of more than one year (of which RUB69,160 million or 21.4% had a maturity of over 5 years), RUB82,226 million, or 13.1%, had a maturity profile of between six months and one year, RUB86,461 million, or 13.8%, had a maturity of between three months and six months and RUB128,181 million, or 20.5%, had a maturity of between one day and three months. See "Risk Management – Liquidity Risk".

Distribution of Loans by Status

Non-performing loans, or NPLs, represent loans with payments of principal and/or interest overdue by more than 90 days. CBM had gross NPLs in the amount of RUB28,495 million, RUB11,954 million, RUB19,761 million and RUB15,269 million as at 30 September 2019 and 31 December 2018, 2017 and 2016, respectively. The level of CBM's NPLs as a percentage of total gross loans to customers was 3.7%, 1.6%, 2.4% and 2.3% as at 30 September 2019 and 31 December 2018, 2017 and 2016, respectively. NPLs in CBM's corporate loan portfolio accounted for 3.7% of gross loans to corporate customers as at 30 September 2019, as compared to 1.2% as at 31 December 2018, 2.0% as at 31 December 2017 and 1.4% as at 31 December 2016. NPLs in CBM's retail loan portfolio accounted for 3.7% of gross loans to individuals as at 30 September 2019, as compared to 4.3% as at 31 December 2018, 5.6% as at 31 December 2017 and 7.3% as at 31 December 2016. As at 30 September 2019, NPLs accounted for 4.1%, 2.1% and 5.5% of CBM's gross cash loans, gross mortgage loans and gross credit card loans, respectively.

As at 30 September 2019, NPLs increased to RUB28,495 million from RUB11,954 million as at 31 December 2018 as result of deteriorated financial condition of a large corporate borrower from the oil and gas sector, which was transferred to credit impaired lifetime category. As at 31 December 2018, NPLs decreased to RUB11,954 million from RUB19,761 million as at 31 December 2017, which was driven by, on the one hand, positive macroeconomic trends and, on the other hand, CBM's efficient recovery work with non-performing borrowers. As at 31 December 2017, NPLs increased to RUB19,761 million from RUB15,269 million as at 31 December 2016 mainly as a result of deteriorated financial condition of a large borrower from the industrial construction sector, while the rest of the portfolio showed a positive NPLs trend.

Past Due Loans

CBM classifies loans to customers that are overdue (with payments that are overdue at least for one day) based on the number of days of delay in repayment.

The ageing analysis (by days of delay in repayment) of past due loans to customers by class as at 30 September 2019 is presented in the table below (on a gross basis).

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
RUB millions							
Loans to corporate clients	-	-	1,532	1,993	14,410	8,204	26,139
Loans to individuals, <i>of which</i>	1,463	578	436	1,116	1,780	992	6,365
Cash loans	1,277	508	373	958	1,557	669	5,342
Mortgage loans.....	143	70	31	94	124	275	737
Credit card loans	43	-	31	62	98	45	279
Auto loans	-	-	1	2	1	3	7
Total loans to customers past due..	1,463	578	1,968	3,109	16,190	9,196	32,504

The ageing analysis (by days of delay in repayment) of past due loans to customers by class as at 31 December 2018 is presented in the table below (on a gross basis).

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
RUB millions							
Loans to corporate clients	17,149	3,131	901	1,811	2,912	3,083	28,987

Loans to individuals, <i>of which</i>	1,108	483	338	982	1,891	1,275	6,077
Cash loans	883	400	295	722	1,646	818	4,764
Mortgage loans.....	222	54	18	208	160	412	1,074
Credit card loans	-	28	25	49	83	44	229
Auto loans	3	1	-	3	2	1	10
Total loans to customers past due.	18,257	3,614	1,239	2,793	4,803	4,358	35,064

The ageing analysis (by days of delay in repayment) of past due loans to customers by class as at 31 December 2017 is presented in the table below (on a gross basis).

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
RUB millions							
Loans to corporate clients	3,699	2,603	863	7,898	3,095	3,855	22,013
Loans to individuals, <i>of which</i>	1,106	652	471	1,007	2,239	1,667	7,142
Auto loans	2	2	1	9	12	9	35
Mortgage loans.....	185	75	81	128	383	762	1,614
Credit card loans	-	33	18	52	93	38	234
Other loans to individuals	919	542	371	818	1,751	858	5,259
Total loans to customers past due	4,805	3,255	1,334	8,905	5,334	5,522	29,155

The ageing analysis (by days of delay in repayment) of past due loans to customers by class as at 31 December 2016 is presented in the table below (on a gross basis).

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 360 days	More than 360 days	Total
RUB millions							
Loans to corporate clients	534	163	98	212	2,947	4,789	8,743
Loans to individuals, <i>of which</i>	1,323	1,047	866	1,332	3,266	2,724	10,558
Auto loans	16	8	9	9	33	14	89
Mortgage loans.....	182	44	54	176	415	1,387	2,258
Credit card loans	-	25	20	54	101	71	271
Other loans to individuals	1,125	970	783	1,093	2,717	1,252	7,940
Total loans to customers past due	1,857	1,210	964	1,544	6,213	7,513	19,301

Credit Loss Allowance

The following table sets forth an analysis of the changes in CBM's credit loss allowance for the periods indicated.

	Nine-month period ended 30 September				Year ended 31 December			
	2019	2018	2017	2016	2019	2018	2017	2016
Balance at the beginning of the period,								
<i>of which</i>	31,086	51,521	40,203	36,874				
Auto loans to individuals	4	22	54	114				
Mortgage loans to individuals.....	294	683	1,127	902				
Credit card loans to individuals.....	244	310	239	545				
Cash loans	4,926	6,107	6,085	7,530				
Corporate clients	25,618	44,399	32,698	27,783				
Net (recovery) charge, of which	3,317	1,666	18,597	29,783				
Auto loans to individuals	(12)	(13)	-	0				
Mortgage loans to individuals.....	(94)	(60)	(178)	801				
Credit card loans to individuals.....	159	45	155	237				
Other loans to individuals	2,699	1,296	3,773	6,166				
Corporate clients	565	398	14,847	22,579				
Financial assets that have been derecognised due to modification	(1,218)	-	-	-				
Corporate clients.....	(1,218)	-	-	-				

	Nine-month period ended 30 September	Year ended 31 December		
	2019	2018	2017	2016
Repayment of originated credit-impaired assets in the amount exceeding expected cash flows including ECL at origination	7,633	-	-	-
Corporate clients.....	7,633	-	-	-
Transfer to assets held for sale, of which	-	(7,700)	-	-
Corporate clients	-	(7,700)	-	-
Unwinding of discount, of which.....	1,100	1,637	-	-
Auto loans to individuals	-	-	-	-
Mortgage loans to individuals.....	9	27	-	-
Credit card loans to individuals.....	23	35	-	-
Cash loans	289	546	-	-
Corporate clients	779	1,029	-	-
Disposal of subsidiary, of which	-	(768)	-	-
Corporate clients	-	(768)	-	-
Foreign exchange and other movements, of which	(619)	464	-	-
Auto loans to individuals	-	-	-	-
Mortgage loans to individuals.....	(2)	6	-	-
Credit card loans to individuals.....	(1)	-	-	-
Cash loans	(2)	-	-	-
Corporate clients	(614)	458	-	-
Net write-offs, of which	(4,155)	(15,374)	(8,660)	(26,454)
Auto loans to individuals	12	(5)	(28)	(60)
Mortgage loans to individuals.....	(2)	(362)	(288)	(577)
Credit card loans to individuals.....	(117)	(147)	(192)	(544)
Cash loans	(2,687)	(3,022)	(5,775)	(7,610)
Corporate clients	(1,361)	(12,198)	(2,377)	(17,663)
Balance at the end of the period.....	37,144	31,086	50,140	40,203

The significant increase in credit loss allowance in 2017 as compared to 2016 reflected a deterioration in the quality of CBM's loan portfolio originated prior to the commencement of economic instability in 2014, and such conservative provisioning was in line with the then prevailing market trend. In addition, this significant increase is also explained by a few corporate defaults by large corporate borrowers of CBM. As a result of such defaults, the loans were either restructured or written off. In turn, the decrease in the balance of credit loss allowance from RUB50,140 million as at 31 December 2017 to RUB31,086 million as at 31 December 2018 is attributable to reduction of NPL loans and qualitative improvement of CBM's loan portfolio. The increase of credit loss allowance in the nine-month period ended 30 September 2019 is mainly attributable to the deteriorated financial condition of a large corporate borrower from the oil and gas sector in the nine-month period ended 30 September 2019. This corporate borrower is well provisioned and CBM does not expect any negative impact on net income from this borrower.

Starting from mid-2016, the loan book quality recovered notably and the increase in credit loss allowance was generally in line with new loans origination. CBM's management believes that the level of credit loss allowance as at 30 September 2019 covers all significant overdue loans. CBM's ratio of NPL coverage by credit loss allowance was 130.4% as at 30 September 2019, 260.0% as at 31 December 2018, 253.7% as at 31 December 2017 and 263.3% as at 31 December 2016. See – “*Presentation of Financial Information – Non-IFRS Measures*”.

As at 30 September 2019, credit loss allowance for retail loans calculated as a proportion of CBM's gross retail loan portfolio stood at 5.5%, and amounted to 6.7% for cash loans, 0.9% for mortgage loans and 8.3% for credit card loans (in each case calculated as a percentage of the respective gross loan portfolios).

As at 30 September 2019, the NPL coverage ratio of CBM's retail loan portfolio was 148%, with the NPL coverage ratios of CBM's cash loan portfolio, mortgage loan portfolio and credit card loan portfolio comprising 164%, 42% and 150%, respectively.

Due from Credit and Other Financial Institutions

As at 30 September 2019, CBM had due from credit and other financial institutions of RUB346,349 million as compared to RUB13,183 million as at 31 December 2018. The sharp increase in due from credit and other financial institutions is mainly attributable to slight extension of the terms of reverse repo transactions from 1 month, which partly moved from cash and cash equivalents.

As at 31 December 2018, CBM had due from credit and other financial institutions of RUB13,183 million as compared to RUB16,369 million as at 31 December 2017 and RUB403,480 million as at 31 December 2016. The decrease in due from credit and other financial institutions as at 31 December 2018 is mainly attributable to a decrease in maturity of CBM's repo transactions, resulting in a large portion of repo transactions (repo transactions with a maturity of less than 30 days) being recognised as cash and cash equivalents. The decrease in deposits in credit and other financial institutions as at 31 December 2017 as compared to 31 December 2016 was mainly attributable to a decrease in the volume of reverse repo agreements with maturities exceeding one month, from RUB397.6 billion as at 31 December 2016 to RUB8.4 billion as at 31 December 2017.

As at 31 December 2018, the total amount of due from credit and other financial institutions was attributable to seven borrowers or groups of related borrowers, as compared to eight borrowers as at 31 December 2017.

Securities Portfolio and Derivatives

CBM's securities portfolio consists primarily of Russian government securities, corporate bonds and Eurobonds of top-tier Russian companies with solid credit ratings. As at 30 September 2019, CBM's securities portfolio totalled RUB236,444 million as compared to RUB230,146 million as at 31 December 2018 and RUB142,348 million as at 31 December 2017. The increases in CBM's securities portfolio in the respective periods are primarily attributable to an increase in the volume of CBR bonds, government Eurobonds (OFZ) and high-quality corporate bonds, aimed at enhancing CBM's liquidity coverage ratio and enabling CBM to generate stable low-risk income.

During the periods under review CBM continued to invest into liquid securities included in the CBR Lombard List, so that it could derive liquidity on interbank market from CBR by selling securities directly or under repurchase contracts at any time.

Additionally, CBM's securities portfolio generates stable interest income while maintaining high asset quality, which is especially important in the current unstable macroeconomic environment. CBM's securities portfolio comprised 10.8%, 10.7%, 7.5% and 8.3% of CBM's total assets as at 30 September 2019 and 31 December 2018, 2017 and 2016, respectively. CBM classifies its securities portfolio into trading financial assets and investment financial assets. For details, see Note 3 to the Annual Financial Statements.

The following table sets forth information relating to financial assets held in each of the two categories set forth below as at the dates indicated.

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Trading financial assets ⁽¹⁾ ...	13,029	5.5%	15,665	6.8%	117,282	82.4%	83,909	64.6%
Investment financial assets..	223,415	94.5%	214,481	93.2%	25,066	17.6%	45,903	35.4%
Total securities portfolio...	236,444	100.0%	230,146	100.0%	142,348	100.0%	129,812	100.0%

Note:

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total

(1) Includes derivative financial instruments.

CBM's securities portfolio increased from RUB129,812 million as at 31 December 2016 to RUB142,348 million as at 31 December 2017, further to RUB230,146 million as at 31 December 2018 and further to RUB236,444 million as at 30 September 2019. The increase in securities portfolio as at 30 September 2019 as compared to 31 December 2018 was mainly driven by a RUB16,123 million increase in investment financial assets as fair value through profit or loss resulting from the increase of equity investments. The increase in securities portfolio as at 31 December 2018 as compared to 31 December 2017 is mainly attributable to a RUB99,533 million increase in debt instruments that are qualified to be pledged against borrowings from the CBR. Fluctuations over the years are in line with CBM's securities portfolio management policy. CBM's securities portfolio is primarily represented by debt securities of top-tier Russian companies with solid credit ratings, most of which are accepted as pledges against borrowings from the CBR. Thus, CBM's focus on the securities portfolio generally reflects CBM's strategy to increase the share of liquid assets with lower interest rates and lower risks in CBM's securities portfolio as a result of its conservative approach to liquidity management and lending operations in response to the uncertain economic environment in Russia.

The following table sets forth information relating to CBM's securities classified as trading financial assets as at the dates indicated.

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Corporate bonds.....	5,240	40.2%	6,320	40.3%	25,092	21.4%	67,725	80.7%
Pledged under sale and repurchase agreements	758	5.8%	2,756	17.6%	21,763	18.6%	6,544	7.8%
Corporate bonds	758	5.8%	2,756	17.6%	4,066	3.5%	6,276	7.5%
Russian Government eurobonds.....	—	—	—	—	16,850	14.4%	268	0.3%
OFZ.....	—	—	—	—	840	0.7%	—	—
Regional authorities and municipal bonds.....	—	—	65	0.4%	1,576	1.3%	4,298	5.1%
Derivative financial instruments.....	6,520	50.0%	4,636	29.6%	44,296	37.8%	2,549	3.0%
Federal loan bonds (OFZ bonds)	—	—	1,418	9.1%	16,506	14.1%	1,047	1.2%
Russian Government eurobonds	511	3.9%	470	3.0%	8,049	6.9%	1,745	2.1%
Total trading financial assets	13,029	100.0%	15,665	100.0%	117,282	100.0%	83,909	100.0%

As at 30 September 2019, CBM did not held any regional authorities and municipal bonds, whereas such bonds comprised 0.4%, 1.3% and 5.1% of the trading financial assets as at 31 December 2018, 2017 and 2016, respectively. The decrease in the share of regional authorities and municipal bonds in CBM's trading financial assets portfolio is primarily attributable to CBM's strategy to invest in higher-quality securities, such as corporate bonds of top-level companies

Investment financial assets includes securities that CBM intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The following table sets forth information relating to CBM's securities categorised as investment financial assets as at the dates indicated.

	As at 30 September		As at 31 December	
	2019		2018	
	RUB millions	% of total	RUB millions	% of total
Investment financial assets measured at fair value through other comprehensive income – debt instruments, including pledged under repurchase agreements	171,524	76.8%	174,960	81.6%
Investment financial assets measured at amortised cost, including pledged under repurchase agreements	35,648	16.0%	39,401	18.4%
Investment financial assets at fair value through profit or loss	16,243	7.3%	120	0.1%
Total investment financial assets	223,415	100.0%	214,481	100.0%

Property and Equipment

CBM's property and equipment consists of buildings, vehicles (including armoured cash handling vehicles), ATMs, payment terminals, computers and office equipment, furniture, aircraft, other property and construction in progress and assets subject to operating lease. CBM's property and equipment was RUB9,860 million, RUB7,182 million, RUB7,866 million and RUB21,278 million as at 30 September 2019 and 31 December 2018, 2017 and 2016, respectively. The decrease in property and equipment in 2017 was due to sale of CBM Ireland Leasing Limited, a subsidiary which operated leasing of aircrafts received by CBM as a collateral, in December 2017.

Other Assets

Other assets primarily include receivables, property held for sale, prepaid expenses and intangible assets. In 2016, the aircrafts leased by CBM Ireland Leasing Limited were reported under the "property and equipment" line item. Since 2017, due to the disposal of CBM Ireland Leasing Limited, the aircraft assets are no longer on the balance sheet of CBM.

Total Liabilities

The following table sets forth the principal components of CBM's total liabilities as at the dates indicated:

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Due to customers ...	1,269,029	63.9%	1,272,175	65.1%	941,724	55.1%	689,496	47.1%
Due to credit institutions	535,202	27.0%	552,930	28.3%	639,861	37.4%	381,624	26.1%
Financial liabilities measured at fair value through profit or loss.....	5,237	0.3%	6,253	0.3%	-	-	-	-
Debt securities issued	159,794	8.0%	105,305	5.4%	116,280	6.8%	137,203	9.4%
Deferred tax liability.....	5,505	0.3%	4,248	0.2%	3,779	0.2%	190	0.0%
Deposits by the Central Bank of the Russian Federation.	-	-	-	-	-	-	247,170	16.9%
Other liabilities	10,361	0.5%	13,843	0.7%	8,958	0.5%	8,885	0.5%
Total liabilities.....	1,985,128	100.0%	1,954,754	100.0%	1,710,602	100.0%	1,464,568	100.0%

As at 30 September 2019, CBM had total liabilities of RUB1,985,128 million, an increase of RUB30,374 million, or 1.6% as compared to 31 December 2018, which mainly resulted from an increase in debt securities issued. As at 31 December 2018, CBM had total liabilities of RUB1,954,754 million, an increase of RUB244,152 million, or 14.3% as compared to the position as at 31 December 2017. This increase was primarily due to an increase in due to customers, partially offset by a decrease in due to credit institutions. As at 31 December 2017, CBM had total liabilities of RUB1,710,602 million, an

increase of RUB246,034 million, or 16.8%, from RUB1,464,568 million as at 31 December 2016. This increase was primarily due to the increase in due to credit institutions and due to customers.

Due to Customers

The largest component of CBM's liabilities, and thus its main source of funding, is current accounts and deposits by customers. The following table sets out the principal components of CBM's due to customers as at the dates indicated:

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Total due to individuals ..	459,242	36.2%	375,076	29.5%	291,217	30.9%	248,654	36.1%
Total due to corporate customers	809,787	63.8%	897,099	70.5%	650,507	69.1%	440,842	63.9%
Total due to customers..	1,269,029	100.0%	1,272,175	100.0%	941,724	100.0%	689,496	100.0%

Due to corporate customers represented 63.8%, 70.5%, 69.1% and 63.9% of CBM's total due to customers as at 30 September 2019 and 31 December 2018, 2017 and 2016, respectively.

Due to customers decreased by RUB3,146 million, or 0.2%, as at 30 September 2019 as compared to 31 December 2018. This decrease was mainly driven by a 9.7% decline in corporate deposit portfolio as a result of outflow of pension funds owing to the tighter rating requirements in the first three months of 2019. At the same time due to individuals increased by 22.4% to RUB 459.2 billion during the same period due to high reputation of CBM and competitive interest rates which is in line with the Bank's strategy. Due to customers increased by RUB330,451 million, or 35.1%, as at 31 December 2018 as compared to 31 December 2017. This increase partially resulted from the transfer of retail deposits held by Soviety Bank to CBM's balance sheet and further enhancement of CBM's retail product range with a focus on remote services, as well as from the organic growth in the corporate portfolio, which diversified CBM's funding base. Total due to individual customers represented 29.5% of CBM's total due to customers as at 31 December 2018. Due to customers increased by RUB252,228 million, or 36.6%, to RUB941,724 million as at 31 December 2017 from RUB689,496 million as at 31 December 2016. The increase in due to customers as at 31 December 2017 as compared to 31 December 2016 is in line with CBM's strategy to increase its customer funding, as it is a strong source of liquidity for CBM.

For information on the maturities of CBM's due to customers, see "Risk Management – Liquidity Risk".

Due to Credit Institutions

Due to credit institutions include payables under repurchase agreements or collateralised loans, term deposits, current accounts, subordinated debts and syndicated loans. Due to credit institutions represented 27.0%, 28.3%, 37.4% and 26.1% of total liabilities as at 30 September 2019 and 31 December 2018, 2017 and 2016, respectively. The following table provides a breakdown of CBM's due to credit institutions as at the dates indicated:

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Payables under repurchase agreements	472,380	88.3%	487,959	88.2%	534,452	83.5%	247,011	64.7%
Term deposits.....	8,487	1.6%	15,827	2.9%	57,252	9.0%	129,999	34.1%
Syndicated debt.....	27,729	5.2%	21,799	3.9%	29,487	4.6%	—	—
Current accounts	26,606	5.0%	27,345	4.9%	18,670	2.9%	3,991	1.0%
Subordinated debt	—	—	—	—	—	—	623	0.2%
Total due to credit institutions	535,202	100.0%	552,930	100.0%	639,861	100.0%	381,624	100.0%

Due to credit institutions decreased by RUB17,728 million, or 3.2%, as at 30 September 2019 as compared to 31 December 2018, mainly a result of decline in payables under repurchase agreements and term deposits. Due to credit institutions decreased by RUB86,931 million, or 13.6%, to RUB552,930 million as at 31 December 2018 from RUB639,861 million as at 31 December 2017, which in turn was an increase of RUB258,237 million, or 67.7%, to RUB639,861 million as at 31 December 2017 from RUB381,624 million as at 31 December 2016. The decrease in 2018 was attributable to a decrease in payables under repurchase agreements and decrease in term deposits mainly caused by the lack of necessity to attract additional resources in the interbank market, partially offset by an increase in current accounts. The sharp growth in deposits by credit institutions as at 31 December 2017 as compared to 31 December 2016 was mainly attributable to repo transactions liabilities increasing from RUB247 billion as at 31 December 2016 to RUB534 billion as at 31 December 2017 as a result of active interbank market operations, benefiting from favourable interest rates to finance the expansion of corporate lending and reverse repo transactions.

Deposits by the CBR

CBM did not have any deposits by the CBR as at 30 September 2019, 31 December 2018 and 31 December 2017 as compared to deposits by the CBR of RUB247,170 million as at 31 December 2016. Due to favourable market conditions in 2017 and 2018 and in light of CBM's stable ratings and reputation, CBM attracted short-term funding on the interbank market at lower cost than deposits by the CBR.

Debt Securities Issued

CBM issues debt securities in the domestic and international markets to fund the ongoing growth of its business operations. Debt securities issued represented 8.0%, 5.4%, 6.8% and 9.4% of CBM's total liabilities as at 30 September 2019 and 31 December 2018, 2017 and 2016, respectively. Fluctuation of balances occurred primarily due to the replacement of matured debt instruments by newly issued securities, the new debt issues as well as revaluation of U.S.\$-denominated Eurobonds, reflecting changes in the RUB/U.S.\$ exchange rate. The following table sets forth the principal components of CBM's debt securities issued as at the dates indicated:

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Promissory notes issued at nominal value.....	-	-	-	-	-	-	1,145	0.8%
Total bonds issued, of which ⁽¹⁾ ...	159,794	100.0%	105,305	100.0%	116,280	100.0%	136,058	99.2%
Eurobonds	156,147	97.7%	96,280	91.4%	89,156	76.7%	97,451	71.0%
Other bonds	3,647	2.3%	9,025	8.6%	27,124	23.3%	38,607	28.1%
Total debt securities issued.....	159,794	100.0%	105,305	100.0%	116,280	100.0%	137,203	100.0%

Note:

- (1) Includes RUB42,148 million, RUB44,171 million, RUB49,631 million and RUB40,806 million in subordinated bonds as at 30 September 2019 and 31 December 2018, 2017 and 2016, respectively.

For information on debt securities issued by CBM, please see Note 20 to the 2018 Annual Financial Statements.

Other Liabilities

Other liabilities amounted to RUB10,361million, RUB20,096 million, RUB8,958 million and RUB8,885 million as at 30 September 2019 and 31 December 2018, 2017 and 2016, respectively. Other liabilities consist of other financial liabilities (mainly derivative financial instruments, payables under cession agreements and payables to employees) and other non-financial liabilities (mainly allowance for credit related commitments and allowance for other commitments). While other liabilities were relatively stable as at 31 December 2017 and 2016, they increased in 2018 primarily due to an increase

in derivative financial instruments, allowance for credit related commitments and allowance for other commitments, as well as organic growth of other components as a result of the overall growth of CBM's business, including due to the introduction of new loyalty and cashback programmes in 2018.

Equity

The following table sets forth CBM's equity as at the dates indicated:

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
	RUB millions			
Share capital.....	27,942	27,942	27,942	24,742
Additional paid-in capital	46,247	46,247	46,247	35,047
Perpetual debt issued	43,084	46,691	40,320	—
Revaluation surplus for buildings	490	490	582	688
Fair value reserve for securities	774	(1,834)	394	451
Currency translation reserve	—	—	—	39
Change in fair value of financial liability attributable to changes in the credit risk.....	10	—	—	—
Retained earnings.....	80,524	71,637	62,104	42,434
Total equity.....	199,071	191,173	177,589	103,401

CBM's total equity increased by RUB7,898 million, or 4.1%, as at 30 September 2019 as compared to 31 December 2018 as a result of an increase in retained earnings. CBM's total equity increased by RUB13,584 million, or 7.6%, as at 31 December 2018 as compared to 31 December 2017. The increase in 2018 as compared to 2017 was primarily due to an increase in retained earnings and perpetual debt issued as a result of placement of RUB5 billion perpetual bonds on the domestic market. The increase in 2017 as compared to 2016 was primarily due to perpetual debt issued in the form of U.S.\$700 million perpetual Eurobonds.

Funding

CBM's funding base relies primarily on deposits from retail and corporate customers. Other sources of funding include its issues of Rouble-denominated bonds and Eurobonds, funds raised on the Russian interbank market, funds raised from international financial institutions and in the form of syndicated loans from foreign banks. CBM also has access to funding from the CBR on a secured and unsecured basis.

CBM's funding strategy is to continue to develop a diversified funding base in order to achieve an optimal balance between its own capital, domestic and international borrowings to cover the growing needs of CBM's business, both in terms of currency and maturity.

The following table sets out CBM's sources of funding as at the dates indicated:

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Due to customers								
Total due to customers.....	1,269,029	64.6%	1,272,175	65.9%	941,724	55.5%	689,496	57.1%
Due to credit institutions								
Payables under repurchase agreements or collateralised loans.....	472,380	24.1%	487,959	25.3%	534,452	31.5%	247,011	20.4%
Current accounts	8,487	0.4%	27,345	1.4%	18,670	1.1%	3,991	0.3%
Syndicated debt.....	27,729	1.4%	21,799	1.1%	29,487	1.7%	—	—
Term deposits.....	26,606	1.4%	15,827	0.8%	57,252	3.4%	129,999	10.8%
Subordinated debt	—	—	—	—	—	—	623	0.1%
Total due to credit institutions	535,202	27.3%	552,930	28.6%	639,861	37.7%	381,624	31.6%

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Debt securities issued								
Bonds	117,646	6.0%	61,134	3.2%	66,649	3.9%	95,252	7.8%
Subordinated bonds.....	42,148	2.1%	44,171	2.3%	49,631	2.9%	40,806	3.4%
Promissory notes issued.....	—	—	—	—	—	—	1,145	0.1%
Total debt securities issued.....	159,794	8.1%	105,305	5.5%	116,280	6.8%	137,203	11.3%
Total funding	1,964,025	100.0%	1,930,410	100.0%	1,697,865	100.0%	1,208,323	100.0%

CBM's main source of funding is term deposits of corporate and retail customers. For further information on CBM's sources of funding, see “—*Financial Condition—Total Liabilities—Due to Customers*”.

Analysis by Segment

CBM's business segments are defined on the basis of the organisational structure of CBM. As discussed above under “—*Segmentation*”, CBM operates its business around its corporate and retail banking operations, and its other segments operate primarily in support of these operations; expenses not allocated to a particular segment consist primarily of expenses related to administrative and support functions.

Corporate banking accounted for the largest share of CBM's revenue for the nine-month period ended 30 September 2019, comprising 37.8% of CBM's revenue for the period, as compared to 35.3%, 42.6% and 54.9% for the years ended 31 December 2018, 2017 and 2016, respectively. In turn, retail banking represented 30.9% of CBM's revenue for the nine-month period ended 30 September 2019, as compared to 22.7%, 22.7% and 24.6% for the years ended 31 December 2018, 2017 and 2016, respectively. Treasury banking (which includes investment banking operations) accounted for 27.9% of CBM's revenue for the nine-month period ended 30 September 2019, as compared to 38.6%, 31.3% and 17.2% of CBM's revenue for the years ended 31 December 2018, 2017 and 2016, respectively. The revenue of CBM's treasury segment before intersegment eliminations (adjusted for revenue (expenses) from other segments) comprised RUB54.6 billion and RUB51.6 billion for the nine-month periods ended 30 September 2019 and 2018, respectively, and amounted to RUB72.9 billion, RUB48.0 billion and RUB37.9 billion for the years ended 31 December 2018, 2017 and 2016, respectively. Cash operations (including cash handling business) represented 3.4% of CBM's revenue for the nine-month period ended 30 September 2019, as compared to 3.5%, 3.3% and 3.4% for the years ended 31 December 2018, 2017 and 2016, respectively. See “—*Business – Treasury*” and “—*Business – Corporate Banking*”. For additional information, see Note 22 to the Interim Financial Statements.

Contingencies and Commitments

CBM enters into certain financial instruments with off-balance sheet risk in the ordinary course of business to meet its clients' needs. These instruments, which include guarantees and letters of credit, undrawn loan commitments to extend credits, other contingent liabilities, involve varying degrees of credit risk and are not reflected in CBM's consolidated statement of financial position. CBM uses similar credit approval policies in undertaking off-balance sheet credit related commitments as it does for its on-balance sheet operations. See “*Risk Management – Credit Risk*”.

The following table sets forth CBM's credit-related commitments as at the dates indicated:

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Guarantees and letters of credit.	178,069	86.8%	152,507	79.7%	89,475	77.8%	101,612	79.0%
Undrawn loan commitments	20,175	9.9%	34,027	17.8%	25,436	22.1%	26,677	20.7%
Other contingent liabilities.....	6,825	3.3%	4,886	2.5%	17	0.1%	322	0.3%

	As at 30 September		As at 31 December					
	2019		2018		2017		2016	
	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total	RUB millions	% of total
Total credit-related commitments	205,069	100.0%	191,420	100.0%	114,928	100.0%	128,611	100.0%

Capital Adequacy

The following table sets forth the capital adequacy ratio of CBM calculated in accordance with the Basel III requirements as adopted in the Russian Federation, on the basis of IFRS data. See Note 20 to the Interim Financial statements and Note 28 to the Annual Financial Statements.

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
	RUB millions			
Tier 1 capital				
Share capital and additional paid-in capital.....	74,189	74,189	74,189	59,789
Retained earnings.....	80,526	71,637	62,104	42,434
Intangible assets	(630)	(417)	(484)	(314)
Core Tier 1.....	154,085	145,409	135,809	101,909
<i>Additional capital</i>				
Perpetual debt issued.....	43,084	46,691	40,320	-
Total Tier 1 capital.....	197,169	192,100	176,129	101,909
Tier 2 capital				
Revaluation surplus for buildings	490	490	582	688
Fair value reserve for securities	774	(1,834)	394	451
<i>Subordinated debt</i>				
Subordinated loans.....	61,154	63,072	56,055	38,464
Subordinated bonds.....	40,695	43,563	41,257	18,294
Total Tier 2 capital.....	103,113	105,291	98,288	57,897
Total capital.....	300,282	297,391	274,417	159,806
Risk-weighted assets				
Banking book.....	961,877	922,193	943,174	869,092
Trading book.....	411,638	322,582	133,987	138,703
Operational risk	113,602	113,602	97,409	77,593
Total risk weighted assets.....	1,487,117	1,358,377	1,174,570	1,085,388
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	20.2	21.9	23.4	14.7
Total core Tier 1 capital expressed as a percentage of risk-weighted assets (Core Tier 1 capital ratio) (%).....	10.4	10.7	11.6	9.4
Total Tier 1 capital expressed as a percentage of risk-weighted assets (Tier 1 capital ratio) (%).....	13.3	14.1	15.0	9.4

CBM's Total Tier 1 capital increased by RUB5,069 million, or 2.6%, to RUB197,169 million as 30 September 2019 from RUB192,100 million as at 31 December 2018. This increase was mainly attributable to an increase in retained earnings. CBM's Total Tier 1 capital increased by RUB15,971 million, or 9.1%, to RUB192,100 million as at 31 December 2018 from RUB176,129 million as at 31 December 2017. This increase was primarily due to an increase in retained earnings and perpetual debt issued. CBM's Tier 1 capital increased from RUB101,909 million as at 31 December 2016 to RUB176,129 million as at 31 December 2017 mainly due to the perpetual debt issued, as well as increases in retained earnings and issue of additional shares through a secondary public offering on the Moscow Exchange.

CBM's Tier 2 capital decreased by RUB2,178 million, or 2.1%, to RUB103,113 million as at 30 September 2019 from RUB105,291 million as at 31 December 2018. This decrease resulted from a

decrease in CBM's subordinated debt due to currency revaluation as a result of appreciation of the Rouble. CBM's Tier 2 capital increased by RUB7,003 million, or 7.1%, to RUB105,291 million as at 31 December 2018 from RUB98,288 million as at 31 December 2017. This increase was due to an increase in subordinated loans, which was partially offset by a decrease in fair value reserve for securities. CBM's Tier 2 capital increased by RUB40,391 million, or 69.8%, to RUB98,288 million as at 31 December 2017 from RUB57,897 million as at 31 December 2016. This increase was due to the placement of subordinated Eurobonds in the aggregate principal amount of U.S.\$1.3 billion and the attracting of subordinated deposits in the aggregate amount of RUB 22.0 billion.

In addition to Basel III capital adequacy ratios, as a Russian bank, CBM is obliged to comply with regulatory capital adequacy ratios stipulated by the CBR. These ratios are calculated in accordance with CBR requirements under the Mandatory Economic Ratios Instruction based on data prepared in accordance with RAS. The table below sets forth the respective ratios reported by CBM as at the dates indicated:

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
			%	
CBR total capital adequacy ratio (N1.0)	19.6	20.2	20.5	12.6
CBR common equity Tier 1 capital adequacy ratio (N1.1)	8.4	8.2	8.4	7.3
CBR Tier 1 capital adequacy ratio (N1.2)	11.5	11.6	11.6	7.3

As at 30 November 2019, CBM's N1.0 ratio amounted to 18.9%, whereas CBM's N1.1 and N1.2 ratios stood at 9.6% and 12.3%, respectively.

Significant Accounting Policies and New Accounting Standards

A detailed description of CBM's significant accounting policies are set forth in Note 3 to the Interim Financial Statements and Note 3 to the Annual Financial Statements. Certain amendments to IFRS became effective from 1 January 2019 and have been adopted by CBM, including IFRS 16. These changes did not have a significant effect on the Interim Financial Statements. For a detailed description of the effect of IFRS 16 on the Interim Financial Statements, see Note 2 to the Interim Financial Statements.

Critical Accounting Estimates and Judgments in Applying Accounting Policies

The preparation of consolidated financial statements under IFRS requires CBM's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgments made regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on the management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments that have the most significant effect on the amounts recognised in the Financial Statements relate to the classification of financial assets (assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding).

BUSINESS

Overview

Established in 1992, CBM is one of the leading non-state universal commercial banks in Russia, which focuses on providing banking products and services to corporate customers and individuals primarily in the Moscow Area. CBM is a publicly-traded financial institution whose shares are listed on the Moscow Exchange and included in the MOEX Russia Index and RTS Index. The CBR has recognised CBM as a systemically important bank.

CBM offers a comprehensive range of banking services, which are divided into four principal business lines:

- Corporate banking which comprises corporate lending, overdraft lending, factoring, financial and operating leasing, letters of credit, guarantees, corporate deposit services, settlements and money transfers. CBM focuses on large and medium sized Russian companies operating in various industry sectors, especially those that are most resistant to macroeconomic instability, such as the oil and gas sectors, and has a strong emphasis on customers' credit quality.
- Retail banking which comprises retail demand and term deposit services, retail lending (including cash and mortgage loans), money transfers, private banking services, banking card products, settlements and money transfers. CBM's retail business strategy concentrates on consumer and mortgage loans to high quality retail customers, with a particular emphasis on cross-selling of retail products to the employees and clients of its corporate customers.
- Treasury which comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes, as well as a diverse range of investment banking services.
- Cash operations which comprises all operations connected with cash, cash handling, calculation and transportation. CBM has developed a strong cash-handling platform that is designed to serve as an entry point to start new corporate customer relationships and enhance customer loyalty. Along with that, CBM's cash handling platform provides strategic benefits from a risk management perspective enabling CBM to monitor the cash flows of its corporate customers operating in cash-intensive industries (such as retail sales and services), thus supporting quality risk management and asset quality.

While CBM's business is mainly concentrated in Moscow and the Moscow Area, CBM also has a network of regional offices primarily aimed at attracting customer bank deposits from corporate and individual clients. Through its multichannel distribution network, including offices, ATMs, payment terminals and online services, CBM is able to deliver superior services to its retail customers. CBM is focused on delivering customer-centred services, with quick and user-friendly service and high levels of responsiveness. Coupled with the development of the retail banking business, which has contributed to benefits in customer acquisition, advertising and cost efficiency, CBM's broad payment terminal network became a reliable risk management tool for retail lending. This has provided CBM with the ability to understand consumer patterns and to use its vast database of customers to reduce fraud targeting its customers and banking products. As at 1 January 2020, CBM had 130 branches, 28 cash offices, over 1,100 ATMs and over 6,800 payment terminals mainly concentrated in the Moscow Area. In July 2018, in the process of winding up proceedings with respect to Sovietsky Bank, CBM received the retail deposits and accounts of Sovietsky Bank, as well as the operational branch network of Sovietsky Bank, comprising 28 branches across 17 regions in Russia. This network has been fully integrated into CBM's branch network which allows CBM to distribute products generating fees and commissions under CBM's brand. See “– *Business Operations – Distribution Network*”.

As at 30 September 2019, CBM's total assets comprised RUB2,184.2 billion. CBM's total gross loans to customers amounted to RUB772.6 billion, with gross loans to corporate clients and gross loans to individuals accounting for 86.4% and 13.6% of total gross loans respectively. As at 30 September 2019,

CBM's total equity constituted RUB199.1 billion. For the nine months ended 30 September 2019, CBM generated a profit of RUB11.9 billion.

As at the date of this Prospectus, CBM has “Ba3” long-term global and local currency deposit rating from Moody's. Fitch has assigned to CBM “BB” long-term issuer default and “B” short-term issuer default ratings. CBM also has “BB-” long-term counterparty default and “B” short-term counterparty default ratings from S&P, “A(RU)” credit rating from ACRA and “ruA” creditworthiness rating from ExpertRA. In addition, CBM has an “AA+” credit rating on the Chinese national scale from China Lianhe Credit Rating Co., Ltd, and Rating-Agentur Expert RA GmbH assigned a BBB[esg] rating to CBM, with a BB[e] environmental rating, BB[s] social rating and A[g] governance rating.

CBM was established on 5 August 1992. CBM is a legal entity organised as a public joint stock company under Federal Law No. 208-FZ “On Joint Stock Companies” dated 26 December 1995, as amended, and is registered in the Russian Unified Register of Legal Entities under main state registration number 1027739555282. CBM operates under general banking licence No. 1978 issued by the CBR. The Borrower's full legal name is CREDIT BANK OF MOSCOW (public joint-stock company). Its registered and head office is located at 2 (Building 1) Lukov Pereulok, Moscow 107045, Russian Federation. The telephone number of the registered office and the head office of the Borrower is +7 (495) 797-42-22.

Competitive Strengths

CBM's management believes that CBM has the following competitive advantages in the Russian banking market:

Sustainable universal business model

CBM maintains a high quality loan portfolio with borrowers operating in different sectors of the economy. CBM's gross corporate loan portfolio accounted for 86.4% of CBM's total gross loans as at 30 September 2019. Despite negative changes in the operating environment in recent years, CBM has managed to maintain the quality of its corporate loan portfolio at a sustainable level by focusing on industries with an established presence and long-term customer relations. Additionally, CBM continuously monitors the fundamental market trends, potential growth drivers, legislative initiatives and various players to flexibly adjust its sector focus and its targeted customer profile. CBM aims to approach creditworthy corporate customers in industries such as oil and gas, chemicals, food and agriculture, metals, construction, service industry, in order to maintain and grow a balanced and diversified loan portfolio. CBM's corporate customers are also active users of domestic guarantees, trade finance (being direct importers/exporters of goods and equipment), acquiring and other commission products. Furthermore, CBM has built a comprehensive understanding of its corporate customers by leveraging its leading cash handling services, which are an important product for retail and wholesale trading customers. This service is an additional tool that allows CBM to monitor the financial and liquidity positions of its customers, and to build long-standing relationships focusing on value added services.

CBM's business also includes a well-established retail banking network, accounting for 13.6% of CBM's total gross loans as at 30 September 2019, while a stable retail deposit funding base accounted for 36.2% of CBM's total customer deposits as at the same date. In its retail banking, CBM focuses on strong customer relationships in order to attract and maintain highly engaged active customers while maintaining a cautious risk-weighted approach to retail credit products. CBM offers a full range of retail banking products with a focus on cash loans and mortgage loans, which represent 96.4% of CBM's total loans to individuals before credit loss allowance as at 30 September 2019. CBM focuses its cross-selling and other customer acquisition efforts on high quality customers, especially customers with a verifiable positive credit history, such as the employees and clients of its corporate customers, as well as quality customers of other banks and public sector employees. CBM's wide payment terminal network totaling over 6,800 terminals gives it access to the payment history of a substantial number of potential customers, thereby minimising the risk of fraud with respect to walk-in customers and ensuring a better quality of client acceptance, customer base and business growth. In addition, the deposits assignment of Soviety Bank (see “ – *Distribution Network – Branches and Cash Offices*”), which allowed CBM

to obtain the existing retail deposits portfolio and operational branch network of Soviety Bank, is expected to serve as a further development platform for CBM's retail business.

As a major securities market participant enjoying a wide base of private and corporate customers, CBM has established a dedicated investment banking business. CBM started to actively develop its investment banking business in 2016 by acquiring SKS Bank to create new opportunities for CBM's customers and to develop a marketable product range. Following the launch of its investment banking business in late 2017, CBM has been focusing on repo transactions and operations in the fixed-income instruments markets. The treasury segment includes, *inter alia*, CBM's interbank operations, namely due from credit institutions, both with a maturity of less than one month and longer, which accounted for 15.9% of CBM's total assets as at 30 September 2019, and securities portfolio management, which accounted for 10.8% of CBM's total assets as at 30 September 2019. See "*Operating and Financial Review*". Given its conservative risk management policy, CBM focuses on low risk investments with stable profitability and low capital pressure. See "*Business Operations-Treasury*".

Furthermore, CBM has a broad international network of counterparties in the interbank market for various products, including correspondent banking, trade finance, factoring, financial markets and capital markets.

Proven track record of delivering sustainable profitable growth mainly through organic expansion

CBM has a strong track record of organic growth with a 39.3% growth in total assets from 31 December 2016 to 30 September 2019, with a return on average equity amounting to 10.6% for the nine months ended 30 September 2019.

As a result of its strong income-generating capabilities and support from its shareholders, CBM has managed to gain momentum in both challenging and favourable periods, and has a track record of sustainable growth. While CBM is primarily focused on organic growth, from time to time, CBM may take advantage of beneficial market opportunities for expansion, such as the recent deposits assignment of Soviety Bank, the licence of which had been revoked (see "*Distribution Network – Branches and Cash Offices*"), which allowed CBM to obtain the existing retail deposits portfolio and operational branch network of Soviety Bank, without incurring costs and significant investment expenses usually associated with the establishment of regional offices and the accumulation of the respective client base. At the same time, the business processes, strategy and business model of CBM have remained unchanged except for a limited number of adjustments necessitated by the macroeconomic environment and regional specifics, and CBM has avoided the transitional expenses and complexities of the consolidation process inherent in an M&A growth strategy.

The management expects the organic growth trend to continue going forward given the recovery of the Russian economy after a period of downturn, supported by an increase in real GDP growth and a sustainable banking market.

Established position in the banking market

CBM's business is mainly focused on the Moscow Area, which is the economic and financial centre of Russia and the most economically developed, wealthy and populous area in Russia. The Moscow Area has significant potential for further economic development, supported by the presence of most of the large nationwide and regional companies' headquarters, a large population, high incomes and consumer spending, as well as investment activities. This drives demand for high-quality banking products and services in the Moscow Area, which CBM believes will continue to increase in the foreseeable future.

In 2018, CBM has consolidated the retail deposits portfolio and branch network of Soviety Bank, therefore expanding its operations to 17 additional regions in Russia. See "*Distribution Network – Branches and Cash Offices*". Since November 2018, the new offices have been rendering services to customers under CBM brand and based on CBM's existing product line, risk management policies and standards. Furthermore, CBM plans to open up to 15 additional regional branches in 2020. However, despite the expansion of CBM's network, CBM considers the Moscow Area to be its primary market, the basis for its risk management models and limits, as well as the place of business for all its management and decision making personnel.

CBM's management believes that it is well positioned in the highly competitive market for banking services in the Moscow Area and other regions, as customers increasingly shift their business towards strongly-capitalised, stable market participants that offer high-quality services. In addition, an increasing number of CBM's corporate customers headquartered in Moscow have operations throughout Russia, and CBM, by being close to their headquarters is able to leverage its relationships with these customers to provide banking services for their corporate activities in other parts of Russia. In addition, with its new regional branch network, CBM expects to further develop relationships with such corporate clients, in particular, through providing services to their employees, such as salary payment services.

CBM's historical focus on the Moscow Area means that it has a good understanding of, and expertise in, the requirements of its individual customers in this area, enabling CBM to provide tailored products and services through a targeted network of offices and cash offices as well as its payment terminal network. In addition, CBM will use its expertise to attract high-quality customers in the new regions of presence through offering its existing product range, client-oriented expertise, risk management models and INKAKHRAN cash handling network.

High service standards and efficient multichannel distribution

CBM sees offering high levels of customer service as key to attracting and retaining customers.

In corporate business, CBM offers a full product range to its clients, including cash handling, leasing, factoring, investment banking products etc. CBM manages to differentiate itself from its peers due to fast decision making and efficient procedures, the availability of user-friendly remote services, strong capital support for business growth, competitive price offering, especially when it comes to unfunded products, and an individual approach to customers.

One of the key components of its customer service offering is its widespread and multichannel distribution platform, consisting of 130 branches, 28 cash offices, over 1,100 ATMs and over 6,800 payment terminals as at 1 January 2020, and internet banking, a call centre and Russia-wide partner programmes with other major Russian banks. This platform is supported by remote service channels for offering CBM's products to existing and potential customers.

CBM has one of the most extensive payment terminal networks in Moscow. The payment terminals are cost-effective, moveable points-of-sale that serve as both customer service and customer acquisition channels. Through payment terminals, CBM's customers may pay their bills, open deposit accounts, deposit money in bank accounts, make wire transfers, apply for loans and repay loans. The customers of other banks may use CBM's payment terminals to make bill payments and loan repayments. CBM's offices are located in areas that are easily accessible to customers, and have extended opening hours to meet customer needs. CBM maintains the high quality and efficiency of its services by rigorously monitoring key performance indicators of each branch, and promoting fast and effective decision-making processes, particularly on loan applications, and enabling access to a wide range of products in a single visit to a branch.

CBM enhances its business efficiency by increasingly relying on remote channels for distribution of its products and services. CBM utilises advanced information technology to provide its customers with quick, user-friendly remote access to CBM's products and services. CBM provides electronic payment systems for corporate customers and an online banking system and a mobile banking application for retail customers. Remote channels of distribution such as internet banking and physical distribution networks such as payment terminals together enable CBM's customers to have access to CBM's banking services seven days per week. Recently, CBM has been focusing on access to new solutions to increase its business efficiency, in particular, through membership in Interbank Information Network, SWIFT, Faster Payments, FinTech Association, FinTechLab and other financial markets development organisations, and further been implementing new technical solution to its systems, including artificial intelligence programs.

CBM is also striving to improve its services in the cash handling business. Recently, it focused on developing a system of electronic cash handling, which is an attractive tool for its clients. Using special devices installed by CBM, clients can credit collected cash to their account within one day. This service

is available to CBM's clients around-the-clock, seven days a week. See “– Business Operations – Cash Operations”.

Leading disciplined risk management driving strong financial performance and asset quality

CBM's strong balance sheet, liquidity and capital positions are driven by its profitability (retained earnings) and disciplined risk management. CBM's strong financial performance in the period under review was driven by growth in net interest income (amounting to RUB32,129 million for the nine-month period ended 30 September 2019 and RUB48,415 million for the year ended 31 December 2018), net fee and commission income (RUB8,464 million for the nine-month period ended 30 September 2019 and RUB12,346 million for the year ended 31 December 2018) and a strong diversified funding structure with a net loans to total deposits ratio amounting to 58.0% as at 30 September 2019 and 55.7% in 2018. See “*Operating and Financial Review – Funding*”. CBM's historically low NPL ratio has remained relatively stable. As at 30 September 2019, CBM's NPL ratio was 3.7%, its NPL coverage was 130.4% and its cost of risk was 0.8% (with a 0.3% cost of risk on the corporate portfolio and a 3.7% cost of risk on the retail portfolio), compared to a cost of risk of 1.4% as at 30 September 2018. As at 31 December 2018, CBM's NPL ratio was 1.6%, its NPL coverage was 260.0% and its cost of risk was 1.0% (with a 0.9% cost of risk on the corporate portfolio and a 1.4% cost of risk on the retail portfolio). As at 31 December 2017, CBM's NPL ratio was 2.4%, its NPL coverage was 253.7% and its cost of risk was 2.5% (with a 2.3% cost of risk on the corporate portfolio and a 3.9% cost of risk on the retail portfolio). As at 31 December 2016, CBM's NPL ratio was 2.3%, its NPL coverage was 263.3% and its cost of risk was 4.6% (with a 4.3% cost of risk on the corporate portfolio and a 6.5% cost of risk on the retail portfolio). See “*Presentation of Financial Information – Non IFRS Measures*”.

CBM focuses on the quality of assets (measured by cost of risk and level of NPLs) as the key indicators of the performance of its loan portfolio, and relationship managers are incentivised to meet risk management targets. In line with its strategy to focus on asset quality, CBM emphasises customer selection and credit approval as a key element of its risk management. In its corporate business, each corporate customer has a dedicated credit officer who works with the customer to identify the best instrument in CBM's wide product line to meet such customer's needs.

CBM maintains a centralised risk management system with uniform underwriting standards. As part of this system, risk management departments are involved from an early stage of the underwriting process, and credit decisions are made by independent members of the risk management team.

CBM believes that its corporate customers, comprising top-tier Russian companies operating in selected industries such as oil and gas, chemicals and metal, tend to be more resilient to economic volatility and are less exposed to economic cycles. In recent years, CBM has broadened its focus to large and medium scale corporate clients in industry sectors which are more resilient to the changes in economic conditions, such as oil and gas, food and transportation, amongst others. In addition, many of CBM's corporate loans have a shorter tenor, which CBM believes reduces the risk of default. CBM is also able to use information obtained from providing cash handling services, which are particularly important to its retail and wholesale trading customers, to pre-assess and monitor the ongoing financial condition of such customers. As at 30 September 2019, 30.1% of CBM's net corporate loans fell due within six months and 12.0% fell due within six months to one year. CBM also seeks to maintain a diversified customer base. In 2015, CBM further improved its corporate lending risk management system by delegating credit decisions to its risk management division, which is independent from the corporate client managers.

With regard to its retail customers, CBM deploys a sophisticated and highly automated credit risk management system which uses internal scoring models and is further supported by CBM's database of customer information. In its retail business, CBM has a targeted customer strategy focused on existing customers and new customers with verifiable positive credit profiles, such as employees and clients of its corporate customers, customers with positive credit histories with their existing banks and public sector employees. CBM seeks to obtain significant information on existing and new retail customers prior to extending loans, for example, through providing payroll and other non-credit services to corporate customers whose employees CBM targets as retail customers and through data collected from the payment terminal network. CBM also maintains a centralised underwriting process with well-

established and well-executed scoring procedures, which bases the scoring on the customer's reliability, credit history, stability of income, assets and liabilities and liquidity, supporting CBM's customer selection processes and risk management.

CBM also has a policy of maintaining a low level of engagement in high-risk products such as equity securities and illiquid securities. As at 30 September 2019, 81% of CBM's total securities portfolio comprised high-liquid debt securities qualified to be pledged against borrowings from the CBR.

High operational efficiency with a potential for further growth

CBM sees potential for further growth in the banking market, especially given its strategy of attracting large and medium sized Russian corporates, most of which are operating in various industry sectors and mainly headquartered in Moscow. CBM has a modern, efficient and scalable banking platform, and believes that further growth in the banking market, especially in the Moscow Area, will enable it to take advantage of the benefits of economies of scale. For example, CBM's unified product programme enables an approved customer to remotely obtain and access products and services without having to visit a branch, thereby reducing branch network traffic and improving efficiency and the customer experience. The introduction of an integrated customer relationship management IT system has streamlined business processes and strengthened risk management capability through improved information sharing.

Furthermore, CBM maintains a centrally focused management to centralise its operations and controls. In addition, CBM's strong balance sheet, regulatory capital position and diversified funding base provide CBM with a solid platform, which enables it to grow its business at least at the general growth rate of the banking market.

Experienced management team and strong corporate governance

CBM has a strong, entrepreneurial management team with a proven track record of achieving growth and meeting financial performance targets. CBM's management team has extensive experience with the Russian banking market with an average of over ten years' experience in the financial sector.

CBM's long-term goal is to maintain and further develop a strong corporate governance model. In 2012, CBM's governance was enhanced by the participation of the EBRD and IFC through the purchase of minority equity stakes and the appointment of EBRD and IFC representatives to CBM's Supervisory Board. In 2015, CBM further improved its corporate governance by adopting a revised Corporate Governance Code, Information Policy and Regulations on the governing bodies. CBM's Supervisory Board currently consists of ten members, of whom five are independent non-executive directors within the meaning of the UK Corporate Governance Code and two are representatives of the minority shareholders. Independent non-executive directors have been on CBM's Supervisory Board since 2008.

History of strong shareholder support

CBM's controlling shareholder is Mr. Roman Avdeev who purchased CBM in 1994 and, as at the date of this Prospectus, beneficially controls more than 50% of CBM's shares. Of all Mr. Avdeev's assets, CBM is the asset with the highest value, with real estate development projects representing the majority of Mr. Avdeev's other assets. Mr. Avdeev has historically provided financial support to CBM for its capital growth and until 2019 (the year of first dividend payment of RUB2,979 million in the history of the CBM) CBM used all its profit to support its capitalisation. See "*Risk Factors - CBM's controlling shareholder may have interests that have an adverse impact on CBM and its shareholders*". CBM's initial public offering in 2015 and secondary public offerings in 2017 and 2019 enabled CBM to improve its capital position and widen the shareholder base.

Strategy

CBM's strategic objective is to further strengthen its position as one of the leading non-state universal commercial banks in Russia and to become the bank of first choice for its customers. It aims to continue to provide high-quality corporate and retail banking products and services based on the best international and Russian practices while achieving strong and sustainable performance.

The following are the key elements of CBM's strategy:

Maintaining strong asset quality through a strict underwriting and conservative risk management policy

CBM adapted to negative changes in the operating environment in recent years by optimising and enhancing its risk management, limiting engagement in risk-related activities, further developing relations with its existing customers and attracting new high level borrowers, which has allowed it to maintain asset quality. In order to maintain its loan portfolio quality, CBM intends to keep focusing on sectors with an already established presence and maintain long-term customer relations. CBM's knowledge of the earnings dynamics of its customers that use its cash handling services, and the ability to apply collected revenues to repay any outstanding loans, enhances its ability to efficiently manage its credit and liquidity risks. As for retail lending, CBM adheres to a conservative risk assessment approach by placing emphasis on lending to low-risk customers: CBM's existing customers, its corporate customers' and partners' employees and customers with good credit history. CBM also maintains a risk management system that uses loan-to-value and loan-to-payment as one of the core elements of risk analysis in compliance with CBR requirements. A well-structured debt recovery system supports CBM's loan portfolio quality. In addition, following the recent assignment of the retail deposits and operational branch network of Sovietsky Bank (see “ - *Distribution Network – Branches and Cash Offices*”), CBM plans to ensure that all the decision making processes remain centralised in Moscow and all the existing and proven risk management models and standards are applied to any new business, including regional ones, which is expected to allow CBM to maintain the quality of its portfolio and borrowers.

Delivering further profitable growth

CBM is determined to strengthen its position among the top-three largest non-state banks in Russia by concentrating on balanced and diversified growth with a focus on the corporate segment but also moderately growing the retail segment share in line with the market trends. CBM plans to maintain a highly competitive position in the market by using internal and external resources to acquire quality retail customers, improving its products and raising its service quality, and by capitalising on the close relationships established with its corporate customers.

Enhancing efficiency through revenue maximisation and cost control

CBM believes that its cost-to-income ratio is one of the most efficient in the Russian banking market. As at 31 December 2018, CBM's cost-to-income ratio amounted to 29.8% with one-off growth up to 51.5% as at 30 September 2019 due to net foreign exchange losses in the amount RUB8,531 million as at 30 September 2019 which are mostly connected with the accounting specifics of U.S. Dollar-denominated perpetual subordinated Eurobonds in Tier I capital of CBM on the back of Rouble appreciation in the beginning of 2019. See “*Presentation of Financial Information – Non-IFRS Measures*”. CBM plans to keep its operational efficiency at a high level by optimising its operational expenses and increasing its operational income, and by further developing its management and control systems. Active implementation of CBM's cross-selling strategy allows it to increase interest income by attracting low risk retail customers, such as employees of its corporate clients, thereby also maintaining its retail portfolio quality. CBM's management believes that the diversification of its income structure ensures the flexibility of CBM's business model in the current economic conditions. In addition, ongoing optimisation of CBM's cash handling business line is expected to significantly cut operational costs for CBM. See “- *Business Operations – Cash Operations*”.

Maintaining high-quality corporate governance

CBM continually improves its corporate governance system by implementing the best domestic and global practices. In 2015, CBM adopted its revised Corporate Governance Code, and in 2018, CBM adopted the revised versions of its Information Policy and Regulations on the governing bodies to further develop the transparency and efficiency of its corporate governance. Furthermore, the representative of international development institutions present in CBM's shareholding and governing structure pays special attention to CBM's corporate governance system and ensures its consistency with recognised international standards. CBM focuses on responsible and sustainable development, with ESG executive

sessions conducted quarterly and sustainability reports issued annually starting from 2018. CBM's strategic goal is to maintain and further develop a strong corporate governance model.

Attracting and retaining highly-qualified personnel

As part of its efforts to maintain leading positions in the market, an important strategic goal of CBM is to improve the professional skillset of its employees. CBM plans to implement additional training programmes for its existing managerial staff and, where required, recruit more highly skilled personnel. In addition, the employees of the branches of Sovietsky Bank that have merged into CBM have completed a comprehensive training in accordance with CBM's standards.

Promoting brand awareness and strengthening brand recognition

In order to strengthen its competitive position, CBM plans to distinguish its brand from competitors by focusing on the advantages of its customer services (speed, quality and convenience) and the overall maximisation of positive customer experience. CBM's management believes that material investments in brand awareness during the next 3 years will enable the bank to achieve more efficient operational results and to distinguish CBM from its peers.

Further development of a state of the art IT platform as part of the client attraction and service tools and cost efficiency

Because IT is of critical importance to its business, CBM aims to improve its IT systems and solutions on a continuous basis in order to be better positioned than its competitors, and in addition, to optimise and improve the safety and efficiency of its banking IT systems.

CBM not only uses state-of-the-art technological platforms for the automation and optimisation of its internal processes, but also tries to deliver the most in-demand and up-to-date services within its remote banking solutions. Part of CBM's strategy is to continue digitalisation of its banking services, which allows CBM to reach its customers and further ease the access to its products. To this end, in 2018, CBM released a new version of its online banking platform for legal entities (CBM Business), implemented a comprehensive redesign of the CBM Mobile platform, and introduced a number of projects aimed to offer CBM's banking services to individuals online (including CBM Mobile and CBM Online).

In 2019, CBM implemented a number of projects aimed at the transition to the "Mobile First" paradigm in the retail unit and the development of CBM's retail Digital Office, including 360-degrees retail product management via CBM's mobile app. In addition, CBM is planning to increase the number of products sold through its digital office to include, among others, investment products and insurance.

History

CBM was founded in 1992 and acquired by Mr. Roman Avdeev in 1994. In August 2012, EBRD and IFC each acquired a 7.5% equity stake in CBM by purchasing newly issued shares of CBM. In December 2012, IFC transferred a 4.6% equity stake to the IFC Russian Bank Capitalisation Fund, which forms a group of companies with IFC. In June 2017, IFC and RBOF Holding Company I Ltd. sold their equity stake in CBM by entering into sale and purchase transactions with third parties. Through CBM's initial public offering of Ordinary Shares in July 2015 and secondary public offerings in December 2015, October 2017 and November 2019 on the Moscow Exchange, CBM has further diversified its shareholder base. As at the date of this Prospectus, the free float ratio amounted to 20% of CBM's share capital, and CBM's shares were included in the MOEX Russia Index maintained by the Moscow Exchange.

In November 2015, CBM acquired 100% interest in INKAKHRAN Group, a company providing a full range of cash handling services for financial institutions, including collection, armoured transportation and processing of cash and valuables. This acquisition enabled CBM to reinforce its position in the market of cash handling services.

In August 2016, CBM acquired SKS Bank to expand its business in financial markets and develop a

new banking product line for its clients.

In September 2017, CBM was included in the list of eleven systemically important Russian banks.

In July 2018, CBM won the tender for the assignment of branch network and the retail deposits and accounts of Sovietskyy Bank, with a total amount of approximately RUB37 billion.

In December 2018, CBM acquired a 49.78% stake in Elecsnet Holdings Limited, a holding company of Elecsnet group of companies (“**Elecsnet**”), in order to strengthen its position on the payment terminals market, expand distribution and customer service network and further drive fee and commission income.

Recent Developments

CBM may consider the acquisition of two Russia-based commercial banks (top 300 in the list of Russian banks by assets) with aggregate total assets of approximately RUB16.5 billion as at 30 September 2019 (under IFRS). CBM has received CBR approval for the purchase, however the decision to proceed with the purchase will be made upon completion of all technical procedures and due diligence process. The total consideration for the potential deal is not expected to exceed 0.2% of CBM’s total assets as at 30 September 2019 (under IFRS) and as such will not constitute a material transaction for CBM.

In November 2019, China Lianhe Credit Rating Co., Ltd assigned an “AA+” credit rating on the Chinese national scale to CBM.

In October 2019, CBM placed in full a bond issue series 001P-01 with a nominal value of RUB10 billion. The bonds were placed by public subscription and bear interest of 8.35% per annum payable semi-annually.

In October 2019, CBM placed in full a bond issue series BSO-P05 with a nominal value of RUB350 million. The bonds were placed by public subscription and bear interest of 3.25% per annum payable annually and additional income calculated in accordance with the terms of the issue.

In November 2019, CBM issued additional shares for an aggregate amount of RUB14.7 billion through a public offering on the Moscow Exchange. CBM used the proceeds from the offering to improve its core Tier 1 capital.

In November 2019, CBM placed in full a bond issue series BSO-P07 with a nominal value of RUB500 million. The bonds were placed by public subscription and bear interest of 3.00% per annum payable annually and additional income calculated in accordance with the terms of the issue.

In November 2019, CBM redeemed a portion of its outstanding U.S.\$600 million 7.5% Subordinated Loan Participation Notes due 2027 (of which U.S.\$557 million were outstanding) (the “**2027 Notes**”) and U.S.\$700 million 8.875% Perpetual Callable Loan Participation Notes (the “**Perpetual Notes**”) (of which U.S.\$670 million were outstanding). Upon the partial redemption, U.S.\$440 million in aggregate principal amount of the 2027 Notes and U.S.\$540 million in aggregate principal amount of the Perpetual Notes remain outstanding.

In December 2019, CBM placed in full a bond issue series 001P-02 with a nominal value of RUB7 billion. The bonds were placed by public subscription and bear interest of 7.75% per annum payable semi-annually.

In December 2019, CBM placed in full a bond issue series BSO-P08 with a nominal value of RUB600 million. The bonds were placed by public subscription and bear interest of 2.55% per annum payable annually and additional income calculated in accordance with the terms of issue.

In December 2019, CBM placed in full a bond issue series BSO-P09 with a nominal value of RUB900 million. The bonds were placed by public subscription and bear interest of 1.55% per annum payable annually and additional income calculated in accordance with the terms of issue.

In December 2019, CBM placed in full a bond issue series BSO-P10 with a nominal value of RUB300 million. The bonds were placed by public subscription and bear interest of 0.01% per annum payable annually and additional income calculated in accordance with the terms of issue.

In December 2019, CBM signed a syndicated loan agreement for a loan facility with an eventual limit of up to RMB2 billion (approximately U.S.\$280 million) with large Chinese regional banks.

Competition

The Russian banking market is highly competitive. According to the CBR, as at 1 December 2019, 838 banks and non-bank credit organisations were registered in Russia and the 20 largest banks held 82.9% of total banking assets. The largest Russian banks are concentrated in the Moscow Area (where CBM's business is concentrated), while large regional banks conduct most of their business in the central cities of their respective regions.

CBM faces competition from the leading domestic banks in each of the business areas in which it operates, and also from a number of foreign banks in certain business areas. However, as corporate customers often use a number of banks, CBM is not always in direct competition with its larger rivals in the Russian banking sector. As a result of the effects of the global financial crisis, CBM now faces far greater competition from state-controlled banks such as Sberbank, VTB and Gazprombank. Due to direct support of the Russian Federation, state-controlled banks generally have access to cheaper domestic sources of funding and are major beneficiaries of government programmes, including funding and liquidity support. Using these advantages, these banks can attract the largest clients by offering credit products with lower interest rates, and, as a result, maintain or increase their market share, without compromising net interest margins. Nonetheless, CBM and other large private banks are able to compete with the large state-controlled banks due to the products they offer, the service they provide to their customers, as well as the efficiency in their decision-making process.

In corporate banking, CBM competes primarily with Sberbank, VTB Bank, Gazprombank and Alfa-Bank, and in retail banking, CBM competes primarily with Sberbank, VTB Bank, Alfa-Bank, AO Raiffeisen Bank, AO UniCredit Bank, Sovcombank and Tinkoff Bank. See *“Risk Factors – Risks Relating to CBM's Business and Industry – The Russian banking market is highly competitive, and a failure to compete effectively could have a material adverse effect on CBM's business”*.

Subsidiaries

Below is the description of CBM's consolidated subsidiaries:

- *NKO INKAKHRAN (JSC)*. CBM owns 100% of shares in NKO INKAKHRAN (JSC), a non-banking organisation established in the form of a joint stock company in Russia and a holding company for a group of entities, which provides a full range of cash handling services for financial institutions and private commercial companies;
- *Inkakhuran-Service LLC*. CBM owns 99.72% stake in Inkakhuran-Service LLC, a limited liability company, which provides cash handling services for financial institutions and private commercial companies;
- *CBOM Finance p.l.c.* This legal entity was established as a public limited company in Ireland to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to CBM. Although CBM does not have any direct or indirect shareholdings in this company, it is consolidated into CBM's IFRS financial statements in accordance with IFRS rules;
- *CJSC Mortgage Agent MKB and LLC Mortgage Agent MKB 2*. These legal entities were established as a closed joint stock company and a limited liability company respectively in Russia for the purposes of the mortgage loans securitisation launched by CBM in 2014 and 2016, respectively. Although CBM does not have any direct or indirect shareholdings in these companies, they are consolidated into CBM's IFRS financial statements in accordance with IFRS rules. CJSC Mortgage Agent MKB was liquidated in December 2019;

- *SKS Bank*. CBM owns 100% of shares in SKS Bank, a company focused on providing brokerage services. CBM took control of SKS Bank in 2016 to reinforce its position in the investment banking market; and
- *LLC “MKB-Invest”*. CBM controls 100% of participation interests in LLC “MKB-Invest”, a company involved in transactions with securities, through an option agreement. LLC “MKB-Invest” is in the process of liquidation as at the date of this Prospectus.

Business Operations

CBM has four reportable segments which are strategic business units. These strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the reportable segments:

- **Corporate banking:** comprises corporate lending, overdraft lending, factoring, leasing, letters of credit, guarantees, corporate deposit taking, settlements and money transfer, currency conversion;
- **Retail banking:** comprises retail demand and term deposit services; retail lending, including mortgages and other loans to individuals, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals;
- **Treasury:** comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes. This segment also includes operations of CBM’s newly founded investment banking business line; and
- **Cash operations:** comprises all operations connected with cash, cash handling, calculation and transportation.

Corporate Banking

Further development of the corporate banking segment remains a strategic priority for CBM. CBM offers its corporate customers a range of banking products and services, including corporate loans; deposits; fee- and commission-based products and services such as cash handling, settlements, guarantees and letters of credit; other products and services such as leasing, factoring, etc. As part of its emphasis on customer service, CBM also tailors certain products and services to its customers’ needs. Moreover, CBM is one of the market leaders in providing cash handling services in the Moscow Area and is also considered a strong market player outside Moscow Area given its acquisition of federal-scale cash handling operator INKAKHRAN.

CBM’s customer base is presented by large and medium size companies operating in different sectors of the economy in Russia, though it has maintained its historically strong expertise in the consumer sector comprising large and cash-intensive retail and wholesale trading companies, of which make use of CBM’s cash handling services. As at 1 January 2020, CBM had over 27,000 corporate customers. CBM is focused on developing multi-product relationships with its corporate banking customers. CBM seeks to cross-sell a range of products and services, including cash handling, guarantees, trade finance and other fee- and commission-based products, to its existing corporate customers and to market retail products to their employees and customers. As at 30 September 2019, approximately 70% of CBM’s corporate clients were using more than one product of CBM.

CBM has fifteen corporate banking business centres, located in different parts of the Moscow Area, and two located in Saint Petersburg, which specialise in fee-based services for corporate customers. At its corporate banking business centres, CBM offers tailor-made services to its corporate customers by assigning a dedicated manager to each corporate customer and providing on-going advisory services. CBM’s corporate customers are also able to conduct banking business at any of CBM’s offices. In addition, CBM’s product and services are available to its clients through developed electronic long distance channels.

In its corporate banking business, CBM is focused on building its relationships with its corporate customers, to whom it can then cross-sell a range of different products and services, including retail products for their employees. CBM does not always seek to be the main lending bank for its corporate customers, which usually also conduct banking business with large state-owned banks, but rather CBM aims to provide additional value-added and complimentary services alongside the services provided by the state-controlled banks. In doing so, CBM avoids competing with them directly, in light of their competitive advantages in terms of size and cheaper sources of funding. See “– Competition”. As a result, as at 30 September 2019, approximately 70% of all corporate clients of CBM were using more than one product in CBM’s product range offered.

Corporate Lending

CBM offers its corporate customers a wide range of lending products, including overdrafts, loans backed by sales receivables, current account facilities, working capital loans and short-term loans, long-term fixed asset financing. The gross volume of CBM’s total corporate loan portfolio was RUB667.8 billion as at 30 September 2019, as compared to RUB643.5 billion as at 31 December 2018 and RUB731.1 billion as at 31 December 2017 and RUB566.2 billion as at 31 December 2016.

In line with CBM’s risk management policy of minimising all lending on an unsecured basis in its corporate lending, CBM takes collateral, either in the form of a pledge of assets or a corporate guarantee, in almost all circumstances, while overdrafts are mostly unsecured. In addition, 38.7% of CBM’s corporate loans as at 30 September 2019 had a tenor of up to one year.

As at 30 September 2019, gross corporate loans represented 86.4% of CBM’s total gross loan portfolio. CBM’s corporate banking business was traditionally focused on retail and wholesale trading corporate customers, enabling CBM to capitalise on the fast-growing Russian consumer market. In recent years CBM’s client franchise was broadened towards large and medium sized Russian companies operating in different industry sectors with strong emphasis on customers’ credit quality. As at 30 September 2019, loans to crude oil production and trading, petroleum refining, production and trading industries accounted for 27.4% and 14.4%, respectively, of CBM’s gross loan portfolio. While CBM has several strategic corporate customers, it aims to maintain a diverse corporate loan portfolio by industry to minimise the risk of any major impact on the overall business. As at 30 September 2019, loans to customers operating in the crude oil production and trading industry accounted for 32% of CBM’s corporate loan portfolio; loans to customers in the petroleum production and trading industry accounted for 17% of CBM’s corporate loan portfolio; loans to property rental and construction and development clients comprised 10% and 9% of CBM’s corporate loan portfolio, respectively; loans to clients operating in the automotive, motorcycles and spare parts industries accounted for 8% of CBM’s corporate loan portfolio; loans to clients in the equipment leasing sector accounted for 5% of CBM’s corporate loan portfolio. In turn, loans to clients operating in the financial sector, industrial chemicals industry and metallurgical industry accounted for 4%, 3% and 3% of CBM’s corporate loan portfolio as at 30 September 2019, respectively. The remaining portion of CBM’s corporate loan portfolio (9%) was attributable to companies operating in more than 10 other industries.

As at 30 September 2019, NPLs accounted for 3.7% of CBM’s gross corporate loan portfolio. As at 30 September 2019, the cost of risk of CBM’s corporate lending operations stood at 0.3%, whereas the NPL coverage ratio of CBM’s corporate loan portfolio comprised 128%. Related party loans comprised 3.5% of CBM’s net loan portfolio as at 30 September 2019.

CBM seeks to further diversify its loan portfolio by borrowers, including by attracting large, highly liquid borrowers with publicly traded debt or equity securities. Furthermore, since 1 July 2019, under a new regulation applied in Russia, residential property developers can finance new projects only via banks, as opposed to funding directly from customers. This shift is expected to pose additional favourable opportunities for the Russian banking sector generally and CBM to benefit from increased demand for corporate loans in the construction sector. As at 30 September 2019, the residential and commercial construction and development sector’s share in CBM’s gross loan portfolio amounted to 7.7%. See “*Operating and Financial Review – Loans to Customers*” and “*Risk Management – Credit Risk*” for a further discussion of CBM’s loan portfolio.

Corporate Deposits

CBM provides a range of current and term accounts to its corporate customers, and seeks to develop and offer new products to meet customer needs. CBM offers competitive interest rates on its corporate deposits and seeks to support margins through operational efficiencies (including by simplifying the execution of transactions, such as by facilitating paperless account opening and deposit procedures, and centralising operations) and through its IT platform.

As at 30 September 2019, CBM had over 15,000 corporate depositors, and the total volume of due to corporate customers amounted to RUB809,787 million, representing 63.8% of CBM's total due to customers, while 9.1% of CBM's due to corporate customers were current accounts as compared to 3.7%, 15.6% and 9.4% as at 31 December 2018, 2017 and 2016, respectively. See "*Operating and Financial Review – Financial Position – Total Liabilities – Due to Customers*" for a further discussion of CBM's customer deposits.

Fee- and commission-focused products

Fees and commissions generate a substantial part of CBM's operating income, with fee and commission income amounting to RUB11.2 billion and comprising 37.0% of CBM's operating income for the nine months ended 30 September 2019. Net fee and commission income generated on CBM's corporate banking and cash operations comprised 51.5%, 37.0% and 52.8%, respectively, of the sum of the segment results of CBM's corporate banking and cash operations segments for the years ended 31 December 2018, 2017 and 2016, and 63.7% and 53.7%, respectively, of the sum of the segment results of CBM's corporate banking and cash operations segments for the nine months ended 30 September 2019 and 2018. Products that are fee- and commission- focused within CBM's corporate banking business are: cash handling, domestic guarantees, payments and factoring, international trade finance, etc. CBM's strategy is to focus its fee and commission division development on acquisition of high quality customer base, which will enable CBM to increase its interest income without increasing credit exposure capitalising on key strengths of CBM's franchise: fast and high quality service, customised product solutions, tailored for clients needs, absence of internal bureaucracy and convenient and diversified channels of service.

- **Domestic Guarantees:** Domestic bank guarantees represent an increasingly important source of fee income for CBM. They are particularly used by CBM's larger corporate customers with publicly listed securities in connection with various tender and payment requirements. CBM offers tender or contract guarantees; performance bonds; payment and advance payment guarantees; and tax guarantees, all with a term of less than one year. Guarantees and letters of credit represented 14.3% of CBM's total fee and commission income as at 30 September 2019. Guarantees are an attractive product for CBM because, unlike loans, they are not priced based on CBM's cost of funds, which enables CBM to compete effectively with large, including state-controlled, banks in this area.
- **Payments:** CBM has a broad correspondent account network in all major currencies with leading financial institutions worldwide. CBM's correspondent network includes approximately 80 accounts held with domestic and foreign credit institutions, enabling CBM to effect payments to various parts of the world in a timely and cost-efficient manner.
- **Factoring:** CBM has been offering its customers factoring services since 2005. As at 1 January 2020, around 60% of the factoring services provided by CBM were offered on a recourse basis, with recourse to the original creditors of the debts purchased by CBM if the respective debtors did not fulfil their payment obligations. CBM plans to grow its factoring business in the future, including outside of the Moscow Area. CBM's key competitors in the factoring market are VTB Factoring, Sberbank-factoring, Alfa-Bank, and others. CBM migrated its factoring operations to a full-cycle electronic document flow in 2018, allowing customers to exchange documents with CBM electronically. This also enabled CBM to bring this product to regions where its network is not present. In 2018, CBM connected to a blockchain platform to enable disbursements on the day of presentation of drawdown documents and receipt of encrypted shipment confirmation.

- **International Trade Finance:** CBM's trade finance products include letters of credit, stand-by letters of credit, international guarantees, export-import financing and international factoring (FCI associate member). These products are internationally accepted instruments that aid in mitigating commercial and other risks. CBM transacts with more than 60 foreign banks in trade finance and is one of the leaders in this market segment among large private Russian banks. CBM co-operates with a number of export credit agencies ("ECAs") to provide long-term ECA-backed financings of equipment purchases of its corporate customers. CBM was one of the first Russian banks to engage in ECA-backed financings after the 1998 Russian financial crisis. CBM also works with ECAs on short-term deals. Its payment guarantees for short-term transactions are accepted by the majority of the ECAs, thereby enabling CBM to provide ECA-backed financing for its customers. CBM has also started to work with the Russian ECA EXIAR to support the exports of Russian companies, which is a positive addition to CBM's export trade finance operations.

Retail Banking

CBM's retail banking services include retail lending products, such as consumer loans, mortgage loans and credit cards; services to employees of corporate banking customers (corporate plastic cards and payroll services); private banking, as well as personal services, including deposits, debit cards, payments and transfers, foreign exchange, investments in mutual funds, travellers cheques and safe deposit boxes. CBM's united product programme offering enables approved customers to access a wider range of CBM's retail products after one visit to the branch, without the need for further visits.

The main focus of CBM's retail banking business is providing general purpose consumer loans and mortgage loans. CBM also seeks to manage its existing customer base and to cross-sell products to its retail customers. In order to manage the costs of attracting new customers and retain existing customers, CBM leverages its existing customer relationships, focuses on high quality customers, offers innovative products and high standards of service, and offers an efficient and complementary, multichannel distribution network.

As at 1 January 2020, CBM had over 1,700,000 retail customers. As at 30 September 2019, CBM's gross retail loan portfolio was RUB104,839 million, amounting to 13.6% of CBM's total gross loan portfolio. As at 30 September 2019, NPLs in CBM's retail loan portfolio accounted for 3.7% of CBM's gross retail loan portfolio. CBM's retail loan portfolio NPL coverage ratio amounted to 148% as at 30 September 2019.

CBM has created a retail banking business centre, located in the central Moscow. At its retail banking business centre, retail banking customers have access to the full range of CBM's retail banking products, a high level of customer service and the use of advanced technology to expedite document preparation and processing. The retail business centre processes each transaction more quickly than CBM's typical office.

In July 2018, 28 retail branches of Soviety Bank, located, among other cities, in Saint Petersburg, Murmansk, Arkhangelsk, Tver and Kursk, were merged into and rebranded by CBM, and currently operate as an organic part of CBM's retail distribution network in the respective regions. See "*Distribution Network*".

In the retail lending sector, CBM's most significant competitors are Sberbank, VTB Bank, Alfa-Bank, AO Raiffeisenbank, AO Unicredit Bank, Sovcombank and Tinkoff Bank.

Customers

CBM divides its retail customers into the following five categories:

- **Active existing customers** include existing larger depositors, employees of CBM, clients with a long positive credit history with CBM and active users of accounts with CBM. CBM considers long-established customers to be of the lowest credit risk;
- **Other existing customers** include existing small depositors, clients less active in their use of

CBM accounts and clients with shorter credit history than those falling within the first group;

- **Target customers** include employees and clients of CBM's strategic partners and customers, clients with a positive credit history with other banks, as well as public sector employees. This category also includes customers on retirement pensions and payroll customers; and
- **Walk-in customers** are customers not falling within any of the above categories due to lack of detailed information. They are considered the highest credit risk among CBM's customers.
- **Private banking customers** include customers who satisfy, *inter alia*, one of the following criteria: (i) maintain an aggregate balance on their accounts of at least RUB20 million; (ii) are owners of one of CBM's corporate clients with an annual revenue of at least RUB150 million; (iii) are top managers of companies with annual revenue of at least RUB750 million; (iv) acquired the right to receive banking services at CBM under the "Platinum" banking services package or the "Exclusive" banking card services package; or (v) have a monthly personal income of at least RUB750,000.

CBM focuses on cross-selling its retail products to its existing customers and new corporate channel customers. CBM targets these customer categories, as they are customers that CBM possesses relatively more extensive and accurate information on and, accordingly, whom it considers to be of relatively lower credit risk. CBM targets retail customers over the age of 25 with a higher education; employed at a stable private company or a state company; with a monthly salary between RUB50,000 and RUB150,000 and a debt-to-income ratio of less than 40%. CBM calculates the debt-to-income ratio for the borrower as monthly total payments on loans (including repayment of debt in other banks) divided by monthly total income.

As at 1 December 2019, 36% of CBM's newly originated loans were attributable to CBM's staff and active customers (who had a loan approval rate of 63.8%), and 8% of newly originated loans were attributable to other customers of CBM (who had a loan approval rate of 57.1%). In turn, as at the same date, 21% of CBM's newly originated loans were attributable to new customers who are employees of CBM's corporate customers. Such customers had a loan approval rate of 33.3%. Furthermore, as at 1 December 2019, 32% of CBM's newly originated loans were attributable to new customers with an available credit history (who had a loan approval rate of 31.3%). The remaining 4% of CBM's newly originated loans were attributable to walk-in customers, who had a loan approval rate of 7.4%.

Products and Services

General Purpose Consumer Loans

General purpose consumer loans are unsecured cash loans provided to retail customers for unspecified purposes. General purpose consumer loans are, and are expected to remain, the main driver for CBM's retail business in the future. CBM offers general purpose consumer loans to finance various purchases and other activities, with an average annual interest rate around 15% for new disbursements. CBM seeks to differentiate its general purpose consumer loan offerings by selling through its network of terminals and providing for easy loan repayment through those terminals and ATMs.

CBM also offers insurance contracts processing services in respect of its consumer loans, and partners with several insurance companies to provide group unemployment and life insurance to its consumer loan customers. Part of the insurance premium paid by the customer to the insurance company is transferred to CBM as an agency commission.

Mortgage Lending

CBM's mortgage loan products are focused on medium and high-income customers, particularly employees of its corporate customers and partner organisations, to finance the purchase of residential properties, particularly sales on the primary market (newly built housing). Mortgage lending enables CBM to cross-sell its other retail products in a cost-efficient manner, as CBM's partnerships with real estate agents do not entail payment of commissions or referral fees. As at 30 September 2019, CBM's outstanding mortgage loans comprised 22.3% of CBM's gross loans to individuals. In the mortgage

lending market, CBM's most significant competitors include Sberbank, VTB Bank and Société Générale (Rosbank). CBM also benefits from well-developed relations with PJSC Ingrad (a subsidiary of Concern Rossium) through the creation of a partnership program under which mortgage clients who receive a loan for purchasing housing from PJSC Ingrad will receive privileged terms. The program proved its effectiveness by acting as the main mortgage lending growth trigger in the nine-month period ended 30 September 2019 with mortgage loans increasing from RUB20.7 billion to RUB23.4 billion, or by 13% as compared to 31 December 2018.

Debit and Credit Cards

CBM offers a wide range of debit and credit cards to its customers. CBM is a principal member of the VISA International and MasterCard payment systems. In August 2014, CBM signed a cooperation agreement with JCB International Co, the largest Japanese payment system, and in November 2014, CBM signed a cooperation agreement with UnionPay International, the leading card payment system in China. In July 2017, CBM started to issue payment cards MIR for recipients of funds from the Russian budget. MIR payment system was established by the CBR and is operated by the Russian National Card Payment System, a wholly owned subsidiary of the CBR.

As at 1 January 2020, CBM had over 3.0 million debit and credit cards in issue. CBM aims to offer its retail customers innovative debit and credit card products. CBM has introduced various cards, including: a card that can be combined with a Moscow metro pass, thus tailored to customers who frequently travel, a card aimed at making customs payments easier; chip-based and contactless payment credit cards; a new premium card with access to a global premium programme; and a "union card", which combines the features of a debit card and credit card.

In 2019, CBM fully revamped its bank card range and offered products differentiated according to customer segment. The first flagship product was Wisdom card of Mir payment system for pension-receiving customers. CBM also started cooperating with the Russian union of pensioners and carry out various joint initiatives promoting an active lifestyle among pensioners. Furthermore, in summer 2019 CBM launched a new range of debit and credit cards for the mass and premium segments with a new design and attractive terms.

CBM always keeps an eye on the rapidly developing modern technologies and offers various contactless payment methods, including payment rings and mobile phone payments. A payment ring is a payment solution made in the form of a ring with embedded NPC technology that is similar to that integrated in plastic cards. Contactless payment rings are available in several designs and sizes. Mobile phone payments are enabled for various operating and payment systems

CBM also offers acquiring services to its retail and wholesale trading customers, which facilitate and improves the efficiency of the credit card payment transaction processes of those customers for their clients. For example, CBM was among the first banks in Russia to implement a regular payments system, enabling some of CBM's retail and wholesale trading customers to process direct debit from customers' cards.

The table below sets out the breakdown of CBM's gross loans to individuals by product for the nine months ended 30 September 2019 and the years ended 31 December 2018, 2017 and 2016:

	Nine-month period ended 30 September	Year ended 31 December		
	2019	2018	2017	2016
	RUB millions			
Total gross loans to individuals, of which	104,839	96,602	87,711	100,570
General purpose loans (including auto loans)	77,743	72,338	63,679	72,926
Mortgage loans	23,367	20,679	20,319	23,861
Credit card loans	3,729	3,585	3,713	3,783

Retail Deposits

Deposits from retail customers are a significant source of funding for CBM. As at 30 September 2019, CBM had due to individuals in the amount of RUB459,242 million, comprising 36.2% of CBM's total due to customers. As at the same date, term deposits and current accounts and demand deposits comprised 88.6% and 11.4% of total due to individuals, respectively. CBM seeks to improve the cost of its funding by increasing the share of demand deposits, which generally bear lower interest rates than term deposits.

Over the past several years, CBM has significantly increased its retail customer deposits base as a result of improvements it has made to its product range, an efficient marketing campaign, expansion of its distribution platform in Moscow and improvement of customer service.

CBM's deposit accounts include current accounts, demand deposits and term deposits, and these deposit accounts are denominated in Roubles, U.S. dollars and euros. While the average term on CBM's deposits from retail customers as at 30 September 2019 was 14 months, under Russian law, term deposits may be withdrawn at any time upon request of the customer, although withdrawal will come at the cost of forfeiting part of the interest accumulated on the cancelled term deposit. See *"Risk Factors – Risks Relating to CBM's Business and Industry – CBM is exposed to liquidity risk"*.

Treasury

Through its treasury function, CBM participates in the interbank market, securities trading and brokerage, repo transactions and also issues its own bonds.

CBM's securities portfolio consists primarily of Russian government and corporate bonds with high credit ratings. CBM has a conservative policy with respect to its securities portfolio and trades securities on a proprietary basis solely for the purpose of managing its liquidity. CBM, as a systematically important financial institution, has to comply with LCR ratio that implies the requirement to maintain a large bulk of highly liquid low risk government bonds on a balance sheet. CBM's trading financial assets, together with investment financial assets, represented 10.8% of its total assets as at 30 September 2019. The majority of CBM's securities portfolio was represented by bonds on the CBR Lombard List. The CBR Lombard List is a list of securities which are accepted by the CBR as security for loans granted by the CBR. CBM conducts foreign exchange activities both for its own account and on behalf of its customers. CBM does not engage in derivative transactions for speculative purposes. CBM's foreign currency position is managed by the Treasury Department, which reports to CBM's Financial Markets Operations Division and the Assets and Liabilities Committee (the **"ALCO"**). See *"Risk Management – Market Risk – Currency Risk"*.

CBM has established internal limits applicable to proprietary transactions in respect of individual issuers of bonds and promissory notes, interbank limits, and limits on the total volume of equity and debt instruments. The limits are established by the Corporate Risk Management Division of CBM and approved by the ALCO. See *"Risk Management – Market Risk – Securities Portfolio Risk"*.

A significant part of CBM's balance sheet is comprised of interbank transactions, both on the assets and the liabilities side. As at 30 September 2019, cash and cash equivalents represented by short-term deposits in financial institutions were RUB700.7 billion, while due from credit and other financial institutions were RUB346.3 billion. As at 31 December 2018, cash and cash equivalents represented by short-term deposits in financial institutions were RUB1,075.1 billion, while due from credit and other financial institutions were RUB13.2 billion. For the most part, these transactions are represented by reverse repo transactions secured by highly liquid debt securities, which generate stable interest income. See *"Operating and Financial Review – Financial Position – Cash and Cash Equivalents"*. Even though the margins from this business are moderate, the management considers these transactions to be an important part of the business given that they form a strong liquidity buffer, efficiently use capital owing to the low applicable risk weights, represent high quality assets due to the high liquidity of the underlying assets and generate stable income.

On the liabilities side, due to credit institutions comprised RUB535.2 billion and RUB552.9 billion as at 30 September 2019 and 31 December 2018, respectively. Deposits by financial institutions are mostly

represented by repo transactions, term deposits by banks and a syndicated loan raised in March 2018 from a syndicate of international banks.

CBM has also acquired and is continuously developing its expertise in providing a wide range of investment banking services, including capital markets operations (fixed income instruments, trading in stocks, repo transactions and structured financing), investment management (asset management, direct investments and special projects), depository services (custody and maintenance of records of property rights with respect to any Russian and foreign securities, acceptance and withdrawal of securities, collateral operations and other depository services), brokerage services (stock market, futures market, currency market, foreign markets and over-the-counter market). Since 1 January 2019 to the date of this Prospectus, CBM's investment banking team facilitated 70 debt capital markets deals for its clients with a total value of over RUB700 billion, as compared to 24 deals in 2018. These involved debt capital markets transactions for Russian Railways (two deals collectively worth approximately RUB30 billion), Sberbank (a deal worth RUB60 billion), Rusal (four deals worth RUB60 billion), KAMAZ (five deals collectively worth approximately RUB28 billion), Autodor (two deals collectively worth approximately RUB18 billion) and others.

Since early 2018, CBM has been actively offering new products to its customers. As at the date of this Prospectus, the key products of CBM's investment banking business were as follows:

- repo transactions;
- private banking;
- structured products;
- hedging of customers' currency and interest rate risks;
- M&A advisory;
- trade operations with securities, foreign exchange, derivatives in the exchange and over-the-counter markets;
- equity and debt capital markets;
- clearing brokerage services.

The expansion of CBM's investment banking business has also been supported by the acquisition of SOVA Capital (formerly Otkritie Capital International Limited), a London-based investment company, by Concern Rossium (CBM's principal shareholder) in early 2018. CBM's management believes that cooperation with SOVA Capital will further enhance CBM's investment banking business and will allow CBM to improve the quality and volume of its investment banking services offering by providing CBM's customers with access to international capital markets.

Cash Operations

CBM offers cash handling services for businesses, and is one of the market leaders in providing cash handling services to businesses in Russia. CBM's cash handling platform expanded significantly in late 2015, following the acquisition of INKAKHRAN, a company providing a full range of cash handling services for financial institutions, including collection, armoured transportation and processing of cash and valuables, which operates in 24 regions of the Russian Federation. CBM's cash handling business is important in acquiring new corporate customers and helps it to monitor the liquidity and cash flows of its customers and, consequently, to monitor credit risks. CBM also uses its cash handling services more efficiently to collect and deliver cash from and to its ATMs and payment terminals, which tend to be located along its cash handling collection routes. CBM believes its cash handling business has significant synergies with its corporate banking business, such as cross-selling of corporate banking services, and is a key contributor to developing long-term multi-product relationships with its corporate customers. CBM believes that the provision of cash handling services helps to differentiate CBM from its competitors, thereby assisting CBM in attracting and retaining corporate customers. CBM's cash

handling fleet also serves as moving advertisements for its services and brand. CBM's main competitors in cash handling services are Sberbank and Rosinkas. Customers of CBM's cash handling services include large companies that have cash-intensive businesses as well as other banks that outsource their cash handling services. CBM can credit collected cash to its customers' accounts, which provides convenience to customers and a source of cash to CBM's banking business. CBM is able to use the insight gained through its cash handling services to better understand the financial condition of its corporate customers and more effectively mitigate and manage risks associated with such customers. For example, in the course of its lending to corporate customers, CBM may identify "early warning" signs of potential credit difficulties; it may be notified of increased refusals from certain cash handling points; and its cash handling personnel may visually inspect retail outlets. CBM may take recourse to the cash either in transfer after being collected through its cash handling services or deposited into accounts at CBM should corporate borrowers fail to meet their obligations under their loan agreements with CBM. In addition to its corporate customer base, CBM provides cash handling services to other banks and their clients, which gives CBM exposure to the client bases of other banks, as many banks outsource cash handling services that fall outside of what they consider to be their core banking business.

CBM also seeks to develop and expand the range of cash handling services it offers. Since December 2010, CBM has provided the "INKASSLOGIST" service, which collects accounting documents from cash handling points for delivery to the customer's head office or to a CBM branch near an office of the customer's offices. CBM has also implemented a product for accepting customers' sales revenues via self-service devices (ATMs and payment terminals) with crediting cash to their accounts online.

In 2018, CBM has completed full integration of INKAKHRAN into its unified technological platforms, policies and standards. CBM has also transferred all of its cash handling business, including vehicles, equipment and workforce, to INKAKHRAN in May 2019 in order to optimise costs and create a unified cash handling business line centralised within one subsidiary within the Group. CBM is planning to further develop and expand its cash handling business under INKAKHRAN brand by introducing new automated systems, acquiring new technological equipment and optimising internal operations.

At CBM's cash handling settlement centres, cash is physically delivered, counted and credited to customers' deposit accounts. CBM uses more than 810 armoured cash collection vehicles to perform its cash handling services. Following the transfer of CBM's cash handling assets to INKAKHRAN, the number of armoured cash collection vehicles is expected to be decreased through optimisation of cash handling routes. As at 1 December 2019, CBM had over 450 cash handling routes and over 2,600 cash handling service customers, of which 116 were banks, including Sberbank, VTB, Alfa-Bank and Russian Agricultural Bank. CBM's cash handling customer base is diversified across different segments of the retail trading sector, wholesale trading sector and financial sector.

Distribution Network

Branches and Cash Offices

As at 1 January 2020, CBM had 130 offices, including sixteen corporate banking centres dedicated to serving corporate customers and one retail banking business centre. In July 2018, CBM won the tender for the assignment of the retail deposits and accounts of Sovietsky Bank, which had its banking licence revoked. Under the approved mechanism, the DIA transferred all of Sovietsky Bank's retail deposits and accounts in the total amount of approximately RUB37 billion to the liabilities of CBM. In parallel, in order to finance the transition, the DIA provided an equivalent amount in cash (in the form of nostro accounts in cash and cash equivalents) for injection into CBM's assets. 26 retail branches of Sovietsky Bank, located, among other cities, in Saint Petersburg, Murmansk, Arkhangelsk, Tver and Kursk, were merged into and rebranded by CBM, and employees of the respective retail branches were fully included onto CBM's payroll. In July 2018, the former operational branch network of Sovietsky Bank, comprising 28 branches across 17 regions in Russia, has been fully integrated into CBM's branch network and is currently providing products generating fees and commissions under CBM's brand through 30 branches in 17 regions in Russia.

CBM's offices operate seven days per week, with extended opening hours to accommodate its customers' needs. At its corporate business centres, CBM offers individual services to its corporate

customers by assigning a personal manager to each corporate customer and providing on-going advisory services. At CBM's retail banking business centre, retail banking customers have access to the full range of CBM's retail banking products, a high level of customer service and the use of advanced technology to expedite document preparation and processing. CBM may selectively expand its branch network to some Russian regions in order to initially attract and process high-quality retail customers, with the expectation that such customers will transfer the majority of their banking operations to CBM's online banking system. In 2015, the branch network of CBM remained relatively flat (between 54 and 60 offices) and no massive expansion was executed as part of cost optimisation policy. In 2016, the number of branches grew from 61 to 91 aiming at active expansion of retail deposits. In 2017, the number of branches grew moderately from 91 to 100. During 2018 and 2019 CBM opened 35 additional branches.

As at 1 January 2020, CBM had 28 cash offices. These cash offices provide services relating to cash operations, money transfers and foreign exchange purchases and sales. The majority of CBM's premises used for cash offices are leased.

ATMs

As at 1 January 2020, CBM had over 1,100 ATMs in its ATM network. In addition, CBM's retail banking customers are able to use, free of commission, the ATMs of four other Russian banks: Rosgosstrakh Bank (formerly Russ-Bank), which has ATMs located in 60 Russian cities; AO UniCredit Bank; AO Raiffeisenbank and Alfa-Bank. CBM's customers can use ATMs in a network of more than 7,000 ATMs throughout Russia on the same terms as using CBM's ATMs.

Payment Terminals

In addition to its ATM network, as at 1 January 2020, CBM had over 6,800 payment terminals. CBM sees its payment terminal network as a relatively low-cost means of expanding its distribution and customer service network, and providing opportunities to acquire new customers. CBM's payment terminal network is one of the largest networks in Russia. CBM seeks to locate its payment terminals in areas with high customer traffic, such as cafes, shopping malls, airports and train stations. At CBM's payment terminals, customers may make a wide range of payments, including payments to more than 400 organisations for mobile telecommunications services, internet and cable television services, housing services, utilities services and traffic fines. Customers can also use CBM's payment terminals to open deposit accounts and make deposits, make wire transfers, and apply for and repay loans extended by CBM and other banks. CBM aims to continue to expand the functionality of its payment terminals by offering an increased range of related banking services from its payment terminals. CBM estimates that the cost of installing one payment terminal is approximately U.S.\$4,000, as compared to approximately U.S.\$12,500 for one ATM, or U.S.\$31,000 for an ATM with "custom" features, and payment terminals can be moved at a reasonable cost if locations do not meet targeted performance criteria. In addition to generating fee and commission income for CBM, CBM uses information obtained through its payment terminals as part of its risk management procedures. In particular, CBM uses certain information obtained through payment terminals of customers who have set up a payment terminal account with CBM to make credit decisions when making loans to such customers. Payment terminals also facilitate acquisition of new customers, as they are exposed to CBM's brand advertising, services and product offerings. According to CBM's estimates, more than half of the applicants for its retail loans in 2019 had used its payment terminals at least once prior to making applications. In December 2018, in order to strengthen its position on the payment terminals market, expand distribution and customer service network and further increase fee and commission income, CBM acquired a 49.78% stake in Elecsnet. Elecsnet is a payment service operator that provides consumers with a 24-hour access to electronic payments for goods and services, money transfers and account management through a wide network of 4,200 payment terminals located in 74 regions of the Russian Federation.

Internet and Mobile Banking

CBM provides a wide range of remote services for individual and corporate customers, in addition to its physical network of offices, cash offices, payment terminals and ATMs. As at 1 December 2019, CBM had over 280,000 remote banking customers, with the penetration level amounting to 34.7%. Furthermore, from 1 January 2019 to 31 December 2019, remote service transactions has increased by

56%, while transaction under CBM's "MKB Payments" service, which allows customers to make remote loan payments and card-to-card transfers, increased by 107% during the same period. CBM offers an internet banking system called CBM Online to its retail customers, and in 2012 CBM launched a mobile banking service application, CBM Mobile, which can be accessed through mobile phone, an iPad or similar devices based on the iOS or Android software platforms. In 2019, over 50% of CBM's retail customers carried out all of their banking operations on the internet banking platform. CBM also offers an internet banking system to its corporate customers called "Your Bank Online for Corporate Customers", through which corporate customers can request bank statements and make payments. CBM has also launched an online foreign exchange platform for its corporate customers, which is in high demand among CBM's clients.

Call Centres

CBM owns and operates a call centre in Moscow where it can receive incoming calls from potential customers and make outgoing calls for telemarketing purposes. The call centre is directly linked with CBM's payment terminals. The call centre has around 300 employees and is capable of processing over 550,000 incoming and outgoing calls per month.

Direct Sales Agents

Certain of CBM's employees act as direct sales agents and market CBM's products and services to employees of CBM's corporate customers at their premises. CBM's corporate customers are incentivised to cross-sell CBM's products. As at 1 January 2020, CBM had 27 direct sales agents.

Growth Prospects

CBM plans to optimise its branch network by closely monitoring performance and closing ineffective offices and opening new ones in more favourable locations that have higher customer footfall. In 2018, CBM opened several new offices in Moscow area. In order to manage costs, CBM plans to further distribute customers to remote and direct sales agent sales channels, which CBM's management believes will help to reduce the costs of loan underwriting and maintenance.

Information Technology

Information technology ("IT") is an integral part of CBM's operations. CBM's IT development policy aims at improving, optimising and enhancing its technologies and information systems in order to increase its competitive edge and improve the quality of customer services.

CBM has two secure data processing centres, each with its independent power supply and outfitted with fire safety and temperature control systems. These data processing centres operate as a single distribution data centre. Additionally CBM has rented space in two Tier 3 certified commercial data centres to implement fully reserved IT-infrastructure with disaster recovery facilities. Currently implementation of CBM's network in these commercial data centres is in progress. CBM uses software purchased from vendors such as Oracle, Microsoft, IBM, SAS, as well as in-house software developed by CBM specialists. All of CBM's systems are regularly reviewed and updated in order to ensure their reliability and data security. As at the date of this Prospectus, there have been no system failures which have materially affected CBM's operations.

In order to allocate resources for advancing its IT systems and to identify particular bottlenecks, CBM classifies its IT systems into four categories based on the required safety level and fault tolerance: Mission Critical, Business Critical, Business Operational and Office Productivity. It then commits its resources based on the category, thus ensuring an appropriate level of support for each IT system.

CBM's card processing centre is based on Compass Plus software. It was upgraded to MasterCard and Visa for contact and contactless chip card, Apple Pay, Samsung Pay, Google Pay technologies for cards issuing and MasterCard, Visa, JCB, UPI EMV/contactless and tokenisation technologies for processing card payments. The centre has its own personalisation bureau, ATM, point of sale terminal and kiosk networks. In 2017, the centre was upgraded to issue and process MIR cards, which are mandatory for use by all public sector employees and other persons collecting salary and certain other payments (such

as scholarships, pensions and other social payments) primarily from the Russian federal, regional and municipal budgets and non-budgetary funds after 1 July 2018 (in certain cases after 1 July 2020). In July 2017, CBM launched the issuance of MIR cards. In September 2019, CBM joined the National money transfer system (money transfers via telephone).

In 2014 and 2015, CBM made improvements to its retail customer relationship management (“**CRM**”) platform, created on the basis of Oracle Siebel CRM. New products have been added, including credit cards, commission products, schemes of first visit as well as the automation of claims activities and marketing systems. CBM then turned to corporate CRM implementation as the next stage in the development of a common CRM platform. The organisation of retail and corporate CRM onto a single platform allows CBM to synergise the relevant processes. In 2014, CBM also started to implement a loan factory for corporate business on the basis of the industrial platform “Forecast. Credit portfolio management”. In 2014-2016, CBM introduced a replacement of its back-office platform based on CFT-Bank industry solution. In 2018 CBM’s pre-design and system analysis was successfully completed, and the replacement of CBM’s back-office platform is scheduled for 2020.

In 2014-2016, the Group also implemented a contact centre technology based on Genesys solution and finalised the renovation of the Lukov data processing centre. In 2017, CBM replaced its former card processing system based on TSYS Card Tech software with the industry-leading Compass Plus solution.

CBM’s IT strategy thus encompasses the goals of the orderly development of front office systems as well as the upgrade of back office systems.

In general, CBM aims to maintain a continued focus on the development of its IT infrastructure, as well as on further development of its software layers and enhancement of its existing solutions. This strategy should allow CBM to gradually reduce its operational costs, increase operational efficiency, and expand its product range.

Insurance

CBM has a comprehensive (BBB/ECC/PI) insurance policy with Ingosstrakh, one of Russia’s major insurance companies, covering against CBM’s losses from intentional fraudulent actions of third parties and employees of CBM, as well as losses of third parties as a result of accidental or intentional illegal actions of CBM’s employees in the course of its banking activities. The cost of the policy varies with the changing level of insurable assets, and CBM monitors the coverage to ensure that it maintains an appropriate level of coverage.

In addition to the BBB/ECC/PI insurance policy, CBM also holds property insurance policies covering the buildings and premises owned by it. CBM also insures valuables in its premises, including physical cash in operating offices, payment terminals and ATMs, and also holds corporate and personal civil liability insurance policies and a property insurance policy covering its liability for injuries or damage to third parties in respect of rented premises. CBM is a member of the Retail Deposit Insurance System, such membership being mandatory for any Russian bank wishing to take retail deposits.

CBM has also purchased a Directors’ and Officers’ insurance policy from Ingosstrakh. The policy covers liability of the members of the Supervisory Board, Management Board, the Chairman of the Management Board and employees of CBM and its subsidiaries who perform management functions, or were previously such, or persons who will become such in the future. The policy provides for U.S.\$75 million coverage.

Employees

The following table sets forth the number of employees of CBM by functional business areas as at the

dates indicated below:

	As at 30 September				As at 31 December			
	2019		2018		2017		2016	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Cash handling ⁽¹⁾	1,365	15%	5,055	55%	4,256	55%	3,832	46%
Retail network.....	1,652	18%	1,083	12%	965	12%	816	10%
Retail.....	469	5%	568	6%	494	6%	663	8%
Corporate	435	5%	548	6%	375	5%	262	3%
Contact centre	262	3%	212	2%	248	3%	235	3%
IT	663	7%	538	6%	389	5%	335	4%
Other	4,440	48%	1,221	13%	1,006	13%	2,131	26%
Total	9,286	100%	9,225	100%	7,733	100%	8,274	100%

(1) The number of cash handling employees includes CBM's cash handling business and INKAKHRAN Group employees both in the head office and regional offices.

The average age of CBM's employees is 33 years, and approximately 52% of CBM's employees have a higher professional education. There are no collective bargaining agreements with CBM's employees.

The increase in the number of CBM's employees in recent years reflects the growth in CBM's business, including the opening of new offices.

CBM has its own corporate training centre where training specialists conduct various internal training programmes and courses on a regular basis. Training programmes are in place for all employees and management, including basic training for employees of any business line, skills training for the retail segment, a "Management Succession" program for the training of future directors of offices, a training and development programme for the underwriting department, a training and development programme for contact centre employees and a "Growth School" project.

CBM has incentive policies for employees in the areas of corporate banking, retail banking, underwriting, loan recovery, legal and contact centre. Approximately 60% of CBM's staff are covered by the incentive policies. The incentive policies provide for payment of bonuses based on achieving key quantitative performance targets or successful execution of specific projects defined for specific business areas or positions.

In April 2017, CBM completed a stock purchase plan introduced in 2016 and covered 250 employees. Through the plan, CBM enabled certain managers to purchase its shares with accrued bonuses. In 2016, participants of the program transferred a part of their annual performance bonuses to brokerage firms for the purchase of CBM's shares. The programme has allowed CBM to provide a combination of cash and non-cash remuneration to its employees, who in turn have become interested in the growth of CBM's equity value.

CBM does not have pension arrangements aside from the state pension of the Russian Federation. The Russian Federation pension system requires contributions from CBM in respect of its employees, calculated as a percentage of current gross salary payments.

Legal Proceedings

From time to time, CBM is the subject of legal proceedings and other investigations in the ordinary course of its business. As at the date of this Prospectus, there are no, and have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which CBM is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on CBM's financial position or profitability.

RISK MANAGEMENT

Introduction

CBM has a centralised and sophisticated risk management system and automated risk management processes. CBM believes that it has a well-balanced approach to managing credit risk versus expected returns, based on thorough client selection and differentiated offering of banking products for different types of clients, effective utilisation of client and transaction data (including information from cash handling business and payment terminals), advanced and automated underwriting, established monitoring and collection processes. In addition to managing credit risk, CBM constantly monitors its exposure to market risks, including interest rate, foreign currency, liquidity and operational risks, making corresponding changes when required to the products and services it offers.

CBM's risk management goals are to ensure stability and reliability, as well as protection of interests of its shareholders and customers in carrying out its principal activity and achieving the results envisaged by CBM's strategy. CBM's key risk management principles, instruments and functions of various bodies are set forth in the Risk Management Policy which is approved by the Supervisory Board.

CBM's existing risk management system adheres and conforms to the following principles:

- the principle of compliance with CBM's overall strategy in the most effective way (i.e. with maximum profitability and minimum risks);
- the principle of risk management independence. Risk management subdivisions cannot form part of any subdivisions taking risks and fulfilling CBM's business plan or report to a senior manager who supervises any such subdivisions;
- the principle of risk management responsibility for the methodological, analytical, control and coordinating role in CBM's overall risk management system;
- the principle of minimisation of risks at the level of CBM's senior management and collegial bodies;
- the principle of taking measures to minimise the probability of risks and/or to reduce the consequences of accepted risks;
- the principle of standardisation of products, services and procedures applied in any office of CBM to reduce unexpected risks as a result of human error;
- the principle of three-level risk management: (i) strategic: risk management at the level of CBM group as a whole; (ii) tactical: risk management at the level of specific business areas; and (iii) operative: risk management at the level of individual counterparties (borrowers, issuers), exposures, instruments and processes;
- the principle of full integration of the risk management function into the corporate governance procedure: all processes in CBM should be built in accordance with the risk management policies and standards. The risk management function must be involved in any decisions made to develop or implement new, or upgrade existing objectives, plans or products of CBM, and in setting priorities in its activities;
- the principle of a risk management system as a centralised structure responsible for managing all significant risks;
- the principle of division of risk management functions into risk determination, discovery, assessment, monitoring and reporting, control;
- the principle of awareness and engagement of all departments into approaches and methods of risk management;

- the principle of risk analysis whereby all risks are accepted only following a detailed analysis by CBM's risk management function. CBM does not accept any risk that has not been assessed quantitatively and/or qualitatively; and
- the principle of influence of the quality of organisation of the risk management system and the level of accepted risk on the remuneration, compensation and incentives of executives responsible for assumption of risks by CBM.

In addition, in accordance with the Internal Capital Adequacy Assessment Process (“ICAAP”) requirements, CBM has a Risk and Capital Management Strategy, which is also approved by the Supervisory Board. The Strategy outlines internal capital adequacy management methodology, and provides for principles for material risks designation, the principle of risk management representatives in place at all of CBM's collegiate bodies that have the authority to assume any type of risk, analysis and forecasting, assessment of CBM's planned capital limits and structure, as well as the respective reporting system. CBM's capital adequacy management goals include:

- compliance with regulatory capital adequacy ratios established by the CBR;
- provisioning of CBM's financial stability, including in the event of the deflationary macroeconomic conditions; and
- maintenance of CBM's capital base at the level compliant with Basel standards.

CBM's reporting system enables it to ensure effective risk and capital adequacy management and provides for proper compliance of the managerial decisions with applicable standards and regular participation of the Supervisory Board and other CBM's governing bodies in capital adequacy management activities. The reporting system sets out key measures to enhance CBM's risk management and ensure its regulatory compliance through measures such as automation of risk management and control processes, as well as development and implementation of advanced risk evaluation methodologies.

The Risk Management Directorate is responsible for consolidation of all reported information and preparation of reports on all material types of risks.

Organisational Structure

CBM's risk management functions are carried out by several collegial bodies and internal divisions that are responsible for establishing risk management policies and procedures, including the establishment of limits, and implementing CBM's policies and procedures, including monitoring and controlling risks and limits on a continuous basis. Below is a description of CBM's principal risk management bodies.

Supervisory Board

The Supervisory Board is a governing body reporting to the General Shareholders' Meeting. The Supervisory Board has overall responsibility for the establishment and oversight of CBM's risk management framework. The functions of the Supervisory Board include:

- overall management and establishment of CBM's priority lines of business and strategic goals of risk management;
- approving CBM's risk and capital management strategy and policy, as well as approving the risk management procedures with regard to CBM's most significant risks (including the upper limits for risk appetite indicators), and supervising their implementation;
- approving the procedure for application of methodologies for managing risks and models of quantitative risk assessment, including assessment of CBM's assets and liabilities, off-balance sheet commitments, as well as scenarios and results of stress-testing (in the cases contemplated by the law);

- approving the procedure for preventing conflicts of interests, solvency restoring plan in the event of material deterioration of CBM's financial position and business continuity action plan (in the cases contemplated by the law);
- approving large and interested party transactions (as defined under Russian law) and transactions with related parties (as defined under IFRS) in the cases and in accordance with the procedures contemplated by CBM's Charter and the current legislation; and
- reviewing ICAAP reports and overall efficiency of risk management performance, reports on material risks and results of respective stress testing, reports on regulatory ratios compliance and results of capital adequacy analysis.

Audit and Risk Committee

The Audit and Risk Committee is formed under the Supervisory Board. The committee's functions include:

- maintaining efficiency of internal control and risk management procedures;
- reviewing ICAAP reports and overall efficiency of risk management performance, reports on material risks and results of respective stress testing, reports on regulatory ratios compliance and results of capital adequacy analysis prior to such review being carried out by the Supervisory Board;
- maintaining the Supervisory Board's control over activities of CBM's executive bodies and ensuring co-operation with CBM's executive bodies on matters within the committee's competence; and
- implementing and promoting a culture of risk management within CBM.

Management Board

The Management Board is the executive body which is responsible for CBM's operations and the implementation of decisions of the General Shareholders' Meeting and Supervisory Board. The Management Board is responsible for the overall direction of CBM's activities and makes decisions with respect to CBM's day-to-day operations. In practice, the Management Board meets twice a week and holds extraordinary meetings as necessary. The Management Board's functions include:

- implementation of decisions of the General Shareholders' Meeting and Supervisory Board, as well as recommendations of the Audit Commission, overseeing CBM's risk management activity and ensuring effective implementation of the Risk Management Policy;
- forming committees and delegating to such committees part of its authority under the relevant regulations;
- approving internal regulations, policies, guidance, instructions, rules and other internal documents;
- allocation of the values of risk appetite indicators established by the Supervisory Board across CBM's divisions, products, operations and instruments;
- reviewing and approving ICAAP reports and overall efficiency of risk management performance, reports on material risks and results of respective stress testing, reports on regulatory ratios compliance and results of capital adequacy analysis; and
- establishing base interest rates and tariffs for banking services.

Corporate Credit Committee

The Corporate Credit Committee is a collegial body reporting to the Management Board that is responsible for the implementation of CBM's corporate lending policies and is composed of representatives of all subdivisions concerned. The Corporate Credit Committee meets as often as necessary. The Corporate Credit Committee's responsibilities include the following:

- coordinating CBM's lending activity;
- management of CBM's credit risks through approving and changing credit limits, approving credit and certain other qualified transactions within its authority, including transactions and limits that require subsequent approval of the Management Board;
- controlling the quality of CBM's loan portfolio;
- approving all restructurings of corporate customers' loans within its authority; and
- qualifying problem loans and approving roadmaps for management of problem loans.

Retail Credit Committee

The Retail Credit Committee is a collegial body reporting to the Management Board and responsible for implementation of CBM's retail lending policies and is composed of representatives of all subdivisions concerned. The responsibilities of the committee include approving loans to individuals and restructuring conditions on an individual basis. The Retail Credit Committee meets as required and its responsibilities include the following:

- approving loans to individuals;
- taking decisions on acceptance of new individual borrowers;
- approving restructurings of retail loans; and
- approving any assignment of retail loans, as well as applicable discount for security in case of its enforcement.

ALCO

The Assets and Liabilities Committee ("ALCO") is a collegial body reporting to the Management Board and responsible for establishing the strategy for the attraction and allocation of funds, the strategic and operating management of risks related to the deterioration of capital and liquidity, and currency and interest rate risks, as well as the implementation of CBM's investment policy. ALCO meets as required and its functions include:

- managing CBM's internal pricing system and liabilities pricing policy;
- managing CBM's assets and liabilities structure;
- defining the structure of CBM's portfolio of financial instruments used for liquidity management purposes;
- managing CBM's capital ratios;
- managing CBM's balance currency risk;
- managing CBM's market financial instruments risk through determining risk management and risk control instruments;
- managing CBM's liquidity and CBM's liquidity loss risk;
- managing CBM's balance interest risk; and

- forming the principles of the system of funding of CBM's operations.

Risk Management Committee

The Risk Management Committee is a body reporting to the Management Board and responsible for the implementation of CBM's risk management policy with respect to credit, market, operational, legal and compliance risks. The Risk Management Committee meets on an average of once a week. The functions of the Risk Management Committee include:

- approving methodologies and algorithms for calculating risk indicators (risk metrics) and limits;
- elaborating on recommendations to CBM's management bodies on the methods and instruments to reduce risk, optimise balance between risk and profitability in corporate and retail business lines;
- approval of policies, regulations, orders and other internal procedures proving for risk management system of CBM, as well as giving recommendations as to their improvement (within authorities delegated by the Management Board);
- approving changes in CBM's internal processes relating to credit risk taking;
- review and approval of the internal regulations proving for goals, principles and procedures for CBM's risk management system, its evolution and list of material risks (prior to their approval by the higher governing bodies of CBM);
- development of recommendations for CBM's superior management bodies as to the maximum level of credit risk assumed by CBM in respect of each business and economic sector, region and country (credit risk allocation); and
- monitoring the quality of CBM's loan portfolio, in whole or with respect to certain segments, through risk metrics.

Risk Management Directorate

The Risk Management Directorate is a specialised independent risk management division that reports to the Chairman of the Management Board which elaborates, implements, performs and improves CBM's risk management system. In addition, the Risk Management Directorate is responsible for managing credit, market and concentration risks, as well as acting as a second line of control managing liquidity, FX and interest rate risks at the strategic level.

The functions of the Risk Management Directorate include:

- ensuring the efficiency of CBM's risk management system in compliance with CBM's Risk Management Policy, international practices, regulatory standards of the CBR and other regulatory authorities;
- ensuring efficient managerial decision-taking system with regards to risk management;
- development, enhancement and application of the quantitative (including models of internal credit ratings whenever relevant) and qualitative (creditworthiness analysis) analysis of the credit and market risks, as well as concentration and currency risks;
- elaborating, agreeing and supporting CBM's various internal regulations governing the risk management system together with other CBM's departments;
- evaluating, analysing and preparing an independent opinion on credit risks and concentration risk within the existing credit process and financial market operations process, providing recommendations on their management;
- developing, planning and controlling of risk appetite tests, including limits and red flags;

- developing and revision of CBM's Risk Management Strategy;
- developing functional requirements for CBM's IT-systems (volume and quality of data, programme complexes, etc.) required for performance by the divisions of its goals, participation in their implementation and testing;
- development, enhancement and application of CBM's risk limits system, control over implementation of certain risk limits;
- participating in development and implementation of procedures for identification of potentially problematic loans and bad debt recovery;
- monitoring of the macroeconomic environment as a whole or in certain industries, as well as forecasting CBM losses depending on the distribution of the loan portfolio by industries;
- developing risk management reporting system;
- identifying and reporting credit risk factors to CBM's divisions and management on an ongoing basis, including through the system of daily, monthly and quarterly reporting across business lines;
- developing and managing the methodology, rules and description of the corporate lending process;
- identifying significant risks;
- regular stress-testing of significant risks;
- developing, enhancing, documenting and supporting the corporate loan origination process;
- monitoring of the lending activities of CBM's divisions;
- developing, enhancing and applying methods of calculation of value and liquidity of property accepted by CBM as collateral and receiving an independent expert opinion as to the advisability of accepting certain types of property as collateral;
- implementing control measures in respect of corporate clients aimed at ensuring (i) compliance of the credit decisions made by the authorised bodies and persons with CBM's authority limits; (ii) consistency of CBM's loan and collateral documentation with the credit decisions adopted by the authorised bodies and persons; (iii) consistency of generated instructions with the conditions of the loan and collateral documentation and the requirements of CBM's accounting policy; and (iv) clients' compliance with suspensory conditions (conditions entering into force after the execution of loan and collateral documentation) envisaged by the decisions of authorised persons and bodies; and
- developing, enhancing and applying algorithms of accounting for results of quantitative assessment of credit risk in the course of provisioning for CBM's loan products (as part of CBM's IFRS financial statements).

At the meetings of the Credit Committees and the Risk Management Committee, the officers of the Risk Management Directorate have a veto right.

Compliance Department

The Compliance Department is CBM's independent structural subdivision which performs internal control functions at CBM, and reports to the Chairman of the Management Board. The main responsibilities of the Compliance Department include:

- ensuring CBM's compliance with Russian legislation, including CBR regulations;

- ensuring an efficient and reliable system of internal controls;
- ensuring that neither CBM nor its employees are involved in unlawful activity, including money laundering and terrorist financing, as well as provision for timely reporting to the regulatory authorities of the Russian Federation;
- ensuring identification, recording and coordination of risk management activities in terms of loss prevention that may occur as a result of a failure to comply with federal laws and other regulatory requirements of the Russian Federation, internal documents of CBM, imposed sanctions and/or application of other enforcement measures from supervisory and regulatory authorities;
- development and implementation of internal regulations that provide for operational (including legal and compliance) and reputational risk management;
- effecting procedures aimed at compliance with corporate ethics rules;
- identification of the conflicts of interest and control over the existence of any conflict of interest;
- timely assessment of the operational risk (including legal and compliance);
- quantitative and qualitative analysis of the operational risk and control over implementation of operational and reputational (including legal and compliance) risk limits; and
- informing the Risk Management Directorate on the results of assessment of risk indicators and compliance with established limits and red flags with regard to operational (legal and compliance) and reputational risks.

Financial Department

The Financial Department is a structural subdivision reporting to the Chairman of the Management Board and is responsible for the implementation and development of strategic risk management. The main functions of the Financial Department are as follows:

- elaborating on CBM's development strategy;
- planning and controlling the performance of CBM's key operational indicators;
- planning and controlling CBM's capital including separation by type of risks, establishing of red flags and capital limits, as well as monitoring of allocated capital against the purposes and tests;
- participating in planning of risk appetite indicators, as well as controlling their performance;
- controlling CBM's compliance with regulatory and management ratios;
- independent validation of rating/scoring models; and
- informing the Risk Management Directorate on the results of assessment of risk indicators and compliance with established limits and red flags with regard to strategic risks.

Treasury

The risk management functions of the Treasury are as follows:

- implementation of a liquidity forecast and preparation of proposals for the optimisation and management of the currency and term structure of CBM's balance sheet;
- implementation of the analysis and forecast of mandatory liquidity ratios;

- conducting research for the development of a pricing system, as well as an asset and liability management system of CBM;
- preparation of proposals for changing the pricing of active and passive operations of CBM in terms of accounting for the cost of resources and supervised types of risks;
- development/maintenance of internal regulatory documents of CBM on liquidity management and supervised types of risks;
- development of a methodology for determining treasury commissions (early repayment commissions and commitments) and spreads used to minimise the interest rate risk of the banking book and the risk of loss of liquidity;
- monitoring of compliance with capital allocation indicators with target, signal values and limit values;
- assessment and monitoring of risk indicators and monitoring compliance with limits on the risk of liquidity loss and interest rate risk of the banking book;
- informing the Risk Directorate of the results of risk indicator assessment and compliance with the established limits and signal values for the risk of liquidity loss and interest rate risk of the banking book within the framework of ICAAP.

Other Divisions

Other internal divisions perform other functions relating to risk management in accordance with CBM's Risk Management Policy and other internal policies and regulations.

Internal Audit Department

The Internal Audit Department is CBM's structural subdivision, and is controlled by and reports directly to the Supervisory Board. The main responsibilities of the Internal Audit Department include ensuring compliance with requirements of efficiency of CBM's risk management analysis, and providing independent analysis and recommendations based on the results of CBM's internal audit aimed at an increase in efficiency of internal control systems, risk management and corporate governance.

Significant Risks

Under the ICAAP framework, CBM annually identifies the most significant risks. The results of the risk identification procedure are provided to the Supervisory Board and recorded in the Risk and Capital Management Strategy. In 2019, CBM identified credit risk, market risk, operational risk, risk of concentration, interest rate risk, liquidity loss risk, currency risk, reputational risk and strategic risk to be of significance to CBM.

Credit Risk

Credit risk is the main risk to which CBM is exposed to given the nature of its business and balance-sheet structure. The source of this type of risk is CBM's exposure to losses due to non-performance, late or partial performance by a debtor of its financial obligations to CBM under existing agreements, as well as the deteriorated condition of its borrowers, counterparties or securities issuers.

CBM has a multi-level comprehensive credit risk management system allowing it to minimise the risk of losses in lending. CBM creates credit loss allowance for its lending operations in line with the risk it assumes strictly in accordance with the CBR's recommendations and requirements. In light of the ICAAP requirements, since June 2017, the function of developing scoring models for assessing the risk of retail customers has been transferred from the Retail Lending Department to the Risk Management Directorate. At the same time, the Financial Department created a centralised function of independent validation of quantitative risk assessment models (including rating and scoring models). In 2015, and in response to the crisis macroeconomic phenomena, the credit analysis function was included in the

functionality of the risk management unit in order to strengthen the credit risk management system. In 2019, qualitatively structured processes and procedures for credit analysis were excluded from the functions of the Risk Directorate, and the corresponding unit was withdrawn from its composition. These functions are now concentrated in an independent unit of the Credit Analysis Department, thereby eliminating a formal conflict of interest. The Credit Analysis Department reviews counterparty projects with a need for working capital, as well as narrowly targeted investment and complex structured projects for financing counterparties.

To reduce its exposure to credit risk, CBM has limited the total amount of credit risk per borrower (group of related borrowers). All lending limit requests will trigger an independent risk measurement by the Risk Management Directorate, which is aimed at a comprehensive and thorough analysis of potential borrowers. Credit risks are managed based on limits set for various types of transactions and subject to the regular monitoring of borrowers' creditworthiness. CBM also thoroughly and prudently analyses potential and current borrowers in respect of their economic security, evaluates collateral taken to secure borrower obligations to CBM and monitors its availability and changes in its actual value throughout the entire life cycle of the loan product. All loan-related documents are subject to comprehensive due diligence. The credit risk includes:

- *risk of default* – the probability of losses as a result of default by the borrower due to failure to comply with the agreement, as well as a result of a worsening of the financial condition of the borrower, counterparty or issuer of securities; and
- *risk of counterparty* – the probability that the counterparty will fail to comply with the agreement by the settlement date under the agreement. The transactions are not made without the prior assessment of the financial condition of the counterparty.

Corporate Loan Approval Process

CBM manages its credit risk by placing credit limits on the borrowers. Limits are placed in accordance with the respective internal regulation, approved by the Management Board. Borrowers are provided with lending limits and sublimits depending on the purpose of the loan. Each corporate client of CBM has a dedicated client manager, who is responsible for the sale of CBM's products and services to that client, including maintenance of the current loan portfolio of the client. CBM scrutinises ongoing credit transactions of its corporate clients, oversees the client's compliance with covenants and credit limits, and generally monitors the client's activity.

Upon the receipt of a loan application, client managers perform completeness check of all the required documentation and participate in the structuring of the loan. The financial analysis of an applicant is performed by a specific division within CBM. This division is independent from business units. Employees of the specific division are motivated based on their individual performance as well as by the division's KPI. Financial analysis is performed in two stages (i) a preliminary analysis based upon a limited number of documents aimed at a fast elimination of ineligible applicants; and (ii) full financial analysis of the applicant by respective expert divisions of CBM.

CBM constantly improves its collateral evaluation policies. CBM accepts different types of assets as collateral from its corporate clients. The value of the collateral offered by the borrower is generally evaluated by the Assessment Division (a subdivision within the Corporate Risks Division of the Risk Management Directorate). Motivation programmes for employees of this division are based on individual programmes as well as division KPI. CBM engages external specialists on a contractual basis in cases where it requires additional capacity.

The authorisation system for risk approval of corporate loans is regularly reviewed by the Management Board. Level of the authorisation depends on the amount of credit risk exposure and risk management authority of the particular division or employee of CBM, as well as compliance with CBM's Loan Policy (with applications outside the scope of the Policy being escalated and subject to approval by a higher-tier body regardless of the principal amount of the respective loans).

Applications for corporate loans are subject to approval by the Supervisory Board pursuant to the terms of the Shareholders' Agreement (see "*Shareholders – Shareholders' Agreement*") and the requirements of Russian legislation. In turn, the Management Board establishes lending limits and has to approve loans in excess of RUB1,500 million or if the terms of a transaction deviate from CBM's standard lending terms. Lending limits or loans with a principal amount up to RUB1,500 million are approved by the Corporate Credit Committee, whereas lending limits or loans with a principal amount up to RUB300 million are approved by the Small Credit Committee. Loans with a principal amount up to RUB30 million per customer are subject to approval by CBM's authorised officers.

Retail Loan Approval Process

Loan applications for retail clients are completed by the applicant. As part of their loan application, individuals must provide information on their income, the purpose of the loan and the proposed collateral (where applicable). CBM has a multichannel distribution network (including in regions outside Moscow and the Moscow Area, based on the former regional network of Soviety Bank), which includes offices, payment terminals, a call centre and online banking through which applications for retail loans can be made.

In its retail loan approval process for general purpose consumer loans and credit card loans, CBM uses the Siebel 8 CRM module platform, which is integrated with SAS Real-Time Decision Manager, online decision making module developed by SAS. It allows the consolidation of all risk procedures for credit application processing, including:

- determining risk strategy for application processing;
- automated processing of various internal and external informational verification sources with respect to a borrower, including credit bureaus, scoring bureaus, information on client's payments through CBM's payment terminals, the history of using by the client of CBM's products, "stop-lists";
- determination of the client's compliance with minimum requirements and client profile;
- identification of the client segment category;
- checking the pre-approved decisions on credit products;
- scoring of default probability using a combined application/behavioural scoring model developed by CBM based on SAS Credit scoring;
- calculation of lending limits, validation of pre-approved credit products and forming credit products for cross-selling (if available); and
- routing of further application processing, including the possibility of automated decision making, choosing stages of underwriting verification and authority level for decision making.

Depending on the client category and risk level, credit application processing involves the participation of a credit specialist (underwriter) who takes additional measures for the verification of a credit application. Underwriters are independent from business units, are based in a separate structural unit and report directly to a Vice President, who in turn reports to the Chairman of the Management Board of CBM. For existing CBM clients which meet certain criteria, such as having a default probability that falls below certain thresholds, a decision on a credit application for a consumer or credit card loan is taken automatically based on the relevant scoring model. For other clients, an underwriter implements verification stages offered by the system, including telephonic verification of contact data, analysis of specified income and expenses, verification of the documents provided and confirmation of the borrower's employment. The extent of verification (i.e. light checks or a more comprehensive verification) depends on the client's risk profile. The results of the underwriter's decision are processed through SAS Real-Time Decision Manager. The final decision on an application is taken upon completion of all applicable automated and manual stages of application verification, together with the accepted parameters of a credit product of cross selling. The Retail Credit Risk Division determines,

subject to approval by the Risk Management Directorate, lending limits for standard retail products and calibrates the decision making system accordingly as well as sets internal procedures and instructions for underwriters. There is flexibility if there is i) timely and efficient regulation of authorisation or cut-off levels; and/or (ii) applications routing, depending on the risk appetite and lending strategy. A significant proportion of general purpose consumer and credit card loans are issued on a pre-approved basis. CBM identifies existing clients as well as new clients with verifiable positive credit profiles to whom CBM may offer credit products or increase limits for existing products and pre-approves the relevant products or limit increases. Loan applications made by such clients still go through the scoring and necessary underwriters checks.

All mortgage loan applications are processed by an underwriter. Levels of authority of risk acceptance and particular persons authorised to make decisions with respect to retail loans approval are determined by the Management Board. Different types of loans have varying threshold amounts, and depending on the threshold amount, it can be qualified as applications are subject to mandatory review by one or other risk management body. For example, general purpose loans filed by business owners are reviewed, *inter alia*, by the Corporate Risk Management Department if they exceed specified limit.

In general, loans exceeding RUB10 million are submitted for review by the Retail Credit Committee, while loans exceeding RUB1,500 million are subject to approval by the Management Board. Authority limits for Deputy Chairs of the Management Board are set at RUB10 million.

Collateral

To limit risks, and as required by CBM's existing internal regulations, CBM requires that corporate loan products are secured by either a pledge or pledge of assets or a suretyship or guarantee, except for i) bank guarantees, overdraft type credit products and other short-term financing for up to 90 days to CBM's largest top-quality borrowers, and ii) some retail loan products. Collateral is evaluated by the Assessment Division and/or accredited independent appraisal companies. Collateral is also subject to the Legal Division's legal assessment. The collateral portfolio is revaluated and maintained on the basis of regular on-site visits. CBM's collateral policy sets the principles and standards to be applied to collateral, provides a list of acceptable assets, establishes assessment criteria, applicable discount rates, monitoring and revaluation parameters.

CBM uses an established set of procedures, including information analysis, assessment, monitoring and revaluation to determine acceptable credit risk/collateral ratios as well as to identify physical changes in the pledge status as well as potential changes in the business environment.

In the course of 2016-2018, CBM adopted a new methodology for the value appraisal of collateral, establishing the algorithms to be used for the calculation of assessed value with respect to each type of collateral. Additionally, CBM formalised the rules and internal accreditation policy applicable to the process of selection of independent appraisal companies. CBM also revised the standard collateral discounts values, increasing them based on a testing conducted in respect of disposed collateral of defaulted clients. Further, in accordance with the existing market infrastructure, CBM expanded the list of non-liquid assets which are not accepted as collateral.

Corporate loans are secured by real estate and other property, equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities and promissory notes. Assets are subject to haircuts based on CBM's internal discounting matrix elaborated for various types of assets and varies depending on their quality, liquidity and certain other factors.

CBM's mortgage and car loans are secured by the underlying real estate and vehicle respectively. CBM's Corporate Risk Management Division establishes and controls reports of accredited independent appraisal companies for mortgage loans and confirms reports for pledged assets with a value exceeding RUB15 million. Credit card overdrafts and other loans to individuals are not secured.

CBM conducts ongoing collateral monitoring with respect to both corporate and retail clients to confirm the actual condition and value of collateral, and to efficiently identify any possible legal risks which could affect the quality of the collateral portfolio. The current value of collateral is regularly assessed by either independent appraisers or internal specialists and in the event of negative movements in market

prices, additional collateral is usually required from corporate borrowers. The Corporate Risk Management Division reports any breaches identified to CBM's authorised bodies and makes recommendations as to how to mitigate the risk of loss of collateral.

The following table sets out information on collateral securing loans to CBM's corporate customers, net of credit loss allowance, by types of collateral as at 31 December 2018, 2017 and 2016.

	As at 31 December		
	2018	2017	2016
	RUB millions		
Real estate and other property	129,339	115,225	90,256
Securities	35,022	94,073	78,106
Equipment and motor vehicles.....	12,297	30,217	33,036
Goods in turnover	7,013	10,132	16,380
Claims for contract receivables.....	56,403	7,086	9,827
Guaranteed deposits	89	68,896	4,992
CBM's own debt securities	13	160	1,116
Corporate guarantees and no collateral	377,735	360,148	299,757
Total loans to corporate customers.....	617,911	685,937	533,470

Loan Portfolio Monitoring and Control and Loan Recovery

Corporate Loans

The monitoring of credit exposure on corporate loans is carried out for all clients on a continuous basis. The Corporate Risk Management Division performs general portfolio monitoring on a quarterly basis. This process involves the assessment of the overall loan portfolio quality, including the total number and amount of overdue loans, breakdown of loans by risk groups, regional, industrial, currency and product breakdowns, the observance of limits and an assessment of overall profitability.

Quarterly monitoring of individual credit exposures is performed by a number of CBM's internal divisions, including the corporate business divisions, cash handling service (on the basis of INKAKHRAN) and Collateral Appraisal and Loan Portfolio Monitoring Unit, which undertake ongoing monitoring of a borrower's compliance with its lending restrictions, financial performance and creditworthiness and repayment profile to reveal potential issues and to identify any deterioration in credit quality. Any deviations are reported to the Corporate Risk Management Division. The review is based on the borrower's most recent financial statements, data obtained from credit history bureaus, and other information submitted by the borrower or otherwise obtained by CBM.

Clients who have shown signs of distress (such as breach of financial covenants, loss of collateral, decrease in the amounts of cash handled for collection, etc.) are transferred to the individual monitoring mode. Depending on the characteristics of warning signals, a specific set of measures may be applied to manage their loans.

Clients may be recognised as problematic on a case-by-case basis by the Management Board or the Corporate Credit Committee, which also determines the strategy for further work with such clients. Corporate loan recovery is dealt with on a case-by-case basis, and may include loan restructuring, including loan extension and increase of collateral, acceleration of debt, court proceedings, foreclosure and sale of collateral, attachment of accounts, claims under guarantees or assignment of claims under relevant loans to third parties. In some cases, the ability to control the flow of funds on clients' accounts through direct debit rights enables CBM to effectively collect the loan without court proceedings. CBM's Legal Division may also delegate certain actions with respect to collection of past due loans to a collection service.

Retail Loans

To limit exposure with regards to retail loans, CBM carries out the monitoring of repayments under individual loans on an automated basis. In addition, based on information from CBM's internal sources as well as from credit bureaus, a behaviour scorecard is applied to each existing client on a daily basis to assess the actual situation and to take portfolio-specific action whenever required. The Retail Credit

Risk Division regularly undertakes a comprehensive and system-wide monitoring and analysis (including factor analysis) of retail loan portfolio quality, including breakdown of loans by various criteria such as products, client categories, sales channels, social profile, overdue loans and others. As of 2017, CBM has expanded its retail credit risk reporting system. In particular, CBM regularly forms reports on the profitability of its loan portfolio (with KPIs being set on a quarterly basis) and has been devising a system of reporting on the effectiveness of its retail lending procedure (with certain KPIs to be applied to each of the stages).

Retail clients will be automatically recognised as problematic if they have a payment overdue for more than 90 days, or if there exists reliable information on a loan's potential non-recoverability (death, fraud, loss of collateral, etc.), based on the opinion of CBM's Collection Department.

Retail loan recovery is based on the following procedure:

- **Pre-collection.** Beginning from 10 days prior to the due date, CBM sends reminders, usually in the form of an SMS text message to a borrower's mobile phone, to inform the borrower about the upcoming due date, in order to prevent loans from becoming past due. The majority of CBM's retail loans contemplate a securing payment to be made 10 to 15 days before the regular due date in consideration of getting a better interest rate on the relevant loan. In addition, CBM has implemented a recurrent payments system enabling direct debit from clients' cards issued by third party banks where this has been agreed by the clients in the relevant loan agreements.
- **Soft collection.** From the first day after the due date and for up to 60 days, the Past Due Loans Division of CBM's Retail Lending Department interacts with debtors for confirmation of payment or fraud detection through phone calls, emails, voice mail, letters and SMS. This procedure is aimed at motivating the customer to repay the debt. Further collection actions are determined based on the results of previous activities and debtor's response. In general, soft collection measures are applied until up to 150 days past the due date.
- **Hard collection.** After 150 days have passed since the due date, the loan will either be sold to a collection agency or its terms will be re-negotiated by a collection service that works with CBM under an agency agreement. CBM reviews the efficiency of collection agencies through a change in the agency after 90 days, if applicable. In this regard, CBM cooperates only with eligible debt collection agencies from the list of agencies selected and which are approved by CBM's Management Board through a consideration of regularly reviewed efficiency criteria among the agencies included in the State Register of collection agencies licensed by the Federal Bailiffs' Service. The procedure for claiming the debt includes negotiating with the borrower or guarantor, mailing an official claim to the borrower, commencing pre-trial proceedings and visiting the client in an attempt to negotiate settlement. When the preceding measures have been exhausted, CBM institutes legal collection, court proceedings, court enforcement proceedings, arrest of pledge and sale of property.

Asset Quality, Provisioning and Write-off Policy

CBM classifies loans overdue over 90 days as NPLs. The level of CBM's NPLs as a percentage of total gross loans to customers was 3.7%, 1.6%, 2.4% and 2.3% as at 30 September 2019, 31 December 2018, 2017 and 2016, respectively. NPLs in CBM's corporate loan portfolio accounted for 3.7%, 1.2%, 2.0% and 1.4% of gross loans to corporate customers as at 30 September 2019, 31 December 2018, 2017 and 2016, respectively. NPLs in CBM's retail loan portfolio accounted for 3.7%, 4.3%, 5.6% and 7.3% of gross loans to individuals as at 30 September 2019, 31 December 2018, 2017 and 2016, respectively. See – “*Operating and Financial Review – Past Due Loans*” and “*Operating and Financial Review – Significant Factors Affecting Results of Operations and Financial Position – Loan Portfolio and Provisioning*”.

CBM writes off its NPLs and the respective allowances for impairment only if it believes that actions to recover debt would incur more costs than the amount recovered. Under CBM's internal policy, an NPL can be written off on the basis of a decision by the Management Board, provided that there are documents evidencing the impossibility of recovering the debt, such as judicial orders or documents

issued by state authorities. In respect of retail loans, write-off is usually executed once the relevant loan is at least 450 days past due (in case of unsecured loans) or 720 days past due (in case of secured loans, including mortgages), as compared to the corporate portfolio in respect of which decisions are guided by individual factors rather than the overdue period alone.

Market Risk

The source of this type of risk is CBM's exposure to losses and negative consequences due to adverse changes in the market value of the financial instruments in its trading book such as derivatives, exchange rates of currencies and/or precious metals.

The market risk includes the following types of risks:

- *instrument interest rate risk* – the risk of negative consequences due to adverse changes in interest rates on instruments of the securities portfolio (in particular, the risk of negative revaluation of the securities portfolio due to changes in interest rates on fixed-income debt instruments);
- *currency risk* – the risk of negative consequences arising from changes in foreign exchange rates and/or precious metals due to adverse changes in the value of financial instruments nominated in foreign currency and/or precious metals included in the trading portfolio. The basis for calculating the magnitude of the currency risk of a trading portfolio is the amount of interest and stock risks on instruments nominated in foreign currency;
- *equity risk* – the risk of negative consequences arising from unfavourable changes in market prices for stock values (securities, including options) of the trading portfolio and derivative financial instruments under the influence of factors related both to the issuer of stock valuables and derivative financial instruments, and general fluctuations in market prices for financial instruments.

Operating in the financial market, CBM assumes risks of instruments in its trading portfolio (risks of adverse changes in the prices of equity instruments, changes in interest rates of fixed income debt instruments, as well as changes in currency exchange rates and the resulting negative revaluation of its trading portfolio).

CBM manages market risk as required by the CBR's regulations and also uses internal methods which are compliant with the Basel guidelines.

CBM manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity, currency positions and stop-loss limits. Limits and positions are monitored on a regular basis, reviewed and approved by CBM's ALCO. All market operations are also performed within credit risk limits established by the Management Board, ALCO and Corporate Credit Committee. In addition, CBM uses stress tests to model the financial impact of different market scenarios.

CBM has a conservative policy with respect to its securities portfolio and trades securities on a proprietary basis solely for the purpose of managing its liquidity. The majority of CBM's securities portfolio was represented by bonds in the CBR Lombard List. In order to assess the market risk, CBM calculates maximum exposure per security as well as value-at-risk measure for the whole portfolio.

Balance Currency Risk

Since its assets, liabilities and other commitments are denominated in several currencies, CBM is exposed to currency risks as fluctuations in the foreign currency and exchange rates will have an effect on its financial position and cash flows. CBM's currency risks primarily arise where it raises funds in foreign currencies, as well as due to the fact that CBM undertakes the majority of its operations in its domestic currency.

CBM conducts foreign exchange activities both for its own account and on behalf of customers. CBM uses currency forwards to hedge its foreign currency exposure and to manage its liquidity position.

By setting appropriate limits, CBM manages the currency risk of the balance sheet and limits the value of the open currency positions of CBM. ALCO sets limits on the level of exposure to currencies in compliance with the minimum requirements established by the CBR. The following measures are taken to manage CBM's currency risk:

- CBM monitors its open foreign currency position in certain foreign currencies and precious metals to ensure it is below the 10% limit of CBR Instruction No. 178-I;
- limits are set on the amount of CBM's open position in each currency and are regularly reviewed using value-at-risk methodologies, with limits on losses related to unfavourable currency exchange rate changes (stop-loss limits); and
- CBM uses an automated system that manages the size amount of its open foreign currency position to be within established limits.

The table below sets out the exposure of CBM's assets and liabilities to foreign currency risk as at 31 December 2018, 2017 and 2016.

	As at 31 December 2018				As at 31 December 2017				As at 31 December 2016			
	U.S.\$	RUB	Other currencies	Total	U.S.\$	RUB	Other currencies	Total	U.S.\$	RUB	Other currencies	Total
	RUB millions											
Assets												
Cash and cash equivalents	504,921	654,680	3,178	1,162,779	88,360	842,430	3,243	934,033	261,478	102,869	8,980	373,327
Obligatory reserves with the CBR.....	-	13,065	-	13,065	-	8,884	-	8,884	-	7,287	-	7,287
Due from credit and other financial institutions	5,475	4,029	3,679	13,183	82	8,427	7,860	16,369	267,559	132,133	3,788	403,480
Trading financial assets	1,904	12,623	1,138	15,665	51,773	27,487	38,022	117,282	42,132	41,514	263	83,909
Investment financial assets	101,301	103,044	10,136	214,481	5,460	19,053	553	25,066	25,208	20,695	-	45,903
Loans to customers	236,051	403,778	69,216	709,045	137,255	485,778	145,643	768,676	146,123	468,413	11,999	626,535
Investments in associates	-	2,275	-	2,275	-	-	-	-	-	-	-	-
Property and equipment	-	7,182	-	7,182	-	7,866	-	7,866	14,271	7,007	-	21,278
Deferred tax assets .	-	113	-	113	-	281	-	281	-	-	-	-
Other assets	772	7,351	16	8,139	126	9,223	385	9,734	271	5,928	51	6,250
Total assets	850,424	1,208,140	87,363	2,145,927	283,056	1,409,429	195,706	1,888,191	757,042	785,846	25,081	1,567,969
Liabilities												
Deposits by the CBR	-	-	-	-	-	-	-	-	184,150	63,020	-	247,170
Deposits by credit and other financial institutions	295,208	235,299	22,423	552,930	260,676	364,332	14,853	639,861	90,319	283,680	7,625	381,624
Due to customers....	525,006	681,525	65,644	1,272,175	192,397	491,214	258,113	941,724	251,021	425,731	12,744	689,496
Debt securities issued	91,218	14,087	-	105,305	84,096	32,184	-	116,280	92,395	43,662	1,146	137,203
Deferred tax liabilities	-	4,248	-	4,248	-	3,779	-	3,779	-	190	-	190
Other liabilities	5,083	13,980	1,033	20,096	1,276	6,947	735	8,958	1,628	7,204	53	8,885
Total liabilities	916,515	949,139	89,100	1,954,754	538,445	898,456	273,701	1,710,602	619,513	823,487	21,568	1,464,568
Net position before hedging	(66,091)	259,001	(1,737)	191,173	(255,389)	510,973	(77,995)	177,589	137,529	(37,641)	3,513	103,401
Derivative financial instruments	108,021	(110,064)	2,043	-	313,514	(390,663)	77,149	-	(140,222)	145,636	(5,414)	-
Net position	41,930	148,937	306	191,173	58,125	120,310	(846)	177,589	(2,693)	107,995	(1,901)	103,401

Balance interest Rate Risk

CBM is exposed to the risk of balance interest rate risk, which is the risk of deterioration of CBM's financial condition due to a change in market interest rates which then results in a decrease in its capital, income level or asset value, and which affects its assets and liabilities other than its trading portfolio. Balance interest rate risk stems from mismatches between maturities of, or between changes in, interest rates on assets and liabilities.

Fluctuations in interest rates have an impact on the operations of CBM. During the periods under review, movements in short- and long-term interest rates have affected both CBM's interest income and interest expense, as well as CBM's level of gains and losses on its securities portfolio.

To limit the impact of adverse interest rate fluctuations on CBM's financial results, CBM performs statistical analysis and makes projections to determine the optimal allocation of CBM's assets and the composition of its liabilities. CBM manages interest rate risk by maintaining an interest margin (including an interest risk component), by matching funding and exposures with floating and fixed interest rates, and by matching maturities. CBM also manages interest rate risk through including provisions on the use of floating interest rates in its loan documentation, as well as through including provisions on the application of different interest rates with respect to different tranches depending on their term and maturity.

Final decisions on matters pertaining to balance interest rate risk are taken by ALCO (see "*Risk Management – Organisational Structure – ALCO*"), thus ensuring comprehensive and effective control over that risk. CBM sets and regularly controls limits on this type of risk, restricting the indicators of effectiveness of loan funds and business profitability and maximum interest rate gaps on various time.

The table below sets out CBM's exposure to balance interest rate risk. The table below presents the aggregate amount of financial assets and liabilities at carrying amounts, categorised by the contractual interest repricing or maturity dates, as at 31 December 2018, 2017 and 2016.

	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
	RUB millions					
As at 31 December 2018						
Interest-Earning Assets						
.....	1,124,310	180,743	124,241	596,848	7,376	2,033,518
Interest-Bearing Liabilities						
.....	717,850	559,553	235,759	337,018	-	1,850,180
Net interest sensitivity gap as at 31 December 2018	406,460	(378,810)	(111,518)	259,830	7,376	183,338
As at 31 December 2017						
Interest-Earning Assets						
.....	954,740	151,441	102,375	500,790	11,194	1,720,540
Interest-Bearing Liabilities						
.....	696,705	611,076	129,351	260,733	-	1,697,865
Net interest sensitivity gap as at 31 December 2017	258,035	(459,635)	(26,976)	240,057	11,194	22,675
As at 31 December 2016						
Interest-Earning Assets						
.....	355,557	431,675	227,050	397,675	6,312	1,418,269
Interest-Bearing Liabilities						
.....	625,435	381,409	215,737	174,321	-	1,396,902

	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
	RUB millions					
Net interest sensitivity gap as at 31 December 2016						
.....	(269,878)	50,266	11,313	223,354	6,312	21,367

See Notes 29 to the 2018 Annual Financial Statements and the 2017 Annual Financial Statements.

Securities portfolio risk is the market risk of changes in the value of securities as a result of interest rate or price movements. CBM's securities portfolio, which it actively trades, consists primarily of Russian government and municipal securities, corporate bonds and promissory notes of Russian banks. CBM's holdings of trading financial assets as at 30 September 2019 was RUB13.0 billion as compared to RUB15.7 billion as at 31 December 2018, RUB117.3 billion as at 31 December 2017 and RUB83.9 billion as at 31 December 2016. Investment financial assets as at 30 September 2019 stood at RUB223.4 billion as compared to RUB214.5 billion as at 31 December 2018, RUB25.1 billion as at 31 December 2017 and RUB45.9 billion as at 31 December 2016.

As at 31 December 2018, the majority of CBM's total bond portfolio consisted of highly liquid bonds from the CBR Lombard List, which are eligible for repo transactions and give CBM the flexibility to seek liquidity from the CBR if required. This may also mean that the securities can be relatively easily exchanged for cash in the relevant market.

CBM has established internal limits applicable to proprietary transactions in respect of individual issuers of bonds and promissory notes, interbank limits, and limits on the total volume of equity and debt instruments. The limits are established by the Financial Risk Analysis Department and approved by ALCO, taking into consideration CBM's liquidity position and various liquidity management scenarios. CBM has a general policy of not investing in equity securities, and accordingly CBM's equity investments are limited to liquid shares of large public Russian companies. Equity securities represented 6.9% of CBM's total securities portfolio as at 30 September 2019 as compared to 0.05%, 0.08% and 0.09% as at 31 December 2018, 2017 and 2016, respectively.

Liquidity Risk

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in CBM being unable to liquidate a position in a timely manner at a reasonable price to meet its funding obligations. CBM seeks to have sufficient liquidity to meet its current and future obligations and funding needs at reasonable market rates. CBM's operations are principally funded through customer deposits (both corporate and retail), and to a lesser extent interbank borrowings and debt funding in both the Russian and international capital markets. In addition, CBM recently achieved a sufficient liquidity cushion – as at 31 December 2018, cash and cash equivalents composed 54.2% of total assets; total securities portfolio, that is highly liquid, amounted to 10.7% of total assets, and interbank assets that are mostly represented by repo agreements backed by high-quality securities included in the CBR Lombard List, comprised 50.7%. The liquidity cushion could be used to help CBM meet liquidity needs. CBM also has access to liquidity from the CBR on a secured basis, but in practice it does not actively utilise such liquidity.

CBM is subject to liquidity requirements set by the CBR, which exercises strict control over liquidity risk by establishing instant (N2) and current (N3) statutory liquidity ratios. The risks relating to sources of funding are controlled by the CBR in accordance with the capital adequacy (N1) ratio, the long-term liquidity (N4) ratio and the liquidity coverage (N26) ratio. The CBR requires that such ratios be complied with a daily basis and CBM is required to provide a monthly statement demonstrating that it has complied with such ratios on a daily basis for the relevant statement period.

CBM's management identifies the following forms of liquidity risk:

- *risk of discrepancy* between the amounts and dates of receipts and write-offs of cash (incoming and outgoing cash flows);
- *risk of unforeseen liquidity requirements* – the risk that future unforeseen events may require more resources than envisaged;
- *risk of market liquidity* – the risk of loss associated with disposal of assets or impossibility of closing existing position due to insufficient market liquidity or insufficient trading volumes. The occurrence of this form of risk can be taken into account in assessing market risk; and
- *risk of funding* – the risk associated with potential changes in the cost of funding (own and market credit spread), affecting the amount of future income of CBM.

The procedures for managing the liquidity risk of CBM include the following elements:

- factors of occurrence of this type of risk;
- procedures for determining the needs of the credit institution for funding, including determining the liquidity surplus / deficit and the maximum allowable excess / liquidity limits (liquidity limits, including liquidity gap limits and survival horizon);
- the procedure for preparing a liquidity forecast and analysing the liquidity situation for a different time period (short-term, current, long-term liquidity);
- the procedure for establishing liquidity limits and determining methods for monitoring compliance with these limits, informing the management of the credit institution on the violations of limits, as well as the procedure for eliminating them;
- procedures for daily liquidity management, and liquidity management over longer time intervals;
- methods for analysing the liquidity of assets and the sustainability of liabilities; and
- liquidity recovery procedures, including decision-making procedures for the mobilisation (sale) of liquid assets, and other possible (and most accessible) ways of attracting additional resources in the event of a liquidity shortage.

Final decisions as to liquidity risk are taken by ALCO, thus ensuring comprehensive and effective control over the liquidity risk.

The following table sets forth CBM's consolidated liquidity position as at 31 December 2018.

	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Overdue	Total
	RUB millions							
ASSETS								
Cash and cash equivalents.....	1,162,779	-	-	-	-	-	-	1,162,779
Obligatory reserves with the CBR.....	-	-	-	-	-	13,065	-	13,065
Due from credit and other financial institutions.....	3,433	3,679	6,071	-	-	-	-	13,183
Trading financial assets.....	7,091	2,836	728	3,421	1,589	-	-	15,665
Loans to customers.....	47,420	165,501	115,452	280,458	92,838	-	7,376	709,045
Investment financial assets	166,848	1,015	2,190	33,451	10,857	120	-	214,481
Investments in associates.....	-	-	-	-	-	2,275	-	2,275
Property and equipment.....	-	-	-	-	-	7,182	-	7,182

Deferred tax assets	-	-	-	-	-	113	-	113
Other assets	581	1,350	1,451	2,565	-	2,192	-	8,139
Total assets	1,388,152	174,381	125,892	319,895	105,284	24,947	7,376	2,145,927
LIABILITIES								
Deposits by credit and other financial institutions	423,502	127,700	704	1,024	-	-	-	552,930
Due to customers	374,578	431,853	230,064	192,109	43,571	-	-	1,272,175
Debt securities issued ..	-	-	4,991	54,991	45,323	-	-	105,305
Deferred tax liabilities .	-	-	-	-	-	4,248	-	4,248
Other liabilities	9,013	4,409	3,931	2,740	3	-	-	20,096
Total liabilities	807,093	563,962	239,690	250,864	88,897	4,248	-	1,954,754
Net position	581,059	(389,581)	(113,798)	69,031	16,387	20,699	7,376	191,173
Cumulative position ..	581,059	191,478	77,680	146,711	163,098	183,797	191,173	

The following table sets forth CBM's consolidated liquidity position as at 31 December 2017.

	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Overdue	Total
RUB millions								
ASSETS								
Cash and cash equivalents.....	934,033	-	-	-	-	-	-	934,033
Obligatory reserves with the CBR.....	-	-	-	-	-	8,884	-	8,884
Deposits in credit and other financial institutions	4	10,790	2,125	3,450	-	-	-	16,369
Financial instruments at fair value through profit or loss	77,040	3,816	-	36,426	-	-	-	117,282
Available-for-sale securities.....	7,546	5,408	914	10,526	552	120	-	25,066
Loans to customers	123,170	131,801	88,109	372,235	42,167	-	11,194	768,676
Property and equipment.....	-	-	-	-	-	7,866	-	7,866
Deferred tax assets						281		281
Other assets	350	1,974	844	2,718	-	3,848	-	9,734
Total assets	1,142,143	153,789	91,992	425,355	42,719	20,999	11,194	1,888,191
LIABILITIES								
Deposits by credit and other financial institutions	471,111	149,579	17,422	1,638	111	-	-	639,861
Due to customers	221,490	438,436	99,649	138,430	43,719	-	-	941,724
Debt securities issued ..	-	23,059	12,280	37,638	43,303	-	-	116,280
Deferred tax liabilities .	-	-	-	-	-	3,779	-	3,779
Other liabilities	2,687	1,819	1,416	599	2,437	-	-	8,958
Total liabilities	695,288	612,893	130,767	178,305	89,570	3,779	-	1,710,602
Net position	446,855	(459,104)	(38,775)	247,050	(46,851)	17,220	11,194	177,589
Cumulative position ..	446,855	(12,249)	(51,024)	196,026	149,175	166,395	177,589	

The following table sets forth CBM's consolidated liquidity position as at 31 December 2016.

	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Overdue	Total
RUB millions								
ASSETS								
Cash and cash equivalents.....	373,327	-	-	-	-	-	-	373,327

	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Overdue	Total
RUB millions								
Obligatory reserves with the CBR.....	-	-	-	-	-	7,287	-	7,287
Deposits in credit and other financial institutions.....	-	275,272	128,208	-	-	-	-	403,480
Financial instruments at fair value through profit or loss	82,111	1,798	-	-	-	-	-	83,909
Available-for-sale securities.....	32,801	200	-	10,665	2,125	112	-	45,903
Loans to customers	85,362	129,280	82,226	254,195	69,160	-	6,312	626,535
Property and equipment.....	-	-	-	-	-	21,278	-	21,278
Other assets	459	1,053	579	347	-	3,812	-	6,250
Total assets	574,060	407,603	211,013	265,207	71,285	32,489	6,312	1,567,969
LIABILITIES								
Deposits by the CBR ...	247,170	-	-	-	-	-	-	247,170
Deposits by credit and other financial institutions.....	183,915	186,784	4,273	5,594	1,058	-	-	381,624
Due to customers	252,942	186,194	198,430	29,770	22,160	-	-	689,496
Debt securities issued ..	-	1,146	-	126,158	9,899	-	-	137,203
Deferred tax liability ...	-	-	-	-	-	190	-	190
Other liabilities	965	3,489	1,624	754	-	2,053	-	8,885
Total liabilities	684,992	377,613	204,327	162,276	33,117	2,243	-	1,464,568
Net position	(110,932)	29,990	6,686	102,931	38,168	30,246	6,312	103,401
Cumulative position ..	(110,932)	(80,942)	(74,256)	28,675	66,843	97,089	103,401	

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. The specificity of operational risks is that this type of risk is inherent in all activities of CBM, rather than individual products / processes. CBM is exposed to several types of operational risk:

- *personnel risk* – losses associated with fault, unauthorised or illegal activities of CBM's employees, their inadequate qualification, work overload, poor management, etc.;
- *process risk* – losses associated with mistakes in operational and settlement processes, as well as in respective reporting and pricing;
- *system risk* – losses associated with inadequacy of CBM's technology and IT systems and poor quality of data management;
- *business environment risk* – losses associated with changes in CBM's external business environment, such as changes in law, political and economic systems, as well as interference by third parties into CBM's business operations;
- *legal risk* – losses associated with breaches by CBM of the undertakings and obligations arising from agreements with counterparties, as well as breaches by the counterparties of their respective obligations (save for credit-related arrangements); poor legal management; instability and inadequacy of the Russian legal system and changes in the legal framework regulating CBM's business operations; and
- *compliance risk* – the risk of negative consequences due to non-compliance with the legislation of the Russian Federation, the obligations taken by CBM to shareholders and third parties,

internal documents of CBM, standards of self-regulatory organisations (if such standards are mandatory for CBM), and as a result of sanctions and / other measures of influence on the part of the supervisory authorities.

To manage its operational risks, CBM has the Compliance Department, which performs independent control of operational risk management and reports directly to the Chairman of the Management Board. In order to limit operational risk, CBM implements a set of the following measures aimed at reducing the probability of occurrence of events or circumstances leading to losses resulting from the operational risk factors and/or reducing or limiting the amount of such losses in the internal documents:

- procedures for the performance of transactions, the procedure for the separation of powers, accountability for ongoing operations (transactions) and post control, which allows for the exclusion (limitation) of the possibility of occurrence of operational risk factors, and control compliance with established procedures;
- requirements for IT systems and information protection, as well as prospects for the development of these systems;
- insurance procedures, including property insurance (insurance of buildings, other property, including currency valuables and securities, from loss, shortage or damage, including as a result of actions of third parties, employees of the credit organisation, as well as insurance of business risks associated with the risk of losses arising from the implementation of banking risks) and personal insurance (insurance of employees against accidents and damage to health); and
- procedures for the approval of internal regulatory documents that require their mandatory approval with the departments responsible for assessing operational risk.

Thus, procedures established for managing CBM's operational risk include methods for identifying and assessing the level of accepted operational risk in relation to the various areas of activity of a credit institution.

The Compliance Department collects information about internal and external losses, monitors the state and extent of the operational risks that CBM faces, evaluates risks qualitatively and quantitatively, identifies the incidence of risk factors at early stages and responds so as to prevent the risk from reaching levels that are considered substantial for CBM.

CBM's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee, and internationally recognised principles. CBM gathers data on operational risk occurrences and monitors key risk indicators, and CBM's organisational units carry out self-assessment of risk and subsequently provide operational risk mapping across CBM.

Furthermore, through its Automated System of Operational Risks Management, CBM has implemented the key business processes carried out by the Compliance Department as part of its system of Internal Control and Operational Risks management. In particular, CBM has introduced the following SAS EGRC (Enterprise Governance, Risk and Compliance) software platform modules with a view for enhancing and further automatisation of its internal control processes:

- Incident Management module, which ensures the collection of data relating to operational risks and conducting of operational risk incidents investigations;
- Key Risk Indicators module, which ensures the implementation of identified risks monitoring procedures, control of limits and risk level management; and
- Risk Self-Assessment module, which ensures the implementation within CBM of procedures of self-assessment of risk susceptibility, risk identification and assessment of control procedures.

Concentration risk

Concentration risk is the risk of significant losses that can pose a threat to a credit institution's solvency and ability to continue its business due to its exposure to large counterparty risks, risks in specific sectors, regions, markets, currencies, etc.

CBM views the following types of concentration as material:

- a substantial number of receivables due from one counterparty in a group of counterparties;
- credit claims to counterparties operating in one economic sector (engaging in the same type of activities, selling the same goods or rendering the same services);
- indirect susceptibility to credit risk resulting from credit risk minimisation measures implemented by CBM (use of identical types of collateral or independent guarantees provided by one counterparty); and
- CBM's dependence on particular liquidity sources.

Concentration risk management procedures include the following:

- risk identification and measurement procedure;
- listing of concentration limits, restricting CBM existing structure of risk-bearing assets, grouping of portfolios by their various attributes, and aggregating indicators of CBM's operations. The aim is to limit losses resulting from overconcentration on certain counterparties, groups of counterparties or groups of assets of CBM;
- developing i) ways to control compliance with such limits, in particular control CBM's portfolios of instruments to identify risk concentrations that are new for it and which are not captured by the concentration limit system, and ii) ways to report limit violations to CBM's management bodies and suggest corrective actions; and
- quantitative assessment of economic capital required for coverage of concentration risks (based on the Herfindahl-Hirschman concentration index) for ICAAP purposes.

Concentration Limits

Credit risk is the main risk to which CBM is exposed given the nature of its business and balance-sheet structure. In order to limit its credit risk exposure, CBM has set credit risk limits on its lending volume with respect to its top-ten corporate clients, and on the concentration of its corporate portfolio on a particular industry. The determination of sectoral groups and types of economic activity for the purposes of calculation of concentration limits is carried out pursuant to CBM's internal classifier of economic sectors and types of activities. The relevant limits are determined and set by CBM's Risk Management Committee.

The most significant lending limits are:

- CBM's total lending exposure to the biggest corporate client (individual borrower or group of related borrowers) may not exceed 25% of CBM total capital in accordance with the CBR's ratio N6; and
- CBM's concentration limits in respect of industry, region and instrument criteria. CBM applies limits stipulated by the CBR and regularly reports on compliance with the set requirements.

Reputational risk

The source of this type of risk is CBM's exposure to losses as a result of an outflow of CBM's customers (counterparties) due to a negative public perception of CBM's financial stability, quality of its services

and/or the nature of its activity as a whole. The probability and amount of losses that can be caused by this risk depends on the level of this risk in the Russian banking sector as a whole.

Currently, in CBM's management's opinion, there are no objective factors that are likely to damage CBM's business reputation. CBM regularly monitors negative information published in the mass media, including false publicity. CBM also aims to react in a prompt and timely manner to incidents relating to interruptions in the operation of CBM's IT services and systems in order to mitigate any potential reputational risk resulting from such irregularities.

CBM operates within a framework of specially developed procedures and action plans, and uses specially allocated funds for the purposes of adequate and timely response to such interruptions and minimisation of any damages related to the implementation of the respective procedures. CBM meets all of its obligations on time and in full. CBM's credit history includes large loans from leading credit institutions of the world, syndicated loans and bond issues. CBM also has a strong reputation among retail customers.

CBM takes considerable efforts to promote its image in the eyes of its customers and the public by increasing its information transparency. Reputational risk management is an integral part of the risk management system and is practiced with the direct involvement of CBM's management.

Strategic risk

This is the risk of adverse consequences of mistakes (flaws) in decisions made with regard to CBM's business and development strategy, such as the neglect or underestimation of potential threats to its operations, wrong or inadequate choice of prospective business areas where it can gain an edge over its competitors, lack/insufficiency of resources (financial, material, technical, human) and organisational measures (managerial decisions) required to attain its strategic goals.

Strategic risk management procedures include the following elements detailed in CBM's bylaws:

- periodic revaluation of CBM's development strategy through gauging the implementation of the adopted strategy;
- planning the development of new lines of business, new products, technologies and services, expansion of existing technologies and services and strengthening of CBM's infrastructure; and
- analysing CBM's competition so as to identify strategic risks such as the threat of new competitors in the market, the threat of product substitution or the threat of continuous evolution of strategic risk factors during the lifetime of services provided.

Procedures for Prevention of Money Laundering and Terrorist Financing

CBM's anti-money laundering measures are based on relevant Russian legislation and international requirements for internal control in the area of anti-money laundering and combating financing of terrorism.

CBM's procedures relating to the prevention of money laundering and financing of terrorist activities include "know-your-customer" procedures which require clear identification of clients, verification of their identities and evaluation of the risk that they may be involved in money-laundering activities or terrorist financing; detection of transactions that the Russian anti-money laundering legislation places under compulsory control, as well as suspicious transactions and activities; reporting; record-keeping; confidentiality; and training of personnel. CBM's "know-your-customer" procedures are designed to help recognise suspicious activity in a timely manner, to minimise the risk that CBM will be used as a channel for illegal activities of any kind, to prevent establishment of banking relationships with a client until its true identity is known and to identify unusual or suspicious transactions or transactions inconsistent with the information that CBM has about the client or its regular business activities. See *"Risk Factors – Risks Relating to CBM's Business and Industry – CBM is a highly regulated entity"*.

CBM uses an automated monitoring system that identifies client transactions that are subject to mandatory control or appear suspicious in nature based on a risk-oriented approach. CBM's risk-oriented monitoring includes the following, all of which are in accordance with Financial Action Task Force on Money Laundering ("FATF") requirements:

- paying particular attention when establishing correspondent relationships with, and performing transactions with, foreign banks incorporated in jurisdictions offering beneficial tax regimes and/or requiring no disclosure of information on financial transactions (offshore jurisdictions);
- not having accounts with banks incorporated in jurisdictions which do not comply with the recommendations of FATF;
- not establishing correspondent relationships with shell banks, which are incorporated in a jurisdiction in which they have no physical presence or in a jurisdiction with no permanent regulatory authorities; and
- taking measures to prevent the establishment of correspondent relationships with banks that are known to have correspondent relationships with banks incorporated in jurisdictions with no permanent regulatory authorities.

CBM's Anti-Money Laundering Officer is responsible for CBM's anti-money laundering internal controls and reports directly to the Chairman of the Management Board. The Anti-Money Laundering Officer is the head of CBM's Financial Monitoring and Foreign Currency Control Directorate, which includes the Foreign Currency Control Department (consisting of the Ongoing Foreign Currency Control Unit, the Foreign Currency Transactions Reporting and Record Unit and the Foreign Currency Control Documents Expertise Unit) and the Financial Monitoring Department (consisting of the Compulsory Control Unit, the Money Laundering Risk Appraisal Unit and the Methodology and Staff Training Group).

All CBM's employees are required to attend specialised training and examination on the issues regarding prevention of money laundering. Annual inspection of this activity area is a compulsory element of CBM's internal audit procedures.

MANAGEMENT

Overview

The governance of CBM consists of various levels and sub-levels, each responsible for different aspects of CBM's overall activities. The following sets out the management structure of CBM and its corporate governance reporting lines.

The highest level of governance is conducted through the General Shareholders' Meeting, which is the ultimate decision-making body. The General Shareholders' Meeting elects the Supervisory Board, which is responsible for the general governance of CBM, including the determination of strategy, coordination and general supervision thereof. The Supervisory Board elects the Management Board, which is the collegial executive body of CBM, and appoints the Chairman of the Management Board, which is the sole executive body of CBM. The Chairman of the Management Board and the Management Board as a whole are responsible for the day-to-day operations of CBM.

General Shareholders' Meeting

The General Shareholders' Meeting is held in the form of the annual General Shareholders' Meeting and extraordinary General Shareholders' Meeting. The annual General Shareholders' Meeting is convened no earlier than two months and no later than six months after the end of CBM's reporting year.

The powers of the General Shareholders' Meeting are set forth in the Joint Stock Companies Law (the "**JSC Law**") and CBM's Charter. The procedure for convening, preparation and conducting of the General Shareholders' Meeting is stipulated in CBM's Regulation on the General Shareholders' Meeting.

Shareholders have the power to decide on the following matters, among others:

- amendments to CBM's charter (with certain exceptions provided for by Russian law) and approval of the restated charter;
- reorganisation and liquidation of CBM, appointment of a liquidation committee and approval of interim and final liquidation balance sheets;
- determination of the composition of the Supervisory Board, election of its members and early termination of their powers;
- adoption of Regulation on the Supervisory Board and Regulation on the General Shareholders' Meeting;
- determination of the amount, par value and type of authorised shares, as well as the rights attached to those shares;
- increases in the instances provided by CBM's charter and reductions of CBM's charter capital;
- election of the Statutory Audit Panel and appointment of CBM's external auditor;
- declaration (payment) of dividends;
- approval of annual report and annual accounting (financial) statement;
- approval of CBM's participation in financial groups and associations; and
- certain other matters provided for by CBM's charter and law.

Decisions of the General Shareholders' Meeting are generally adopted by a simple majority of voting shareholders who are present at the meeting, unless the JSC Law or CBM's Charter requires qualified majority or set additional rules. Pursuant to the JSC Law and CBM's Charter, motions such as

amendment of the Charter, increase of the share capital (in most cases), placement of securities convertible into shares, reorganisation and liquidation must be approved by a three quarters majority vote of the voting shares participating in the General Shareholders' Meeting of CBM. All decisions of the General Shareholders' Meeting are adopted subject to satisfaction of a quorum of at least 50% of voting shareholders.

Supervisory Board

The Supervisory Board is responsible for general governance matters, with the exception of those matters that are designated by law and by CBM's Charter as belonging to the exclusive competence of the General Shareholders' Meeting. The Supervisory Board makes its decisions by simple majority, so long as a quorum of at least half of the elected members of the Supervisory Board is present, unless otherwise required by law or CBM's Charter. The Supervisory Board meets on a regular basis – in-person meetings are typically held quarterly, whereas meetings in absentia are held at least once a month. CBM's shareholders elect members of the Supervisory Board until the next annual shareholders' meeting, and such members may be re-elected an unlimited number of times. There is no fixed term of office for Supervisory Board members. The Supervisory Board currently has ten members. The last election of the Supervisory Board took place on 27 May 2019.

Pursuant to the terms of the shareholders' agreement entered into among Concern Rossium, Wellcreek Corporation, Roman Avdeev and EBRD dated 20 July 2012, as amended (the “**Shareholders' Agreement**”), EBRD is entitled to nominate one member to the Supervisory Board. See “*Shareholders*”.

The name, position and certain other information for each member of the Supervisory Board are set forth below.

<i>Name</i>	<i>Year of Appointment to Supervisory Board</i>	<i>Position</i>
Roman Avdeev	2008	Non-Executive Director, Controlling shareholder
Vladimir Chubar	2010	Executive Director, Chairman of the Management Board
Lord Daresbury (Peter)	2017	Independent Non-Executive Director
Andrew Gazitua	2012	Senior Independent Non-Executive Director
Thomas Grasse	2014	Non-Executive Director, Nominee of EBRD
Andreas Klingen	2016	Independent Non-Executive Director
Sergey Menzhinsky	2017	Non-Executive Director
William Owens	2012	Chairman, Independent Non-Executive Director
Ilkka Salonen	2016	Independent Non-Executive Director
Alexey Stepanenko	2017	Non-Executive Director

Roman Avdeev (born 1967) has served as a member of the Supervisory Board since January 2008. Mr. Avdeev graduated from Lipetsk State Technical University (Russia) with a qualification as a design engineer and an Engineering Science degree. Mr. Avdeev was the sole beneficial owner of CBM from June 1994 to August 2012 and currently controls more than 50% of CBM's shares. He was Chairman of CBM's Supervisory Board from August 1999 to January 2008, Chairman of the Management Board from January 2008 to November 2008 and President of CBM from November 2008 to September 2010. Further, he held the positions of General Director and President of Concern Rossium, where he currently acts as Chairman of the Board of Directors. Mr. Avdeev also serves as a member of the Board of Directors of JSC “Non-state Pension Fund Soglasie” (“**NPF Soglasie**”) and since 2017 has served as Chairman of the Board of Directors of PJSC “INGRAD” (“**INGRAD**”). In addition, Mr. Avdeev currently serves as a member of the Board of Directors of JSC “NPF Evolutsia” (formerly JSC “NPF “NEFTEGARANT”) (“**NPF Evolutsia**”), SKS Bank and Metrika Investments. From 2015 to 2017, Mr. Avdeev served as the President of LLC “MCB Capital” (“**MCB Capital**”). Apart from his shares in CBM, Mr. Avdeev also has other non-bank assets, which include INGRAD Group, Sova Capital Limited, NPF Soglasie and NPF Evolutsia.

Vladimir Chubar (born 1980) has served as a member of the Supervisory Board since October 2010. Mr. Chubar graduated as an economist from the Financial University under the Government of the Russian Federation. Since February 2012, he also holds the position of Chairman of the Management Board of CBM. Mr. Chubar has been with CBM since 2004, and has been a member of the Management Board since 2008. From January 2010 to February 2012, Mr. Chubar served as First Deputy Chairman of the Management Board and was responsible for CBM's Financial Department, Treasury, International Business and Financial Institutions Division and IT Department. Mr. Chubar joined CBM as a Manager in the Accounting Unit, progressing to become the Head of the Accounting Unit, Head of Financial Division, Head of Financial Department and Deputy Chairman of the Management Board. From August 2016 to July 2019, he served as the Chairman of the Board of Directors of SKS Bank, and from April 2018 to November 2019, as the Chairman of the Board of Directors of INKAKHRAN. Currently Mr. Chubar serves as a Member of the Board of Directors of Concern Rossium, INKAKHRAN and SKS Bank.

Andrew Gazitua (born 1962) has served as a member of the Supervisory Board since April 2012. In 1985, Mr. Gazitua graduated from Haverford College (USA) with a Bachelor of Arts degree. Mr. Gazitua started his investment banking career in 1989 with Merrill Lynch & Co in New York, transferring to London in 1992 to work in the financial institutions group. In 1999, Mr. Gazitua joined Donaldson, Lufkin & Jenrette International (subsequently acquired by Credit Suisse) as a Senior Vice President in investment banking. After leaving Credit Suisse, Mr. Gazitua joined Putnam Lovell as a Managing Director in 2003 and subsequently rejoined Merrill Lynch & Co. in 2004 as COO for the European operations of investment banking and capital markets. In 2007, he assumed responsibilities for origination for Central and Eastern Europe, Middle East and Africa (“CEEMEA”) and became COO for Global Origination. From 2009 to 2011, Mr. Gazitua was Head of CEEMEA Corporate and Investment Banking at Bank of America Merrill Lynch. From January 2016 to July 2017, he was member of the Board of Directors of Walbrook Capital Markets Limited. In addition, from April 2013 to October 2017, Mr. Gazitua served as the Chairman of the Board of Directors of one of the oldest banks in Latvia, AS Expobank. From 2015 to 2019, Mr. Gazitua served on the Board of Awad Capital Ltd (Dubai). At present Mr. Gazitua serves as the Chairman of the Board of Directors of Web Financial Group, S.A., and is a member of the Board of Directors of Civitas Partners Holdings Limited.

Thomas Grasse (born 1955) has served as a member of the Supervisory Board since March 2014. In 1977, he earned a Bachelor's Degree in Banking from the Frankfurt School of Finance and Management. He gained broad experience in commercial and investment banking while working for HypoVereinsbank, Munich (now UniCredit) from 1974 to 2007 in a number of senior executive managerial positions in Germany, Luxembourg and Poland. From 2007 to 2009, he served as CFO and COO of UniCredit Market & Investment Banking Poland, based in Warsaw. While at HypoVereinsbank, he gained significant experience in Corporate Development and strategic M&A and was responsible for numerous corporate transactions with a focus on financial institutions in Germany, Austria, the UK, Russia and the CIS, as well as managing strategic partnerships and ownership in various investments. His experience as a member of Boards of Directors in Russia includes Banca Intesa Russia, International Moscow Bank (now UniCredit) and a leading Russian packaging company. Since 2009, Mr. Grasse has served as a member of the Board of Directors of various banks in Russia, Central Asia and the EU as an independent director on behalf of international financial institutions and institutional investors. Currently Mr. Grasse is a member of the Advisory Board of Specta-Group AG (Zug/Switzerland and Moscow/Russian Federation); he also serves as Deputy Chairman of the Board of Directors of Banca Transilvania S.A. (Cluj-Napoca, Romania) and is a Managing Partner of ROMOTO GmbH (Munich, Germany). Since 2018, Mr. Grasse also serves as the Deputy Chairman of the Board of Directors of JSC “VICTORIABANK” (Moldova). Thomas Grasse was nominated to CBM's Supervisory Board by EBRD.

Lord Daresbury (Peter) (born 1953) has served as a member of the Supervisory Board since November 2017. In 1971, Lord Daresbury graduated from Eton College. In 1975, he graduated from Magdalene College, Cambridge with a Master of Arts degree. In 1980, Lord Daresbury attended London Business School on a Sloan fellowship. Lord Daresbury has held numerous executive positions, including serving as CEO of the Greenalls Group (UK) from 1993 to 2000. In 2000, the company was re-named De Vere

Group plc, and Lord Daresbury became Non-Executive Chairman, serving in this capacity until 2006. From January 2008 to April 2018, Lord Daresbury served as the Chairman of the Board of Directors of Stellar Diamonds PLC (UK), and from May 2014 to February 2017, was the Chairman of the Board of Directors of Timico Technology Group. Currently, Lord Daresbury serves as a member of the Board of Directors of the following companies: Nasstar (UK) Ltd (since 2005), Rasant (since 2007), GREENALLS PUBS AND RESTAURANTS LIMITED (since 2009), Pesto Restaurants (since 2013), Daresbury Estates Ltd (since 2013), NASSTAR GROUP LTD (since 2014), DENARA HOLDINGS LIMITED (since 2014), DENARA TECHNOLOGIES LIMITED (since 2014) and Auriant Mining Zambia Ltd (since 2018). From 2005 to 2019, he was the Chairman of the Board of Directors of Nasstar Plc, and since 2012, has held the post of the Chairman of the Board of Directors of Auriant Mining. Since 2019, Lord Daresbury serves as Non-Executive Chairman of SEN CORPORATION LIMITED. In addition, Lord Daresbury is a member of PHD Core Investors LLP and PHD Carried Interest LLP, and has served as the Chairman of the Management Board of Jockey Club Catering Ltd (since 2009) and the Chairman of the Committee (since 2013) of Haydock Park Racecourse.

Andreas Klinge (born 1964) has served as a member of the Supervisory Board since November 2016. He holds a Master of Science degree in Physics from Technische Universität in Berlin and an MBA degree from the Rotterdam School of Management. His professional career started as a Researcher in Festkörper – Laser-Institut in Germany. From 1993 to 1998, he served as Senior Associate in Lazard (Frankfurt, Germany). He served as Senior Vice President of Investment Banking, Financial Institutions at J.P. Morgan in London from 1998 to 2005. From 2005 to 2010, Mr. Klinge was Head of Strategic Group Development in Erste Group Bank AG. At various times from 2005 to 2013, Mr. Klinge served on the Boards of Directors of Slovenska sporitelna, a.s. (Bratislava, Slovak Republic), Erste & Steiermärkische Bank d.d. (Rijeka, Croatia), Erste Bank AD NOVI SAD (Belgrade, Serbia), Public Company “Erste Bank” (Kyiv, Ukraine), KONTAKT, Art Collection (Vienna, Austria), Erste Bank Hungary Nyrt (Budapest, Hungary), Ceska sporitelna, a.s. (Prague, Czech Republic), good.bee Holding GmbH (Vienna, Austria), OJSC Commercial Bank “Center Invest” (Rostov, Russia). From 2010 to 2013, he served as Deputy Chief Executive Officer, Financial Director, Head of Treasury and Corporate Banking in PC Erste Bank (Kiev, Ukraine). From 2014 to 2018, Mr. Klinge served as a member of the Board of Directors of Komercijalna Banka a.d. (Belgrade, Serbia). He was also an Associate Professor at bbw Hochschule, Berlin, Germany from 2014 to 2017. Currently Mr. Klinge serves as a member of the Board of Directors of CJSC Kyrgyz Investment and Credit Bank (Bishkek, Kyrgyz Republic) and NEPI Rockcastle plc and is a member of the Supervisory Board of Nova Ljubljanska banka d.d. (Ljubljana, Slovenia).

Sergey Menzhinsky (born 1971) has served as a member of the Supervisory Board since June 2017. Mr. Menzhinsky graduated from Lomonosov Moscow State University in 1993 with a degree in Mechanics and Applied Mathematics. In 2011, Mr. Menzhinsky graduated from the Russian Presidential Academy of National Economy and Public Administration with a degree in State and Municipal Administration. In 2009, he attended advanced training courses of the Institute of Stock Market and Management. In 2011, Mr. Menzhinsky obtained an MBA degree with a focus on Strategic Management and Entrepreneurship from Moscow International Higher Business School MIRBIS. Mr. Menzhinsky started his banking career in 1995. From 1995 to 2000, Mr. Menzhinsky was employed at Promradtechbank as an economist and subsequently as the head of a unit. In 2000-2004, he worked for Me-Bank, Stroycreditinvest and Russian Agricultural Bank in a number of positions from chief economist to deputy head of a department. From 2004 to 2011, his career developed within National Standard Bank where he rose from treasury director to Chairman of the Management Board and member of the Board of Directors. Since July 2011, he has worked for REGION Group, served at various times as Deputy General Director and General Director of JSC “Investment Company REGION” (“**IC REGION**”), and has served on the subsidiaries’ Boards of Directors. From 2014 to 2019, Mr. Menzhinsky was a member of the Board of Directors of JSC “REGION Asset Management”. Since April 2017, Mr. Menzhinsky has chaired IC REGION’s Board of Directors, and since August 2018, has served as the Development Strategy Advisor. Since December 2017, Mr. Menzhinsky serves as a member of the Exchange Council of the Moscow Exchange. Since 2018, Mr. Menzhinsky has served as the Chairman of the Board of Directors of JSC “GSK “Yugoria” and as a member of the Boards of

Directors of REGION Investments AM JSC and LLC Investment Bank “Vesta”. In addition, Mr. Menzhinsky currently serves as a member of the Board of Directors of LLC “Brokerage Company REGION”, and as the Chairman of the Board of Directors of JSC “RUSNARBANK” and PJSC “Dalnevostochny Bank” (Far Eastern Bank). From 2015 to 2019, Mr. Menzhinsky was a member and subsequently Chairman of the Board of Directors of LLC “REGION Trust” and a member of the Board of Directors of Asset management company “Portfolio investments LLC. Since 2019, Mr. Menzhinsky is a member of the Board of Directors of JSC “GSK “Yugoria-Zhizn”, the Chairman of the Board of Directors of LLC “RG Medical Systems”, the Chairman of the Board of Directors of NPF Evolutsia and a member of the Board of Directors of JSC “NPF Education”, JSC “NPF Social Developments” and JSC “NPF “BUDUSCHEE”. Furthermore, since July 2019, Mr. Menzhinsky is also a member of the Strategy Committee operating under the Board of Directors of ACRA (JSC) and a member of the Board of Directors of SKS Bank. Since September 2019, Mr. Menzhinsky is a member of the Board of Directors of JSC “NPF “Telecom-Soyuz”. In October 2019, Mr. Menzhinsky was appointed as Deputy General Director of Concern Rossium.

William Owens (born 1950) has served as a member of the Supervisory Board since November 2012 and as the Chairman of the Supervisory Board since 16 April 2013. Mr. Owens received a Master’s degree in Public Affairs from the LBJ School at the University of Texas (USA) and a Bachelor of Science degree from Stephen F. Austin State University (USA). He began his career as a consultant at Touche Ross & Co. (now Deloitte) and later worked in the petroleum industry. From 1995 to 1999, he held the office of Colorado State Treasurer, and then served two terms as the Governor of Colorado from 1999 to 2007. Subsequently, between 2007 and 2012, Mr. Owens served as an independent director of FESCO, a Russian shipping, logistics and port company which is listed on the MOEX. Mr. Owens also served as the Chair of FESCO’s Strategy Committee. He was also the Managing Director of Renew Strategies, a Colorado-based water and land development company, and a member of the Boards of Directors of Key Energy Services (NYSE) and Bill Barrett Corporation. William Owens currently serves as the Senior Fellow in the University of Denver, the Senior Director of Greenberg Traurig (Colorado, USA), and serves on the boards of directors of Cloud Peak Energy (NYSE), Federal Signal Corporation (NYSE) and HighPoint Resources Corporation (NYSE).

Ilkka Salonen (born 1955) has served as a member of the Supervisory Board since November 2016. He graduated from Helsinki University in 1981 with a Master of Political Science degree (major in Economics). Mr. Salonen has over 30 years of experience in the banking sector. In 1981-1994, he served in various positions in Kansallis-Osake-Pankki (rose from an Economist to a Vice President in charge of East Europe Desk in the Country Risk and Financial Institutions Division). In 1994-1997, he served as the Deputy President at International Moscow Bank (now AO UniCredit Bank). In 1997-1998, Mr. Salonen served as the First Vice President of the Merita Bank Ltd. (now Nordea Bank). In 1998, he returned to International Moscow Bank (now AO UniCredit Bank) as President of the Management Board. In 2007, he joined Renaissance Investment Management Group as the President and the Deputy CEO. In 2008-2009, he was the Deputy Chairman of the Management Board in charge of the international businesses at Sberbank. In 2012-2015, he was the Chairman of the Management Board of Bank Uralsib. Currently, Mr. Salonen serves on the boards of Corims Oy (Finland), Sysmän Kirjakylä Oy (Finland); he is also the Chairman of the Board of Directors of Garmoshka Oy (Finland), the partner of Septem Partners Oy (Finland), a Deputy Board member of Fennovoima Oy (Finland), a member of the Advisory Board of Essedel (Russia). Since April 2019, Mr. Salonen serves as the executive Chairman of the Board of Directors of East Office of Finnish Industries, where he also served as a General Director from April 2017 to September 2019. Since 2018, Mr. Salonen has also served as a member of the Board of Directors of Lappeenranta-Lahti University of Technology LUT. Furthermore, since May 2019, Mr. Salonen holds the post of Chairman of the Board of Directors of the Registered Association Finnish-Russian Chamber of Commerce.

Alexey Stepanenko (born 1981) has served as a member of the Supervisory Board since November 2017 and held the position of the Deputy Chairman of the Management Board from November 2016 to April 2019. Mr. Stepanenko holds a degree in Finance and Credit from the Financial University under the Government of the Russian Federation. His prior experience includes being the Deputy Head of Market Research Unit at OJSC “IMPEXBANK” and LLC “IG East Kommerts” (formerly – LLC “IC East

Capital”), the Head of Market Research Unit at LLC “IG East Kommerts” and the Head of Market Research Department at OJSC “Russian Investors”. Mr. Stepanenko joined CBM in February 2009 as the Head of Sectoral Risk Monitoring Unit and subsequently was successively appointed as the Head of Financial and Sectoral Risks Analysis Unit, the Head of Financial Risk Division, the Deputy Director of Risk Department and the Director of Analytical Department. In 2012, Mr. Stepanenko was promoted to the post of Vice President. Mr. Stepanenko was appointed to an advisory position as the Vice President of MCB Capital in 2013; since 2014, he has been the First Vice President of MCB Capital. From 2016 to 2018, Mr. Stepanenko served as member of the Board of Directors of JSC “Non-State Pension Fund “Soglasie-OPS”, and from 2016 to 2019, was a member of the Board of Directors of SKS Bank. Currently, Mr. Stepanenko serves on the boards of NPF Soglasie, JSC Ingrad and PJSC INGRAD; he is also a member of the Board of Directors and a Financial Director of Concern Rossium, and serves as a director at DESPACIO ASSOCIATES LTD.

The business address of each member of the Supervisory Board is CBM’s registered office. No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Board owes to CBM and such member’s private interests or other duties.

Management Board

The Management Board is CBM’s collegial executive body, which is elected by the Supervisory Board. The Management Board meets as often as is considered necessary, typically twice a week, and makes its decisions by simple majority, provided that a quorum of at least half of the elected members of the Management Board is present. The Chairman of the Management Board has a casting vote. The Management Board is responsible for CBM’s day-to-day management and administration. The Chairman of the Management Board represents CBM and acts as its chief executive officer. The Management Board has several committees that help it carry out its management functions.

As at the date of this Prospectus, the Management Board consists of nine members. The name, position and certain other information for each member of the Management Board are set out below. Unless otherwise indicated, members of the Management Board do not perform any external functions. There are no fixed terms of office for Management Board members.

<i>Name</i>	<i>Year of Appointment to Management Board</i>	<i>Position</i>
Vladimir Chubar	2008	Chairman
Mikhail Polunin	2018	First Deputy Chairman
Svetlana Sass	2008	Chief Accountant
Alexey Kosyakov	2013	Deputy Chairman
Oleg Borunov	2017	Deputy Chairman
Alexander Kaznacheev	2017	Deputy Chairman
Kamil Yusupov	2018	Deputy Chairman
Sergey Putyatinsky	2019	Deputy Chairman
Anton Virichev	2016	Head of Risk Management Directorate

Vladimir Chubar (born 1980) has served as Chairman of the Management Board since February 2012. See “– *Supervisory Board*”.

Mikhail Polunin (born 1974) has served as the First Deputy Chairman of the Management Board since March 2018. Prior to joining CBM, Mr. Polunin worked in a number of managerial positions at various financial institutions, such as OJSC AKB “Svyaz-Bank”, JSC Bank “VBR” and the DIA. Mr. Polunin also served as the President and a member of the Management Board of JSC AKB “Peresvet”. From February 2018 to November 2019, Mr. Polunin was a member of the Board of Directors of INKAKHRAN. In addition, outside of CBM, since January 2019, Mr. Polunin serves as a member of the Board of Directors of JSC “Elecsnet-Regiony”, JSC “Elecsnet-Kazan”, Moscow Clearing Centre and JSC “Elecsnet”. Mr. Polunin holds a degree in Engineering from Omsk State Technical University and a degree in Finance and Credit from the All-Russian Distance-Learning Institute of Finance and Economics. In 2008, Mr. Polunin also obtained an MBA degree from the Stockholm School of Economics.

Svetlana Sass (born 1965) has served as a member of the Management Board since November 2008. She also holds a position of the Chief Accountant of CBM. Mrs. Sass was previously the Advisor to the Chairman of the Management Board. Prior to joining CBM, Mrs. Sass worked at the Commercial Bank “Holding Credit” as the Chief Accountant and the Financial Director, as well as at Russian Universal Investment Bank, Impexbank and Russian Credit. In addition to her position with CBM, Mrs. Sass is a member of the Board of Directors of INKAKHRAN. Mrs. Sass has a degree from Moscow State University of Economics, Statistics and Informatics.

Alexey Kosyakov (born 1983) has served as a member of the Management Board since October 2013. Mr. Kosyakov has been working in banking sector since 2005. Prior to joining CBM, he worked at Russian Standard Bank, International Moscow Bank, Swedbank and Bank of Moscow. Mr. Kosyakov joined CBM in April 2011 as the Head of Consumer Lending Department. He was appointed as the Director of Retail Lending Division in July 2011 and the Head of Retail Business Directorate in February 2012. Mr. Kosyakov supervises the retail business of CBM while overseeing further achievement of strategic objectives, such as further improving the efficiency of CBM’s branch network and developing remote client service channels. Mr. Kosyakov holds degrees from the Moscow Engineering and Physics Institute and Plekhanov Russian Academy of Economics.

Oleg Borunov (born 1979) has served as a member of the Management Board since October 2017. Mr. Borunov is responsible for investment banking, which is a new business line for CBM aimed at providing a full range of investment banking services — ECM, DCM, M&A deals, equity financing. Prior to joining CBM, for more than 14 years, Mr. Borunov held executive positions in the investment banking sector with VTB Capital, PJSC “Bank VTB”, Deutsche Bank and United Financial Group. Outside CBM, Mr. Borunov currently holds the post of an Independent Director at Sova Capital Limited. Mr. Borunov graduated with honours from the State University of Management (majoring in Finance and Credit). He is also certified by Cyprus Securities and Exchange Commission, Financial Services Regulatory Framework (2017), UK Financial Regulation (UK Financial Regulation) 2014, CBR certificate 1.0.

Alexander Kaznacheev (born 1974) has served as a member of the Management Board since October 2017. Mr. Kaznacheev is responsible for corporate business. Mr. Kaznacheev started his career path as an economist with the Department of Clients and Marketing of the Russian National Commercial Bank. For 20 years he worked in Gazprombank, during the last nine years in the capacity of the First Vice President responsible for working with corporate clients. Currently, in addition to his position with CBM, Mr. Kaznacheev serves as a member of the Board of Directors of INKAKHRAN and as the Deputy Chairman of the Board of Directors of LLC “ETP GPB” (Gazprombank electronic trading platform). Mr. Kaznacheev graduated with honours from the Faculty of Economics and Management of the Moscow Aviation Institute and further obtained an academic degree of Candidate of Economic Sciences. In 2013, Mr. Kaznacheev received an MBA degree in Finance from the Frankfurt School of Finance and Management.

Kamil Yusupov (born 1971) has served as the Deputy Chairman of the Management Board since August 2018. Prior to joining CBM, Mr. Yusupov held the post of the Head of the Republic of Tatarstan Directorate of the Branch of OJSC “VTB Bank” in Nizhny Novgorod, and from 2015 to 2018, held the posts of the Chairman of the Management Board and a member of the Board of Directors of LLC Bank “Avers”. Currently, Mr. Yusupov holds the post of a member of the Board of Directors of LLC “Tulpar Technik” and serves as the Chairman of the Tatarstan Regional Branch of LLC “Business Russia” (*Delovaya Rossiya*). Mr. Yusupov holds a degree in Engineering from the Kama Polytechnic Institute and a degree in Management from the Kazan Finance and Economics Institute.

Sergey Putyatinsky (born 1982) has served as a member of the Management Board since January 2019. Mr. Putyatinsky is responsible for CBM’s IT operations. Mr. Putyatinsky has an extensive experience of more than 15 years in the IT sector, and has been involved in software development for companies across different sectors (education, oil and gas, retail and state bodies). Mr. Putyatinsky started his career in the banking sector in 2007 in the Moscow Bank of Reconstruction and Development (currently MTS Bank). In 2009, Mr. Putyatinsky joined Neoflex IT Company as Business Development Director.

Later, Mr. Putyatinsky joined Otkritie Bank as IT Development Director. In 2013, Mr. Putyatinsky joined JSC “National Settlement Depository” (“NSD”) (Moscow Exchange group) as member of the Management Board and IT Director. Under Mr. Putyatinsky’s management, NSD has become the first Russian company to create a blockchain prototype, embarking on a transformation to an innovative ecosystem. Mr. Putyatinsky holds a degree in Computer Sciences and IT from the Chernyshevsky Saratov State University.

Anton Virichev (born 1978) has served as a member of the Management Board since February 2016. Mr. Virichev began working with CBM in 2009. From 2009 to 2011, he held various managerial positions within CBM’s risk management department. From 2011 to 2015, Mr. Virichev acted as a manager at the Major Corporates Department at Sberbank and as the Head of Corporate Development Division at Nota-Bank. In 2015, Mr. Virichev re-joined CBM as the Head of Risk Management Directorate. Outside CBM, from 2016 to 2019, Mr. Virichev served as a member of the Board of Directors of SKS Bank. Mr. Virichev holds a degree in Economics from the Financial Institute under the Government of the Russian Federation.

The business address of each member of the Management Board is CBM’s registered office. No actual or potential conflicts of interest exist between the duties that any member of the Management Board owes to CBM and such member’s private interests or other duties.

Corporate Governance

CBM complies with the Russian corporate governance regime. Corporate governance at CBM has been carried out in accordance with the requirements of the JSC Law, other rules governing the operation of joint-stock companies and credit organisations in the Russian Federation, CBM’s Charter and other internal documents of CBM. CBM’s corporate governance practices satisfy or surpass the corporate governance requirements currently prescribed in the Russian Federation, and to a certain extent comply with concepts of corporate governance that are prevalent in Western Europe and the United States.

As a legal entity, whose shares and debt securities are listed on the Moscow Exchange, CBM is required to comply with a number of corporate governance requirements applicable to issuers of securities that are traded on the Russian stock exchange.

As part of its corporate governance regime, CBM follows its own Corporate Governance Code. The current version of the Corporate Governance Code was approved by CBM’s Supervisory Board in December 2015.

CBM’s Corporate Governance Code sets out CBM’s main corporate conduct principles, promoting better performance of the management bodies of CBM. CBM’s Corporate Governance Code is based on a balanced approach towards the interests of CBM’s shareholders, management bodies and other interested parties, with a view towards enhancing reliability and client satisfaction, promoting business culture, improving control over CBM’s performance and ensuring compliance with highest ethical standards. The Corporate Governance Code seeks to improve and systemise approaches to client satisfaction by providing high quality banking services and reliability in accordance with CBM’s plan to evolve as a modern financial institution. To keep client service in line with high financial, business and technological standards, CBM voluntarily undertakes to follow the principles and rules of corporate governance set out in the Corporate Governance Code. These principles and rules correspond to international best practices of corporate conduct and represent a high level of governance and performance control, business culture and compliance with high ethical standards. As corporate governance practice evolves in Russia and abroad, CBM will seek to further improve its corporate governance rules and principles and achieve a higher level of compliance with the principles set out in the Corporate Governance Code.

Among other things, CBM has implemented the following corporate governance features:

Independent Directors

According to the Regulation on the Supervisory Board of CBM and the Corporate Governance Code, independent directors of CBM are members of the Supervisory Board who have no direct or indirect relationship with CBM other than membership on the Supervisory Board, and who, among others:

- are not, and have not been in the past five years, employed by CBM or its affiliates, where “affiliates” means, with respect to any person, any individuals or entities directly or indirectly controlling, controlled by or under common control with, that person and “control” means the power of an individual or entity, whether independently or jointly with other individuals or entities, directly or indirectly (through third parties), to influence activities of entities and/or individuals (including to determine the decision of the management or business policies of an entity through the direct or indirect (i.e. through third parties) ownership of more than 20% of its capital and/or by contract made between that individual or entity and the other individual(s) and/or entity(ies));
- are not affiliated with any non-profit organisation that receives significant funding from CBM or its affiliates;
- do not receive and have not received any additional payments from CBM or its affiliates other than their remuneration and reimbursement of expenses related to their service, as Supervisory Board members in the past five years (such remuneration and reimbursement may not constitute a significant portion (share) of any such independent director’s total income for the calendar year in which such remuneration and reimbursement were paid);
- do not participate in any employee pension programme or share option programme of CBM or any of its affiliates;
- are not employed as the sole executive body or a member of the collective executive body of another entity where any of the members of CBM’s collective executive body serve on that entity’s board of directors;
- are not, and have not been at any time during the past five years, employed by or affiliated with an auditor of CBM or any of its affiliates;
- do not hold a significant (more than 2%) portion of the outstanding shares in CBM or shares/interests in the capital of any of its affiliates, and are not members of a management body of any entity, or general partners of any general partnership, or members of a business partnership, or partners (members) of an entity incorporated under foreign law in a legal form similar to that of general partnership or business partnership, and cannot give binding instructions to or otherwise direct the activities of an entity, which holds any significant (more than 2%) portion of the outstanding shares in CBM or shares/interests in the capital of any of its affiliates;
- are not members of the immediate family, guardians or trustee of any individual who would not meet any of the tests set out above, or assistants to any such individual who is of age, legally capable and placed under guardianship, or executors of the estate of any such individual who has been declared missing, or administrators or trustees of the estate of any such individual who is or has been declared deceased; and
- have not served on the Supervisory Board for more than seven years. According to MOEX listing requirements, any Supervisory Board members who have served as independent directors for 7 (seven) years, may subsequently, on an annual basis, be qualified by Supervisory Board resolution as independent directors, provided that none of them may be so qualified after 12 (twelve) years of serving as such.

The foregoing independence criteria exceed the requirements of the JSC Law and CBR guidance and are based on the requirements of EBRD. CBM also complies with the independence criteria for directors envisaged by the Moscow Exchange Listing Rules. CBM's Supervisory Board currently includes five independent directors. These directors are William Owens (Chairman of the Supervisory Board), Andrew Gazitua, Andreas Klingen, Ilkka Salonen and Lord Daresbury (Peter).

Supervisory Board Committees

According to the charter and other internal regulations of CBM, the Supervisory Board is responsible for creating specific committees including the strategic and finance committee, the audit committee (which, among other things, supervises CBM's banking risk management), the corporate governance, nominations and compensation committee, the capital markets committee and other committees. Such committees are formed for pre-examination of the most important matters pertaining to the activities of CBM. Descriptions of such currently existing committees of the Supervisory Board are provided below. Each committee has at least two independent directors.

Audit and Risk Committee

The Audit and Risk Committee of the Supervisory Board of CBM analyses the efficiency of CBM's internal control and risk management procedures and provides advice on their improvement to the Supervisory Board when making decisions with respect thereto. The Audit and Risk Committee members are elected from the Supervisory Board members who are not also members of CBM's executive bodies. The current members of the Audit and Risk Committee are Ilkka Salonen, Thomas Grasse and Andreas Klingen. The committee is headed by an independent director (currently Ilkka Salonen). The main purpose of the Audit and Risk Committee is to assist the Supervisory Board in controlling CBM's operations and to ensure the effectiveness of CBM's internal control and risk management systems. It aims to achieve this purpose by advising of the Supervisory Board on the matters stated in the Regulation on the Audit and Risk Committee.

The Audit and Risk Committee's functions also include maintaining the Supervisory Board's control over the activities of CBM's executive bodies and ensuring co-operation with CBM's executive bodies on matters within the committee's competence, supervision over the reliability and efficiency of CBM's risk management and internal control system, control over measures taken to ensure CBM's financial statements are complete, accurate and true, implementing and promoting a culture of risk management within CBM, ensuring independence and fairness of internal and external audit functions, controlling the performance of the measures taken by CBM's executive management under the system that provides alerts of potential malfeasance by CBM's staff (including abuse of insider or confidential information) or by third parties, and of other irregularities in its operations.

Strategy and Capital Markets Committee

The Strategy and Capital Markets Committee of the Supervisory Board was established in August 2013 out of the Capital Markets Committee and Strategic and Finance Committee of the Supervisory Board. The committee consists of nine members. The committee is headed by an independent director. As at the date of this Prospectus, the committee consists of Andrew Gazitua (Chairman of the committee), Roman Avdeev, Vladimir Chubar, Thomas Grasse, Andreas Klingen, William Owens, Lord Daresbury (Peter), Ilkka Salonen and Sergey Menzhinsky. The Strategy and Capital Markets Committee was formed to advise the Supervisory Board on CBM's international capital market funding strategy, optimisation of internal processes with respect to capital market activities and building an internal interaction model in connection with international capital market funding, and on any material investor relation issues; to ensure the adoption of resolutions by the Supervisory Board in relation to setting CBM's strategic goals, selecting CBM's priority lines of business, making recommendations on CBM's dividend policy and appraising CBM's long-term performance. The Strategy and Capital Markets Committee also advises the Supervisory Board on adjusting CBM's existing development strategy with a view towards enhancing CBM's performance in consideration of the domestic and foreign market trends, CBM's performance results, its competitors and other factors. Additionally, the committee assists the Supervisory Board in addressing any matters reserved to it.

Compensation, Corporate Governance and Nominations Committee

The Compensation, Corporate Governance and Nominations Committee of the Supervisory Board was first established in August 2012. The committee consists of three Supervisory Board members. The committee is headed by an independent director. As at the date of this Prospectus, the committee consists of William Owens (Chairman of the committee), Andrew Gazitua and Lord Daresbury (Peter). The Compensation, Corporate Governance and Nominations Committee was formed to direct the HR policy for recruiting highly qualified specialists to the Supervisory Board, Management Board and for the office of the Chairman of the Management Board. The committee is also responsible for formulating both the principles and criteria for remuneration and compensation, developing a transparent motivation system and advising on the creation and implementation of effective corporate governance models and solutions.

Corporate Secretary

According to the bylaws on the Corporate Secretary updated by CBM in June 2016, the Corporate Secretary's role is to enhance the efficiency of CBM's development management in the interest of the shareholders, coordinate CBM's actions aimed at the protection of shareholders' rights and interests, improve CBM's corporate governance practices and standards, maintain the effective operation of CBM's General Shareholders' Meeting and Supervisory Board, as well as to ensure active ongoing interaction with CBM's shareholders, Supervisory Board members and CBM's executive bodies.

Code of Corporate Ethics

CBM also adopted its Code of Corporate Ethics (revised from the previous Code of Corporate Ethics adopted in November 2018), which sets out the standards of CBM's activities and employees' conduct with a focus on maintaining ethical standards and quality of service provided to customers, as well as increasing CBM's profitability, financial stability and efficiency. The objectives of the Code of Corporate Ethics include defining CBM's mission and corporate values; ensuring CBM's employees understand their personal responsibility to CBM's customers, business partners, shareholders and their colleagues in executing their official duties and performing their functions; and setting forth the fundamental principles of CBM's relationships with customers, business partners, state and municipal authorities, competitors and CBM's employees, as well as protecting the interests of CBM's shareholders, customers, business partners and employees. In addition, the Code of Corporate Ethics sets forth the key principles of handling CBM's insider information and sets out CBM's gifts policy. The Code of Corporate Ethics applies to all employees of CBM. Employees are required to act in accordance with the Code of Corporate Ethics and avoid situations where their personal interests conflict with CBM's interests. CBM's managers of various levels are required to supervise and ensure their subordinates' compliance with the provisions of the Code of Corporate Ethics. CBM's Internal Control Service is responsible for controlling compliance with the Corporate Ethics Code in the course of adoption of internal organisational documents by CBM's structural divisions, as well as for monitoring the employees' compliance with the Code of Corporate Ethics. CBM views the adoption of the Code of Corporate Ethics as an important development within the continuous improvement of corporate governance in CBM. The Code of Corporate Ethics also aims to assist with the integration of new employees into CBM's corporate culture.

Remuneration

For the nine-month periods ended 30 September 2019 and 2018, aggregate remuneration paid by CBM to the members of its Supervisory Board and Management Board was RUB743 million and RUB536 million, respectively. The aggregate remuneration paid by CBM to the members of its Supervisory Board and Management Board in the years ended 31 December 2018, 2017 and 2016 amounted to RUB633 million, RUB529 million and RUB180 million, respectively.

Members of the Supervisory Board are remunerated pursuant to the Regulation on remunerations and compensations payable to members of the Supervisory Board (approved by the extraordinary General Shareholders' Meeting on 14 June 2018). The members of CBM's Management Board enter into

employment contracts with CBM, which set forth their remuneration divided into non-performance related and performance-related components.

Policy

In July 2018, the Supervisory Board approved renewed remuneration policy for the Management Board members and the “risk-takers” of CBM in line with Instruction No. 154-I of the CBR.

Litigation Statement Concerning Management

For the previous five years, none of the members of the Supervisory Board or the Management Board:

- have had any convictions in relation to fraudulent offences;
- have held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- have been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or have ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Other Interests

No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Board or the Management Board owes to CBM and such member’s private interests or other duties.

SHAREHOLDERS

CBM's shareholders are not required to give CBM notice of transfers of their ordinary shares and CBM will only be able to verify the exact status of their shareholdings by making a specific request of its independent registrar in connection with a matter requiring a shareholder vote.

Principal Shareholders

The following table sets out the shareholders of CBM as at 30 November 2019.

Shareholder	Number of ordinary shares	Shareholding
LLC Concern Rossium ⁽¹⁾	16,726,177,107	56.07%
JSC "AM "RegionFinanceResurs" (acting as trust manager of the closed-end combined fund "Vektor Razvitia")	2,229,170,000	7.473%
LLC IC Algoritm	1,716,489,315	5.7543%
European Bank for Reconstruction and Development (EBRD)	1,085,082,131	3.6376%
LLC REGION Trust (acting as trust manager with respect to pensions savings of JSC Non-State Pension Fund "Evolution")	933,333,333	3.1289%
LLC REGION Trust (acting as trust manager with respect to pensions savings for financing of pro-rata pensions of JSC Non-State Pension Fund "BUDUSCHEE")	707,627,400	2.3722%
LLC VectorInvest	324,463,000	1.0877%
LLC REGION Trust (acting as trust manager with respect to pensions savings for financing of pro-rata pensions of JSC Non-State Pension Fund "Evolution")	131,144,445	0.4396%
Vladimir Chubar	6,945,400	0.0233%
JSC "AM "REGION Investments", trustee of Strategy "Moscow income"	3,030,600	0.0102%
JSC IK REGION	895,400	0.003%
JSC REGION EsM, trustee of Strategy "Moscow income"	377,200	0.0013%
Other shareholders	5,964,974,535	19.9968%
	29,829,709,866	100.0%

Note:

- (1) Concern Rossium is ultimately controlled by Mr. Roman Avdeev. Share capital in Concern Rossium is held by (i) MCB Capital (90.1%) and (ii) LUNARAY INVESTMENTS LIMITED (9.9%).

Shareholders' Agreement

Concern Rossium, Mr. Roman Avdeev and EBRD have entered into the Shareholders' Agreement dated 20 July 2012, as amended, in order to set forth the understanding of the parties with regard to their ownership in, and the governance of, CBM. CBM is not a party to the Shareholders' Agreement.

The Shareholders' Agreement contains, among other things, provisions relating to appointment of the members of the Supervisory Board, the conduct of the Supervisory Board and shareholders meetings and "reserved matters" which include those decisions of the Supervisory Board or the shareholders requiring an affirmative vote of EBRD or director appointed by it. See "*Management – Supervisory Board*".

Pursuant to the Shareholders' Agreement, Mr. Roman Avdeev has agreed not to participate in other banks or lending institutions in Russia without the consent of EBRD (the "**Investor**").

The Shareholders' Agreement contains certain provisions whereby certain parties have made agreements regarding the retention and/or disposal of their respective shareholdings, in each case under certain circumstances and subject to the satisfaction of certain conditions. Also, Mr. Roman Avdeev and Concern Rossium are entitled to tag-along rights in case of any offering of CBM's shares or sale thereof by the Investor. In addition, the Investor has a pre-emptive right with respect to any of the CBM's shares offered to other investors. The Investor has 60 days to exercise such right following notification. The Shareholders' Agreement also stipulates that if more than 5% of the CBM's shares are transferred to a

person not already party to the Shareholders' Agreement, the transferee must execute an accession instrument and become a party to the Shareholders' Agreement. Finally, the Shareholders' Agreement provides that, at any given time, Mr. Roman Avdeev and EBRD shall maintain a direct or indirect aggregate voting and economic interest in CBM of no less than 50% plus one share.

RELATED PARTY TRANSACTIONS

The following is an overview of CBM's transactions with related parties as at the dates indicated below. CBM's financial information set forth herein has, unless otherwise indicated, been extracted without material adjustment from the Financial Statements.

According to IFRS, parties are considered to be related if one party has the ability to control the other party, is under common control with, or exercises significant influence over, the other party's financial or operational decisions, as defined by IAS 24 "Related Party Disclosures". In determining each possible related party relationship, one must consider the substance of the relationship and not merely the legal form. CBM's majority shareholder is Roman Avdeev, with whom or with entities under his control, CBM maintains a number of balances and conducts certain transactions from time to time. CBM enters into banking transactions in the ordinary course of its business with shareholders, management, subsidiaries and companies with which it has significant shareholders in common. These transactions include settlements, deposit taking, lending operations and issue of guarantees. CBM provides loans to the members of CBM's management from time to time for different purposes, including mortgage loans, car loans, general-purpose loans and overdrafts. These transactions are priced predominantly at market rates. It is CBM's policy to conduct transactions with related parties on the same terms and conditions as it applies to non-related party transactions.

The table below sets out the outstanding balances as at 30 September 2019, and 31 December 2018, 2017 and 2016.

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
	RUB millions			
Cash and cash equivalents				
Associate company	28	-	-	-
Under control of principal beneficiary	-	-	4,114	-
Total cash and cash equivalents	28	-	4,114	-
Due from credit and other financial institutions				
Under control of principal beneficiary	-	814	-	-
Total deposits in credit and other financial institutions	-	814	-	-
Trading financial assets				
Under control of principal beneficiary	344	23	1,451	-
Total trading financial assets	344	23	1,451	-
Loans to customers				
Under control of principal beneficiary	24,314	24,314	22,600	18,318
Associate company	748	-	-	-
Management	724	686	134	70
Total loans to customers	25,786	25,000	22,734	18,388
Due to credit institutions				
Under control of principal beneficiary	1,210	-	-	-
Total due to credit institutions	1,210	-	-	-
Due to customers				
Term deposits by customers				
Under control of principal beneficiary	20,359	9,277	2,067	241
Parent company	653	9,999	-	977
Majority Shareholder	537	1,122	174	828
Management	262	388	187	145
Total term deposits by customers	21,811	20,786	2,428	2,191

	As at 30 September	As at 31 December		
	2019	2018	2017	2016
	RUB millions			
Current accounts by customers				
Under control of principal beneficiary	600	1,840	3,595	68
Management	156	42	23	64
Parent company	2,918	26	1,321	-
Associated company	14	-	-	-
Principal beneficiary	1	4	2	3
Total current accounts by customers	3,689	1,912	4,941	135
Total due to customers	25,500	22,698	7,369	2,326
Financial liabilities measured at fair value through profit or loss				
Under control of principal beneficiary	78	-	-	-
Total financial liabilities measured at fair value through profit or loss	78	-	-	-
Debt securities issued				
Under control of principal beneficiary	2,085	5,712	7,942	-
Parent company	1,887	-	-	-
Total debt securities issued	3,972	5,712	7,942	-
Other liabilities				
Under control of principal beneficiary	-	802	-	-
Total other liabilities	-	802	-	-
Guarantees issued				
Under control of principal beneficiary	193	90	201	343
Associate company	55	-	-	-
Total guarantees	248	90	201	343

From time to time, CBM grants loans to finance the development projects of the construction companies, including the subsidiaries of its shareholder, Concern Rossium.

The table below sets out the amounts included in profit or loss and other comprehensive income for the nine-month period ended 30 September 2019, and the years ended 31 December 2018, 2017 and 2016.

	For the nine months ended 30 September	For the year ended 31 December		
	2019	2018	2017	2016
	RUB millions			
Interest income				
Under control of principal beneficiary	2,650	3,177	3,590	778
Associate company	55	-	-	-
Parent company	-	41	277	20
Management	38	34	14	9
Principal beneficiary	-	2	-	-
Total interest income	2,743	3,254	3,881	807
Interest expense				
Under control of principal beneficiary	(1,598)	(1,639)	(1,008)	(251)
Parent company	(285)	(140)	(44)	(67)
Principal beneficiary	(22)	(47)	(42)	(20)
Management	(16)	(19)	(15)	(13)
Total interest expense	(1,921)	(1,845)	(1,109)	(351)
Commission income				
Under control of principal beneficiary	157	364	273	41
Parent company	34	45	39	7
Associate company	24	-	-	-

	For the nine months ended 30 September	For the year ended 31 December		
	2019	2018	2017	2016
	RUB millions			
Management	-	1	-	-
Total commission income	215	410	312	48
Net foreign exchange loss				
Under control of principal beneficiary	4,997	(8,389)	608	-
Parent Company	(68)	(1)	-	-
Total net foreign exchange loss	4,929	(8,390)	608	-

THE BANKING SECTOR AND BANKING REGULATION IN RUSSIA

Russian economy

According to the IMF, Russia was the 12th largest economy in the world and the 5th largest in Europe with total GDP of approximately U.S.\$1.69 trillion in 2018.

In 2014, the slump in global prices for Russia's main commodity exports, primarily oil, amplified by economic sanctions imposed by the United States, Canada, the EU and other European countries in response to events in Ukraine, triggered an economic crisis in Russia, which led to a decline in real GDP, slower industrial production, falling disposable incomes and consumer spending in real terms (although both categories increased in Rouble terms, due to the significant depreciation of the Rouble as a result of the crisis), and also triggered an increase in the unemployment rate. The devaluation of the Russian currency against leading global currencies over the same period contributed to a sharp increase in consumer inflation, which reached 12.9% in year-on-year terms in 2015. As a result, in 2015, Russia's nominal (in Rouble terms) GDP increased by 3.7% while real GDP contracted by 3.7%. In 2016, according to the IMF, the economy began to stabilise, with real GDP increasing by 0.3%. The recovery continued in 2017 and 2018, with real GDP growth accelerating onwards to 1.6% and 2.3%, respectively, and inflation declining to approximately 4.3% in 2018. Based on CBR estimates, Russia's GDP increased by 0.8-1.3% in 2019.

Below is a summary of certain key macroeconomic factors.

Key macroeconomic factors	Year ended 31 December								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Population, million.....	143.1	143.3	143.7	146.3	146.5	146.8	146.9	146.8	146.7 ⁽²⁾
Nominal GDP (U.S.\$bn).....	2,031	2,154	2,226	2,052	1,357	1,287	1,578	1,685	791 ⁽³⁾
Real GDP growth year-on-year (%).....	4.0	3.5	1.3	0.7	(2.3)	0.3	1.6	2.3	0.7 ⁽⁴⁾
Nominal GDP growth year-on-year in Rouble terms (%).....	20.0	12.1	6.1	9.8	3.7	3.4	5.9	12.8	7.2 ⁽⁴⁾
Annual GDP per capita (RUB).	416,853	467,081	495,348	543,439	563,265	586,630	626,782	707,601	n/a
Industrial production growth (%).....	5.0	3.4	0.4	1.7	(0.8)	2.2	2.1	2.9	2.4 ⁽⁵⁾
Consumer price inflation (%)...	6.1	6.6	6.5	11.4	12.9	5.4	2.5	4.3	3.0
Average unemployment rate (%).....	6.5	5.5	5.5	5.2	5.6	5.5	5.1	4.8	4.6 ⁽⁶⁾
Personal Income per Capita Growth (%).....	9.6	11.7	11.7	7.1	9.7	0.9	2.4	1.1	7.8 ⁽⁷⁾
Year end Brent crude oil price (U.S. dollar per barrel).....	107.4	111.1	110.8	57.3	37.3	56.8	66.9	53.8	66.6
Average exchange rate ⁽¹⁾ (RUB per U.S. dollar).....	29.4	31.1	31.8	38.4	61.0	66.8	58.3	62.7	64.6

Source: Rosstat, CBR, Bloomberg

Note:

- (1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).
- (2) As at 1 November 2019.
- (3) For the first half of 2019, calculated based on Rosstat data (RUB50,675.1 billion).
- (4) First half of 2019 compared to first half of 2018.
- (5) For January-November 2019.
- (6) In November 2019.
- (7) Third quarter of 2019 compared to third quarter of 2018.

History of the Russian Banking Sector and Banking Statistics

In the USSR, the banking system was entirely state-controlled, and consisted of (i) the State Bank of the USSR, or Gosbank, a predecessor of the CBR, which functioned as a central and a commercial bank and allocated government budget resources according to centrally defined economic plans, (ii) Stroibank of the USSR, which handled payments for construction and infrastructure projects, (iii) Vneshtorgbank of the USSR, a predecessor of today's VTB, which serviced foreign trade of Soviet entities, and (iv) a network of state savings cash offices that provided financial services to the general population throughout the country, mainly deposit taking and utility payments. In 1988, with the liberalisation reforms of the Soviet economy, five specialised state-owned banks were created in addition to Gosbank to service specific sectors – farming, housing and social development, foreign economic activity, manufacturing and construction – while the savings cash offices were reorganised into Sberbank of the USSR to continue serving individuals.

In 1988 and 1989, during the second phase of the reform, private commercial banks (primarily in the form of cooperatives or joint stock companies) began to emerge. In 1991, with the dissolution of the USSR, the CBR assumed all of Gosbank's central bank functions in Russia, and Gosbank was liquidated one month later, while three of the specialised state dependent banks were transformed into joint-stock companies and some regional bank branches became independent from their head offices through management buyouts.

During the 1990s, the Russian banking sector experienced rapid growth. The number of commercial banks in Russia increased from 358 in 1990 to 2,538 in 1996. In 1998, the Russian financial markets went through a serious crisis (caused in part by the Asian financial crisis that began in 1997). When the Russian Government defaulted on its sovereign debt, the CBR devalued the Rouble, imposed a repayment moratorium on certain loans to foreigners, and undertook to implement the compulsory restructuring of approximately U.S.\$40 billion of short-term treasury instruments. As a result of this crisis, many Russian banks were reorganised, went bankrupt or were placed under the administration of the Agency for Restructuring of Credit Organisations (“**ARCO**”), a state corporation established in 1999 to restructure banks and protect their creditors. During the years that followed, as the Russian banking sector stabilised, ARCO's role and activity in the banking sector gradually decreased, and by October 2003 the last credit organisation exited ARCO's administration, and ARCO was liquidated pursuant to Federal Law No. 87-FZ “On Abolition of Federal Law “On Restructuring of Credit Organisations” and Certain Provisions of Legal Acts of the Russian Federation and On the Liquidation Procedure of State Corporation “Agency for Restructuring of Credit Organisations” dated 28 July 2004 (the “**ARCO Liquidation Law**”). Pursuant to the ARCO Liquidation Law and Federal Law No. 177-FZ “On Insurance of Deposits of Individuals in Banks in the Russian Federation” dated 23 December 2003, as amended (the “**Deposit Insurance Law**”), the assets of ARCO were transferred to the newly established State Deposits Insurance Agency (the “**DIA**”) along with the introduction of a depositary insurance scheme in Russia.

Following the 1998 financial crisis, the number of credit organisations operating in Russia fell to 1,586 by 1 July 2004. The 1998 financial crisis revealed the lack of proper controls in the banking sector and increased public concerns over the integrity of the banking system, in particular, concerns regarding misleading advertising, money laundering and corruption. These concerns surfaced up once again in 2003 and 2004, when a combination of market rumours, bank licence revocations by the CBR and, in some cases, regulatory and liquidity issues at a number of banks triggered a crisis of confidence in the Russian banking system. In the process, several privately-owned Russian banks were unable to fund themselves in the interbank market, experienced a run on their deposits and ultimately collapsed or had to otherwise cease or limit their operations.

In response to this liquidity crisis, the CBR temporarily lowered its mandatory reserve ratio requirement for banks, while amendments to Federal Law No. 86-FZ “On the Central Bank of the Russian Federation (Bank of Russia)” dated 10 July 2002 (the “**Central Bank Law**”) enacted in 2004, required the CBR to compensate private depositors of insolvent Russian banks that did participate in the deposit insurance scheme prior to their bankruptcy. These amendments gave CBR the power to impose, for up to one

year, limits on interest rates paid by banks to private depositors, and obligated banks to disclose certain information on their deposit rates, deposit liabilities and withdrawals by private depositors.

Between 2005 and 2008, the Russian banking sector experienced rapid growth in terms of lending, deposits and sizes of branch networks. Russian banks actively tapped international financial markets with Eurobond and equity transactions, for example, the equity offerings by large state-owned banks Sberbank and VTB in 2007. During this period, a number of international banks entered the Russian market, including via acquisitions of local banks by such groups as Société Générale, Raiffeisen, OTP, KBC, Barclays, and Bank of Cyprus.

From the second half of 2008, Russia's banking system once again went through turmoil as a result of the onset of the global economic crisis of 2008-2009. At that time, a number of sizeable Russian banks, such as Globex Bank, Svyaz-Bank or K.I.T. Finance, became insolvent due to a liquidity crunch, and later on several banks fell under the weight of sharply deteriorating asset quality. In response, the Russian authorities and the CBR introduced a number of measures to support the liquidity and solvency of credit organisations, pursuant to Federal Law No. 175-FZ "On Additional Measures for Strengthening the Stability of the Banking System for the Period until 31 December 2014" dated 27 October 2008, as amended (the "**Banking System Stability Law**"), along with several decisions taken in September and October 2008 prior to the effective date of this law. These measures included (i) the provision of up to RUB950 billion of subordinated loan financing to state-owned and privately-owned Russian banks, (ii) a new CBR uncollateralised lending facility for select banks, (iii) reduced reserve requirements, (iv) increase of the maximum retail depositary insurance scheme guarantee to RUB700,000 per customer, and many other measures. Moreover, the CBR and the DIA developed the legal framework, processes and capabilities to actively manage distressed or insolvent banks towards an eventual rehabilitation, liquidation, or takeover by another, healthier, credit organisation, often involving state-funded financial support. Thanks to these measures and the eventual economic and financial recovery in 2010, Russia was able to avoid the collapses of systemically important financial institutions and the disintegration of its financial system.

In the several years that followed, Russia's banking system experienced another period of rapid expansion, this time driven by the rapid development of the retail banking services market, including unsecured lending such as credit cards, cash consumer loans or point-of-sale loans. Russian banks have once again tapped the Eurobond market, raised financing in the growing Rouble-denominated domestic bond market, and also returned to international equity markets, for example, with two follow-on offerings by VTB Bank in 2011 and 2013, NOMOS-Bank's initial public offering in 2011, the secondary public placement of shares of Sberbank in 2012, and the initial public offering by Tinkoff Credit Systems in 2013. This period also saw active consolidation in the sector, with transactions such as VTB Bank's takeover of Bank of Moscow, integration of Bank Otkritie, NOMOS-Bank, Khanty-Mansiysk Bank and Bank Petrocommerce into a single Otkritie Financial Corporation bank, as well as exits by international banks, such as KBC, GE Money, and Barclays, who sold their local Russian banking operations to local players.

The appointment of Elvira Nabiullina as the new Chairman of the CBR in 2013 marked an important policy shift towards tighter regulation and supervision of the Russian financial and banking systems. The CBR has been transformed into a financial services "mega-regulator", which, in addition to banking, consolidated direct oversight over the financial markets, insurance companies, investment and pension funds, and payments processing providers. The CBR also took a number of important steps aimed at improving the quality, stability and transparency of the Russian banking system. It continued with steps to bring banking regulation in Russia closer to international standards by adopting Basel III-based prudential requirements, including new bank capital requirements that came into effect starting from 2014. It tightened its regulations in the consumer lending space, imposing increased risk weights and provisioning requirements for certain riskier unsecured loans, as well as controls over maximum lending rates. It has also taken a more decisive approach towards regulatory enforcement in the banking system, actively revoking bank licences or (along with the DIA) imposing temporary administration in response to cases of deteriorating financial health, poor asset quality, insufficient capitalisation, or breaches of

prudential requirements and other regulations at Russian banks, with the ultimate goal of making the sector more robust, stable and transparent.

In parallel, starting in late 2013, Russia's financial and banking system once again went through significant volatility and an eventual downturn, this time caused by (i) a general economic slowdown in Russia, (ii) the impact of geopolitical instability related to events in Ukraine and the Crimea, as well as international sanctions against a number of Russian companies and individuals, (iii) collapsing global prices for key Russian commodity exports, most notably oil, and (iv) the ensuing devaluation of the Rouble, spike in inflation and collapsing personal real incomes and consumption. Together with stricter enforcement action by the CBR, the crisis has led to a sharp decline in the number of licensed Russian banks which fell from 859 in 2013 to 444 as at 1 December 2019, which also affected a number of notable Russian banking players, such as Bank Otkritie, B&N Bank, Promsvyazbank, MDM Bank, Master-Bank, ROST-Bank, Trust-Bank, InvestTradeBank, Probusinessbank, Russian Capital Bank, Bank Peresvet and Prominvestbank, of which were either acquired, taken over for financial rehabilitation by other Russian banks or directly by the DIA or LLC "Management Company of the Fund for Consolidation of the Banking Sector" (the "**Management Company**"), or liquidated. According to the DIA, as at 10 January 2020, the CBR and the DIA were participating in rehabilitation measures in respect of 17 credit organisations. See "*Risk Factors – Risks Relating to CBM's Business and Industry – The slowdown of growth of the global and the Russian economies and financial markets could have a material adverse effect on CBM's business*".

Size and Structure of the Russian Banking Services Sector

The Russian banking sector has grown tremendously in Rouble terms since 2013, while suffering a setback in dollar terms in 2015 and then again in 2016 due to the economic slowdown and currency volatility in Russia during those years. According to the CBR, total Russian banking sector assets under RAS stood at RUB95,965 billion as at 1 December 2019.

Both corporate and retail banking grew at similar rates in the last 5 years. Retail banking remains relatively modest on the lending side, accounting for only 26.1% of total lending. However, on the deposit side, retail banking is much more prominent, accounting for 46.4% of total deposits. Overall, the system has been generating healthy levels of deposits, with loan-to-deposit ratios generally below 100%, owing to high savings rates of the Russian population and relative scarcity of and familiarity with other savings alternatives, such as investment or insurance instruments.

The recent economic crisis put the sector under serious stress, with the share of non-performing loans (defined as problem or unrecoverable loans by the CBR) in total loans rising from 4.2% in 2013 to a peak of 7.4% in 2017, while sector pre-tax profits fell from RUB994 billion to RUB930 billion. However, in the past several years, the system has stabilised, with the share of non-performing loans in total loans showing a visible decline, and with system profits rebounding strongly, which is helping restore capital adequacy in the system on an aggregate level.

The number of operating credit organisations in Russia is very large, despite consistently declining in the last five years due to sector consolidation, insolvencies caused by economic and financial turmoil, and stringent enforcement efforts of the CBR. Nonetheless, in terms of assets the sector is highly concentrated, with the top 5 banks accounting for 60.8% of the banking system's assets and their share still growing.

The following table sets forth certain information regarding the Russian banking sector for the periods indicated.

	2014	2015	2016	2017	2018
Assets (RUB trillion)	77.7	83.0	80.1	85.2	94.1
% of Russia GDP	98.0	99.5	93.2	92.5	90.6
Own Funds (Capital) (RUB trillion)	6.9	7.6	8.6	9.4	10.3
Loans to Customers (RUB trillion)	40.9	44.0	40.9	42.4	48.3
Loans to Non-Financial Organisations (RUB trillion)	29.5	33.3	30.1	30.2	33.4
% of Loans to Customers	72.3	75.7	73.6	71.3	69.1

Loans to Individuals (RUB trillion)	11.3	10.7	10.8	12.2	14.9
% of Loans to Customers	27.7	24.3	26.4	28.7	30.9
Deposits from Customers (RUB trillion)	43.6	51.7	49.8	50.8	56.5
Deposits from Non-Financial Organisations and Financial Organisations (excluding Credit Organisations) (RUB trillion)	23.4	27.1	24.3	24.8	28.0
% of Deposits from Customers	57.4	55.0	51.4	48.8	49.6
Deposits from Individuals (RUB trillion)	18.6	23.2	24.2	26.0	28.5
% of Deposits from Customers	42.6	45.0	48.6	51.2	50.4
Ratio of Loans to Customers to Deposits from Customers (%)	93.8	85.2	82.2	83.5	85.5
% Problem and Non-Recoverable Loans of Total Loans ² ..	4.7	6.7	6.7	5.2	4.7
Total Capital Adequacy Ratio ¹ (%)	12.5	12.7	13.1	12.1	12.2
Number of Operating Credit Organisations	783	685	575	561	484
Assets of the Five Largest Credit Organisations Over Total Assets (%)	53.7	54.1	55.3	55.8	60.4

Source: CBR

Note:

- (1) N1.0.
- (2) Calculated as Corporate and Retail overdue loans to total loans.

Geographically, Russia's banking sector and financial services infrastructure remain concentrated around a few large economic centres primarily in the Western part of the country, especially Moscow. As at 1 December 2019, approximately 52.3% of Russia's banks were headquartered in Moscow and the surrounding region and have limited national presence, according to the CBR. Only a small number of banks in Russia have a broad presence across the country, including Sberbank, VTB, Russian Agricultural Bank and Rosbank (which is part of the Société Générale Group).

Structure and Competitive Landscape of the Russian Banking Sector

The Russian banking sector consists of the CBR, credit organisations and representative offices of foreign banks. Credit organisations, in turn, consist of banks, which provide a wide range of banking services, and non-banking credit organisations, which provide only limited banking services, such as maintaining accounts and making payments.

As at 1 December 2019, according to the CBR, there were 838 banks and non-banking credit organisations registered in the Russian Federation (including branches). However, as at 1 December 2019, the five largest banks accounted for 60.8% of the total value of banking assets in the Russian Federation, and the following fourteen largest banks accounted for 22.1%, according to the CBR.

Russian banks can be categorised into four major groups: (i) state-controlled or state-affiliated banks, (ii) large privately-owned domestic banks, (iii) foreign-owned banks, and (iv) retail consumer banks and (v) other smaller banks.

State-Controlled or State-Affiliated Banks

State-controlled and state-affiliated banks play a dominant role in the Russian banking sector and at times play a dual role as commercial institutions and as conduits of government objectives, such as the development and support for the economy as a whole and in specific sectors, as well as social services. Sberbank of Russia, controlled by the CBR, is by far Russia's largest bank by virtually any metric: assets, loans, deposits, size of national branch network, personnel headcount and others. It plays a leading role in both corporate and retail lending, while its dominant share of domestic retail deposits enables it to enjoy low cost of funding. Russia's second largest bank VTB also has both corporate and retail operations, and has been an active consolidator of the industry. Russian Agricultural Bank (Rosselkhozbank or RAB) focuses on managing government funds and programs for the promotion of the country's agricultural sector, while Gazprombank, though not directly owned by the state, is an affiliate of large state-controlled gas producer Gazprom and an important player in the financing of large

energy exploration, production, transportation and processing projects. Sberbank and VTB are publicly listed, trading both on the Moscow Exchange and on the London Stock Exchange via Global Depositary Receipts programs.

Large Non-State Domestic Banks

The top banks owned by non-state domestic shareholders include Alfa-Bank, CBM, Sovcombank and a number of others. They typically operate as universal banks, with the corporate segment accounting for the majority of their lending portfolio, while the retail segment provides most of the deposit base. Many, though not all of them, have extensive branch footprints, covering multiple large Russian cities and regions. Several of them, including CBM, have publicly-listed shares on the Moscow Exchange. Unlike state-controlled banks, whose access to long-term international financing has been severely curtailed by international sectoral sanctions, these large privately-owned banks maintain access to global debt and equity capital markets, and have been increasingly competitive in the Russian banking sector.

Foreign Owned Banks

Foreign banks cannot directly conduct banking operations in Russia, instead they must operate via a fully-licensed and Russian-incorporated banking subsidiary that is subject to all applicable local regulatory and legal requirements. The presence of foreign-owned banks in Russia is rather limited, with the foreign-controlled banks accounting for 9.6% of the total assets of the banking sector as at 1 November 2019, based on CBR data. According to the CBR, as at 1 November 2019, there were 75 credit organisations operating in Russia in which foreign groups owned more than 50%, while the number of fully-owned subsidiaries of foreign banks amounted to 60.

Many foreign-owned banks focus primarily on servicing foreign corporations (often from their own home country) operating in Russia, or providing transactional banking for non-residents. However, the largest foreign-owned banks, such as AO UniCredit Bank, AO Raiffeisenbank and Rosbank (majority owned by Société Générale) have maintained strong presence in Russia for years, offering a full range of services to both local and international corporate and retail clients. Foreign players have been cautious in managing their Russia presence in recent years, and have tended to strategically pull back, rather than expand their operations in this country.

Retail Banks

A number of Russian banks, such as Tinkoff Bank, Home Credit & Finance Bank, Russian Standard Bank, Renaissance Credit, Orient Express Bank and, until recently, Sovcombank, have strategically chosen to focus mainly on the retail banking segment, specifically in the unsecured consumer lending space. Their main products have been consumer cash loans, point-of-sale loans, credit card loans, and, selectively, auto loans and mortgages, distributed through branches, small points of presence at retail locations and shopping malls and, increasingly, via remote channels. Apart from each other, they compete against the retail operations of larger universal banks. Retail banks have funded themselves with debt capital markets instruments, though a number of banks have solid retail deposit bases, generated either via their branch networks or through online banking. These banks have benefitted strongly from the consumer lending boom in 2011-2013, but a number of them suffered meaningful credit losses in the ensuing sharp downturn.

Other Smaller Banks

Other Russian banks are numerous smaller banks, whose operations are limited to a handful of branches within a city or a region, servicing mainly a handful of client relationships maintained by their owners. This segment has been under pressure in recent years, as increasing banking industry consolidation has made it more difficult to compete off a subscale platform, while the CBR has stepped up its scrutiny of small banks, since incidents of poor governance, mismanagement, compliance failure, or downright fraudulent and illicit activity have been especially rampant amongst them.

Role of the CBR

The CBR is the primary authority responsible for the regulation of banking institutions in Russia and also acts as Russia's central bank.

Until 2002, the CBR had been operating under the general terms of reference of Federal Law "On the Central Bank of the Russian Federation (the Bank of Russia)" dated 2 December 1990, as amended. In 2002, this law was superseded by the Central Bank Law. According to the Central Bank Law, the State cannot be liable for the CBR's obligations, nor can the CBR be liable for the State's obligations unless the relevant liability has been undertaken or is required by law. The CBR's property is under federal ownership.

The CBR is legally and financially independent of the Russian Government. The CBR's governing bodies are the Board of Directors and the National Banking Council, a collective management body carrying out certain governing functions, which were solely vested in the Board of Directors prior to adoption of the Central Bank Law (including, among other things, making decisions on maximum capital expenditures of the CBR, distribution of profits gained by the CBR, appointment of the CBR's chief auditor, approval of the CBR's accounting rules and requirements). The structure of the CBR comprises of the Moscow Head Office, a number of regional branches in constituent entities of the Russian Federation (in some of the Russian republics the CBR's regional branches are called National) and local branches. The Chairman of the CBR's Board of Directors is appointed on the recommendation of the President for a fixed term of five years by the State Duma (the lower chamber of the Russian Parliament), can be replaced under the same procedure, and has the right to participate in meetings of the Russian Government (Cabinet). The Ministers (or Deputy Ministers, as the case may be) of Finance and of Economic Development have the right to participate in meetings of the CBR's Board of Directors with consultative voting rights. The members of the National Banking Council are appointed by the Council of Federation (the upper chamber of the Russian Parliament), the State Duma, the President and the Government of the Russian Federation. The Chairman of the CBR is a member of the National Banking Council *ex officio*.

Under the Central Bank Law, the Banking Law and Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003, as amended (the "**Currency Control Law**"), the CBR is authorised to adopt implementing regulations on various banking and currency control issues. The CBR has actively used this authorisation in recent years, creating a detailed and extensive body of regulations.

The Federal Service for Financial Markets (the "**FSFM**") used to issue licences to banking institutions acting as professional participants of the Russian securities market. According to the Federal Law No. 251-FZ "On Amending Certain Legislative Acts of the Russian Federation in connection with the Transfer of Authorities on Regulation, Control and Supervision in Financial Markets" dated 23 July 2013, as amended, the authorities of the FSFM were transferred to the CBR with effect from 1 September 2013. The CBR succeeded the authorities of the FSFM in regulating and overseeing, *inter alia*, activities of banks as professional participants of the securities market.

Under current legislation, the CBR has the following major functions:

Function	Summary
Issue of money and regulation of circulation	The CBR is the sole issuer of Rouble banknotes and regulates their circulation. The CBR plans and arranges for the printing of banknotes and the engraving of coins, establishes the rules for their transportation and storage and regulates over-the-counter operations with cash. However, the CBR is prohibited from issuing money for purposes of budget deficit Rouble and foreign currency accounts of residents and non-residents in Russia.
Licensing	Issuance, suspension and revocation of banking licences to banks.
Control and supervision	Bank supervision (compliance with mandatory economic ratios and reserves requirements, sanctions for violations, overseeing banking

operations); defining format requirements for accounting and statistical reports; fixing reporting schedules; appointment of temporary administration to banks; control over acquisition (and/or a trust management) of significant (more than 1%) stakes in banks; assessment of financial standing of banks' founders (shareholders/participants).

Banking Regulation

The Banking Law is the principal law regulating the Russian banking sector. Among other things, it defines credit organisations, sets forth the list of banking operations and other transactions that credit organisations may perform and establishes the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

In accordance with Federal Law No. 135-FZ “On Protection of Competition” dated 26 July 2006, as amended, the Federal Antimonopoly Service of the Russian Federation (the “FAS”) regulates mergers and acquisitions of stakes in excess of 25, 50 and 75% of the total voting shares in credit organisations established in the form of joint stock companies, participation interests representing one third, half and two thirds of the charter capital of credit organisations established in the form of limited liability companies and acquisitions of certain shares of credit organisations' assets or rights to determine conditions relating to their activities. In addition, the CBR approval is required for the acquisition of or setting up of a trust management over stakes in excess of 10% of total voting shares in Russian credit organisations and any subsequent increases of ownership/trust holding above thresholds of 25, 50 and 75% of shares or the acquisition of 100% of share capital. The CBR approval is valid for one year from the date of issuance, and the applicant may acquire any amount of shares in a credit organisation within the threshold and total acquisition price stipulated in such CBR approval. Where more than 1% of share capital of a bank is purchased or trust management over such shares is created, the CBR should be notified of such acquisition or actions. Tax authorities supervise tax assessments of banks. Other governmental authorities are largely inactive in relation to banks. The Association of Russian Banks, comprising, as at 10 January 2020, 186 members, including 104 member credit organisations, was established pursuant to the provisions of the Banking Law as a non-commercial self-regulatory organisation. It offers various types of technical support to its members and lobbies the interests of banks in all branches of power. Set out below are some of the principal features of the regulatory regime governing banks in Russia.

Recent Amendments to the Banking Law

In accordance with the amendments introduced by the Federal Law No. 29-FZ “On Amending Certain Legislative Acts of the Russian Federation” dated 14 March 2013 it is forbidden for foreign banks to establish their branches on the territory of the Russian Federation. Therefore, foreign banks may carry out business activity on the territory of the Russian Federation only by establishment of subsidiary companies or through representative offices, whereas branches of foreign banks were excluded from the bank system of the Russian Federation. The Regulation of the CBR No. 467-P dated 22 April 2015 sets for the procedure for opening representative offices of foreign credit organisations in the Russian Federation and for the activities thereof.

On 2 July 2013, further amendments to the Banking Law were introduced by the Federal Law No. 146-FZ “On Amendments to Certain Legislative Acts of the Russian Federation”. Among the most important, the amendments provide for the following:

- preliminary CBR consent is required for acquisition of over 10% of shares in a Russian bank (instead of the previous 20% threshold);
- rules for qualifying a banking group (*bankovskaya gruppа*) and a banking holding (*bankovskiy kholding*) were changed. As opposed to the previous rules, the amendments define a banking group as an association of legal entities under control or significant influence of one credit organisation. The definition of a banking holding was expanded: a bank holding is now defined as an association of legal entities, at least one of which is a credit organisation, under control of a parent legal entity, not a credit organisation, provided that a share of banking activities is at

least 40% of the overall activities of this holding. Rules for reporting and disclosure by Russian banks were also slightly clarified in connection with the above new rules; and

- competence of the board of directors of a Russian bank was expanded. In particular, the amendments authorise the board of directors to adopt risk and capital management strategy, methodology of risk management and models of risk assessment, the procedure for resolving of conflicts of interests in the bank, appoint the head of an internal audit department and adopt regulations relating to remuneration of, and requirements to, employees involved in operations affecting compliance with mandatory capital ratios and interests of clients of the bank. Therefore, such authorities may not be referred to competence of the other management bodies.

In July 2015, the CBR published Order No. 3737-U “On Procedure of Determination of the List of Systemically Important Credit Organisations” that introduced certain criteria and procedure for the preparation of a list of systemically important credit organisations. For the purposes of preparing this list, the CBR has taken into account, among other things, the size of a credit organisation in relation to the entire banking sector, the amount of retail deposits, the volume of funds raised from other financial institutions and the funds placed with other financial institutions. The list of systemically important credit organisations includes banks that account for more than 60% of the total assets of the Russian banking sector and is subject to annual review. Credit organisations are informed by the CBR of being included in the list. The list of systemically important credit organisations was initially published on 15 July 2015 and updated on 20 October 2015, 30 September 2016 and 13 September 2017, when CBM was included on the list of systemically important credit organisations. On 5 October 2018, the CBR reviewed the list of systemically important credit organisations. As at the date of this Prospectus, the list of systemically important credit organisations included 11 banks.

In December 2015, the Federal Law No. 372-FZ “On Amending Article 16 and Article 18 of the Banking Law” introduced additional requirements to the establishment and operations of credit organisations with foreign investments (investment of non-residents).

On 29 July 2017, the Federal Law No. 281-FZ “On Amendments to Certain Legislative Acts of the Russian Federation Relating to Improvement of Mandatory Requirements for Incorporators (Shareholders), Management Bodies and Officers of Financial Organisations”, effective from 28 January 2018, introduced a new set of amendments to the Banking Law. In particular, the amendments refine qualification and reputational requirements for senior officers of a credit organisation and reputational requirements for its shareholders (or potential shareholders) or controlling persons (or its shareholders’ controlling persons). The amendments also improve the procedure and grounds for refusal to grant approval of a transaction for the acquisition of shares in a credit organisation.

Licensing

A licence must be obtained from the CBR in order for any institution to engage in banking activity as defined in the Banking Law. Applicants must be incorporated within Russia and registered with the CBR as a credit organisation, and submit, *inter alia*, a feasibility report and detailed information on the suitability of the applicant’s management team. A banking licence may be denied for a number of reasons, including if the financial standing of the founders of the bank is deemed unsatisfactory by the CBR, or if the proposed candidates for the senior management of the bank, including members of the management board and the chief executive officer, are deemed to be unsuitable or do not meet the qualification requirements.

Recent amendments to the Banking Law and the CBR Law introduced a multi-level banking system in Russia. Starting from 1 June 2017, the banking licences are divided into basic and universal depending on the size of a bank’s own funds. The own funds of a bank with a basic banking licence must not be less than RUB300 million. The universal banking licence requires that the bank’s own funds are not less than RUB1 billion. The banks with own funds below RUB1 billion as at 1 January 2018 are required to increase their capital to the statutory minimum by 1 January 2019 and for the four consecutive months preceding 1 January 2019 to comply with mandatory ratios for banks with a universal licence to be eligible to apply to the CBR to retain the universal licence.

The banks with a basic licence may perform only a limited number of banking operations. In particular, such banks may not perform such operations with non-Russian organisations, entities and individuals as placement of borrowed funds, issuance of bank guarantees and holding of deposits in and dealing with precious metals. Such banks are also not able to open bank accounts with non-Russian banks. At the same time, the banks with a basic licence are subject to simplified regulatory reporting requirements.

Additional requirements have been introduced for obtaining a licence for taking deposits from individuals. The licence could be granted to a bank for being a member of the Deposit Insurance System and which has been existing for more than two years from the date of its registration. Such requirement may be dispensed with if (a) the charter capital of a newly established bank with a universal licence or the regulatory capital of a bank with a universal licence is not less than RUB3,600 million, and (b) the bank with a universal licence complies with the CBR's requirement to publicly disclose all information relating to persons having significant influence or control over decisions made by the bank's management bodies.

Pursuant to the Banking Law, a bank's licence may be revoked by the CBR if, *inter alia*: (a) the information upon which the licence has been issued is untrue and misleading; (b) the bank delays the commencement of its operations for more than one year from the issue of the licence; (c) reporting statements submitted by the bank turn out to be materially untrue and misleading; (d) the bank delays submission of its monthly reports to the CBR for more than 15 days; (e) the bank conducts banking operations (or a single operation) not permitted by its licence; (f) the bank's activities do not comply with Russian banking legislation or regulations of the CBR and the bank has been subject to sanctions for such breaches/non-compliance before that; (g) multiple failures within a year, whether intentionally or by negligence, to carry out bailiffs' orders requiring seizure of funds in customer accounts; (h) in cases of insolvency, the revocation of the banking licence is requested by the temporary administration appointed to the bank; (i) the bank repeatedly fails to submit updated information required to be reflected in the Unified State Register of Legal Entities and Entrepreneurs in the Russian Federation; (j) a bank involved in mortgage-backed asset management operations does not comply with Russian mortgage-backed securities legislation and the bank has been subject to sanctions for such breaches/non-compliance before that; or (k) multiple failures within a year to comply with Russian anti-money laundering or insider trading laws and regulations.

The CBR must revoke a bank's licence if, *inter alia*: (a) its capital adequacy ratio falls below 2%; (b) its regulatory capital is less than the minimal charter capital as set by the CBR as at the date of the state registration of the relevant bank; (c) the bank fails to adjust its charter capital to its regulatory capital according to CBR requirements within 45 days of the CBR notification; (d) the bank fails to satisfy the claims of its creditors or make mandatory payments (for example, taxes and duties) amounting to an aggregate minimum of RUB100,000 within 14 days of their maturity; (e) the amount of the bank's regulatory capital is less than a certain statutory threshold during a certain defined period of time; or (f) the bank fails to meet requirements related to either basic or universal licence and transferring from one type of the licence to another.

Regulation of Capital

Basel Implementation in Russia

Current Russian regulation of capital is based on Basel I. It is, however, less sophisticated in certain respects. Over the recent years, the CBR, in cooperation with Russian banks, has started preparing the implementation of international approaches of capital adequacy of credit organisations under Basel II as issued by the Basel Committee. Currently, the standardised approach for credit risks of Basel II as set forth in Pillar 1 "Minimum Capital Requirements", is being applied in Russia. CBR Letter No. 96-T of 29 June 2011 issued as part of introducing Pillar 2 "Supervisory Review Process" (the "**Methodical Recommendations**") recommends credit organisations to elaborate and use the respective internal procedures for capital adequacy assessment which should comprise the process of assessment by a credit organisation of adequacy of its own capital, i.e. its internal capital to cover accepted and potential risks, as well as constitute a part of such credit organisation's corporate culture.

Basel III Regulation

The implementation of Basel III in Russia was carried out as follows: (1) requirements for capital between 2013 and 2015, (2) capital conservation buffer within 2016 and 2018, (3) leverage ratio starting from 1 January 2018, (4) liquidity coverage ratio commencing from 1 January 2015, and (5) net stable funding ratio starting from 1 January 2018.

From 1 January 2014, Regulation No. 395-P was fully applied by Russian banks for the purposes of calculating their own funds (capital). Regulation No. 395-P provided that the following two types of subordinated debt instruments may qualify for inclusion into bank regulatory capital if they met the requirements set out in Regulation No. 395-P: (a) perpetual and certain long-term subordinated debt instruments; and (b) plain subordinated debt instruments.

Regulation No. 395-P was gradually phased in during the period from 1 January 2014 until 1 January 2018, as described below. CBR's Regulation No. 4098-U provided further clarification on the provisions of Regulation No. 395-P, and introduced additional requirements and methodology for formation of a bank's capital. Most recently, Regulation No. 395-P was superseded by Regulation No. 646-P, introducing certain amendments aimed at enhancing the quality of Russian banks' capital sources. Regulation No. 646-P entered into force on 29 September 2018 and remains in effect as at the date of this Prospectus.

Classification of Capital under Regulation No. 395-P and Regulation No. 646-P

Regulation No. 395-P distinguished, as Regulation No. 646-P currently distinguishes, between core capital (*osnovnoi kapital*) ("**Tier 1 capital**") and supplemental capital ("**Tier 2 capital**") (*dopolnitelnyi kapital*) (together, "**own funds**" or "**regulatory capital**"). Tier 1 capital is further divided into base capital ("**Base Tier 1 capital**") (*bazovyi kapital*) and additional capital ("**Additional Tier 1 capital**") (*dobavochnyi kapital*). Pursuant to Regulation No. 646-P (Regulation No. 395-P), the own funds (capital) of Russian banks is determined as the amount of its Tier 1 capital and Tier 2 capital less certain items listed in Regulation No. 646-P (Regulation No. 395-P).

Enactment of Regulation No. 395-P

Regulation No. 395-P became effective on 1 March 2013. It was applicable for prudential regulation purposes from 1 January 2014.

In addition, under Regulation No. 395-P, certain ratios reducing Base Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and the sum of Tier 1 and Tier 2 capital were phased in gradually and included in the calculation of the capital as follows:

- from 1 January 2014 – in the amount of 20% (or 80%, depending on the type of the reducing ratio) of the aggregate sum of the ratios calculated in accordance with Regulation No. 395-P;
- from 1 January 2015 – in the amount of 40% (or 60%, depending on the type of the reducing ratio) of the aggregate sum of the ratios calculated in accordance with Regulation No. 395-P;
- from 1 January 2016 – in the amount of 60% (or 40%, depending on the type of the reducing ratio) of the aggregate sum of the ratios calculated in accordance with Regulation No. 395-P;
- from 1 January 2017 – in the amount of 80% (or 20%, depending on the type of the reducing ratio) of the aggregate sum of the ratios calculated in accordance with Regulation No. 395-P; and
- from 1 January 2018 – in the amount of 100% (or complete discontinuation of use of certain types of reducing ratios) of the aggregate sum of the ratios calculated in accordance with Regulation No. 395-P.

Subordinated Debt

Prior to the enactment of Regulation No. 395-P, which first implemented Basel III principles with respect to the composition and assessment of sufficiency of bank regulatory capital, and the superseding Regulation No. 646-P, which is currently in force, Russian banks' capital calculations were used, among other things, in CBR mandatory ratio reporting, as well as requirements for subordinated debt to qualify as part of a bank's capital, and were primarily set out in CBR Regulation No. 215-P "On the Method of Determination of Own Funds (Capital) of Credit Organisations" dated 10 February 2003, as amended.

Regulation No. 646-P sets out requirements for subordinated financings (in the form of a loan, a deposit or debt securities) which may be included in additional Tier 1 capital and those which may be included in Tier 2 capital of a credit organisation. Amongst other changes, Regulation 395-P and subsequently Regulation No. 646-P introduced to Russian banking legislation the concept of conversion of subordinated debt into equity (while retaining the concept of writedown and cancellation of subordinated debt instruments), which are features that have been derived from the Basel III regulations.

Regulation No. 646-P sets out, *inter alia*, the following requirements for subordinated debt to qualify as part of a bank's Tier 2 capital.

The agreement must provide that, if the bank's CET 1 ratio (defined as a ratio of the bank's adjusted base capital to its risk-weighted assets) falls below 2% for six or more operational days within a 30-day period, or the DIA implements bankruptcy prevention measures consisting of financial assistance provided pursuant to the Insolvency Law, then:

- the subordinated debt shall be converted into the bank's ordinary shares; and/or
- the accrued interest shall be fully or partially cancelled; and
- a partial or full write down of the principal amount of such debt (and any applicable financial sanctions) shall occur (the "**Write Down Measures**").

Similarly to Regulation No. 395-P, Regulation No. 646-P does not establish any limitations on the amount of subordinated debt which could be counted towards Tier 1 or Tier 2 capital. However, as part of the CBR's policy aimed at enhancing the quality of the capital base of credit organisations, Regulation No. 646-P excluded proceeds from placement of subordinated bonds among individuals who are not registered as qualified investors from the range of permitted sources of bank regulatory capital.

Subordinated debt may also be included into a bank's Tier 1 capital, if it meets certain requirements in addition to those applicable for subordinated debt qualifying as part of Tier 2 capital. In particular, such debt must be perpetual under Regulation No. 646-P and in each case provide for implementation of the Write Down Measures in case the CET 1 ratio falls below 5.125%. In addition, Tier 1 capital subordinated debt must allow the credit organisation to unilaterally repudiate payment of interest under such debt.

If the CET 1 ratio was breached due to losses, such losses may only be covered by the Write Down Measures after utilisation of other sources of base capital (including reserve funds and undistributed profit) to remedy such losses.

Regulation No. 646-P sets out certain other requirements for subordinated debt, including, *inter alia*: (a) a right of a bank to repay a subordinated loan using Russian federal bonds; (b) ability of a bank to include subordinated loans with no defined repayment term or subordinated bonds with no defined repayment term into the calculation of a bank's additional Tier 1 capital; (c) maximum interest rate for Rouble-denominated instruments and for foreign currency-denominated instruments shall not exceed 15% and 10%, respectively; (d) ability of the CBR to require a bank to convert its subordinated debt instrument into its equity to bring the bank's CET 1 ratio up to 5.125% if the bank's CET 1 ratio falls below 5.125% for six or more business days within a 30-day period, or the DIA implements bankruptcy prevention measures consisting of financial assistance pursuant to Insolvency Law. In addition, under Article 25.1 of the Banking Law, implementation by the CBR's Board of Directors of a plan of measures

aimed at bankruptcy prevention with the participation of the CBR or the approval by the CBR's Banking Supervision Committee of a plan of implementation of anti-bankruptcy measures by the DIA can also trigger the writedown or conversion of subordinated debt.

Furthermore, Regulation No. 646-P broadened the list of grounds allowing the CBR to withhold consent to early repayment of subordinated debt, and introduced additional grounds for the writedown or conversion of subordinated debt of banks holding basic licences and non-banking credit organisations.

Mandatory Economic Ratios

The Mandatory Economic Ratios Instruction establishes mandatory economic ratios applicable to banks in the Russian Federation.

The following table sets forth the mandatory economic ratios that banks must observe on a daily basis and periodically report to the CBR. Unless stated otherwise, such ratios are calculated on the basis of RAS, as formulated by applicable Russian laws and CBR regulations.

As mentioned above, a bank's capital base consists of core capital and supplemental capital. Core capital consists of base capital and additional capital and includes, among other items, charter capital, retained earnings and certain reserve funds. Supplemental capital includes, among other items, certain preferred shares and subordinated debt.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirements
Adequacy Ratios	These ratios are intended to limit the risk of a bank's insolvency and to establish the minimum size of the bank's capital base necessary to cover credit, operational and market risks. Adequacy ratios include capital adequacy ratio (N1.0), common equity Tier 1 capital adequacy ratio (N1.1) and Tier 1 capital adequacy ratio (N1.2).	
<i>Capital Adequacy Ratio (N1.0)</i>	This ratio is formulated as a ratio of a bank's capital base (calculated in accordance with Regulation No. 646-P) to: (i) credit risk on on-balance sheet assets, (ii) credit risk on off-balance sheet items, (iii) credit risk on derivatives, (iv) charge for potential losses as a result of deterioration of creditworthiness of counterparty, (v) operational risk and (vi) market risk.	Minimum 8%
<i>Common Equity Tier 1 Capital Adequacy Ratio (N1.1)</i>	This ratio is formulated as a ratio of a bank's common equity Tier 1 capital (calculated in accordance with Regulation No. 646-P) to: (i) credit risk on on-balance sheet assets, (ii) credit risk on off-balance sheet items, (iii) credit risk on derivatives, (iv) charge for potential losses as a result of deterioration of creditworthiness of counterparty, (v) operational risk and (vi) market risk.	Minimum 4.5%
<i>Tier 1 Capital Adequacy Ratio (N1.2)</i>	This ratio is formulated as a ratio of a bank's Tier 1 capital (calculated in accordance with Regulation No. 646-P) to: (i) credit risk on on-balance sheet assets, (ii) credit risk on off-balance sheet items, (iii) credit risk on derivatives, (iv) charge for potential losses as a result of deterioration of creditworthiness of counterparty, (v) operational risk and (vi) market risk.	Minimum 6%
<i>Financial Leverage Ratio (N1.4)</i>	This ratio is formulated as a ratio of a bank's Tier 1 capital (calculated in accordance with Regulation No. 646-P) to: (i) the total amount of a bank's on-balance sheet assets, (ii) credit risk on contingent credit obligations, (iii) credit risk on derivatives and (iv) credit risk on repo transactions and securities lending transactions.	Minimum 3%

Instant Liquidity Ratio (N2)	This ratio is intended to limit the bank's liquidity risk during one operational day. It is defined as the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand.	Minimum 15%
Current Liquidity Ratio (N3)	This ratio is intended to limit the bank's liquidity risk during 30 calendar days preceding the date of the calculation of this ratio. It is defined as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with terms of up to 30 calendar days.	Minimum 50%
Long-Term Liquidity Ratio (N4)	This ratio is intended to limit the bank's liquidity risk from placement of funds into long-term assets. It is defined as the maximum ratio of the bank's credit claims maturing in more than one year to the sum of its capital base and liabilities maturing in more than one year.	Maximum 120%
Maximum Exposure to a Single Borrower or a Group of Related Borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers (as defined in the applicable regulations). It is defined as the ratio of the aggregate amount of the bank's various credit claims to a borrower (or a group of related borrowers) to its capital base.	Maximum 25%
Maximum Amount of Major Credit Risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks (defined in the CBR Law as the sum of loans to, and guarantees or sureties in respect of, clients with exposure exceeding 5% of a bank's capital base). It is defined as the maximum ratio of the aggregate amount of major credit risks to a bank's capital base.	Maximum 800%
Aggregate Amount of Exposure to the Bank's Insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing decisions on granting of credit). It is defined as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.	Maximum 3%
Ratio for the use of the Bank's Capital Base to Acquire Shares (Participation Interests) in Other Legal Entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments in shares (participation interests) of other legal entities. It is defined as the maximum ratio of the bank's investments in shares (participation interests) of other legal entities to its capital base.	Maximum 25%
Maximum Exposure to a Related Person or Group of Related Persons (N25)	This ratio is intended to limit the credit exposure of a bank to one related person or a group of related persons. It is defined as the maximum ratio of the aggregate amount of the obligations of the bank's related person or a group of related persons, whether to a bank or to third parties, which give rise to the bank's claims against such related person or a group of related persons, to the bank's capital base.	Maximum 20%

In addition to mandatory economic ratio requirements, the CBR set out three capital buffers to the common equity: (a) capital conservation buffer; (b) countercyclical buffer and (c) additional capital buffer for systemically important credit organisations. The capital conservation buffer applies to all credit institutions and has been set at 2.5% of risk-weighted assets as of 1 January 2020.

The CBR has set a minimum allowed countercyclical buffer at 75% of the weighted average of countercyclical buffers set in all jurisdictions to which the bank has credit and market exposure (calculated in accordance with applicable CBR rules) starting from 1 January 2018, and which has since increased to 100% as of 1 January 2019. The level of the applicable countercyclical buffer for Russian

banks is determined by the CBR and as at 1 January 2020 was set at zero per cent. of risk-weighted assets.

The systemically important credit organisations are subject to an additional capital buffer of 1.0% starting from 1 January 2020.

Under the Mandatory Economic Ratios Instruction, for the purposes of defining the aggregate amount of exposure to a bank's insiders (N10.1)), the following individuals must be considered as being capable of influencing decisions on granting of credit: (i) affiliates of a bank; (ii) members of bank's credit board; (iii) the chief accountant of a bank or any of its branches; (iv) chief executive officer of a bank or any of its branches; (v) other bank officers that by virtue of position at the bank may influence decisions on granting of credit (the list of relevant positions is to be set forth in an internal regulation of the relevant bank); as well as (vi) close relatives of individuals mentioned in items (i)-(v).

In particular, the specific methodology is applied to derivatives and syndicated loans for the purpose of calculating the relevant bank's risk-weighted assets under the CBR's economic ratios after 1 January 2014. In addition, the Banking Law imposes restrictions on banks regarding the payment of dividends and certain other actions if such actions may result in breach of the capital buffer(s) established by the applicable CBR regulations.

As of 1 January 2019, the minimum liquidity coverage ratio (N27) for systemically important banks was set at 100%.

Exposure Concentration Ratio

CBR announced that starting from 1 January 2019, it plans to gradually introduce into the Russian banking regulation the provisions of the Basel Committee's Supervisory Framework for Measuring and Controlling Large Exposures (the "**Large Exposures Framework**") adopted in April 2014. The provisions of the Large Exposures Framework are expected to be implemented in respect of systemically important credit organisations.

The CBR currently plans to implement the Large Exposures Framework in several stages.

In the course of Stage 1 (expected to take place during 2019), the CBR will set the ratio of maximum concentration of exposure per borrower or group of related borrowers (PKC6.1), and systemically important banks will be obliged to calculate and report starting from 1 January 2019. Currently, the CBR is monitoring results of 2019 year-end reports with PKC6.1 calculation.

During Stage 2, based on the results of monitoring of the above indicator, the CBR will take a decision regarding the terms and specifics for setting PKC6.1 as a mandatory exposure concentration ratio.

The PKC6.1 ratio shall be calculated based on the respective bank's Tier 1 capital. All of the bank's exposures to a borrower (a group of related borrowers), contingent credit obligations and derivatives are included in the calculation not weighted by risk level, minus provisions for possible losses. The credit exposure calculation does not include, *inter alia*, claims on central banks and governments (including the Government of the Russian Federation), constituent entities and municipalities of the Russian Federation, and claims guaranteed or secured with debt securities issued by such counterparties.

Charter Capital Requirements

Starting from 1 June 2017, pursuant to the Banking Law, a bank could perform banking operations under either a basic or a universal licence, depending on the size of the bank's own funds. The own funds of a bank with a basic banking licence must not be less than RUB300 million. The universal banking licence requires that the bank's own funds are not less than RUB1 billion. The banks with own funds below RUB1 billion as at 1 January 2018 were required to increase their capital to the statutory minimum by 1 January 2019 and for the four consecutive months preceding that date to comply with mandatory ratios for banks with a universal licence to be eligible to apply to the CBR to retain the universal licence. See "*Regulation – Licensing*" above.

Reporting Requirements

Russian banks must regularly submit balance sheets to the CBR, together with financial statements showing their actual respective financial positions. They must also inform the CBR in respect of providing large loans (exceeding 5% of a bank's capital). Banking groups (namely an association of legal entities under control or significant influence of one credit organisation) and banking holding (namely an association of legal entities, at least one of which is a credit organisation, under control of a parent legal entity, not a credit organisation, provided that a share of banking activities is at least 40% of the overall activities of this holding) must regularly submit consolidated accounts to the CBR. The CBR may at any time carry out full or selective checks of a bank's submissions, and may inspect all books and records of the bank. In addition, annual audits must be carried out by an audit company that is a member of a self-regulatory organisation of auditors. Starting from 2004, all credit organisations in Russia have been required to prepare financial statements according to both RAS and IFRS. Banks must file IFRS standalone and audited consolidated annual accounts with the CBR on an annual basis. The CBR publicly discloses certain financial metrics and regulatory ratios filed by the Russian banks.

Mandatory Reserve Deposit Requirements

To cover loan losses and currency, interest and financial risks, the CBR requires banks to form mandatory reserve deposits and keep them in designated non-interest-bearing accounts with the CBR. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. As at the date of this Prospectus, banks are required to post compulsory reserves to be held on non-interest-bearing accounts with the CBR. To stabilise the situation on the local financial market and to support the liquidity of the Russian banking sector, the CBR decreased in October 2008 mandatory reserves for various obligations of credit organisations to 0.5% and successively increased them to 4.75 or 8.00% for the banks' obligations to individuals in Roubles or foreign currency, respectively, to 4.75 or 8.00% for the banks' obligations to other obligations in Roubles or foreign currency, respectively, and to 4.75 or 8.00% for the banks' obligations to non-resident legal entities in Roubles or foreign currency, respectively, such requirements being applicable to all banks holding a universal banking licence.

The mandatory reserves are calculated by banks in accordance with CBR Regulation No. 507-P dated 1 December 2015, as amended, and CBR Regulation No. 5158-U dated 31 May 2019 ("**Regulation No. 5158-U**") (together, the "**Reserves Regulations**"). Regulation No. 5158-U set forth different mandatory reserve deposit requirements applicable to banks holding universal licences, banks holding basic licences, and non-banking credit organisations. The Reserves Regulations require banks to promptly report to the CBR and its regional units at the end of each calendar month with calculation of reserves and to promptly post additional reserves, if necessary. The CBR and its regional units have a right to conduct unscheduled audits of credit organisations to monitor their compliance with the reserve rules. The Reserves Regulations do not require the creation of reserves for certain long-term borrowings, although it requires posting of reserves for obligations to non-resident banks. If a bank does not comply with the mandatory cash balance requirements, the CBR may impose a fine and directly debit the bank's correspondent account with the CBR in respect of the shortfall in reserve amounts.

Provisioning

The CBR established certain rules concerning the creation of loan impairment provisions for loans extended by banks. Russian credit organisations are required to calculate and establish their loan impairment provisions in accordance with Regulation No. 590-P "On the Procedure for Making Provisions for Possible Losses on Loans and Similar Indebtedness by Credit Organisations" dated 28 June 2017, as amended ("**Regulation No. 590-P**"). Regulation 590-P requires credit organisations to rank their loans into five categories. The range of loans that must be provided for has been extended to include assigned rights under contracts, financial leasing operations, rights under repo contracts and various other operations. It has been established that loans classified as Category I loans (standard loans) do not need provisions. In addition, credit organisations are required to classify their loan security into two groups on the basis of its quality (taking into account the financial position of the guarantor and quality of the encumbered asset).

Pursuant to Regulation No. 590-P, the debt servicing level of a loan is considered to be good if the aggregate loan or interest repayment arrear does not exceed 5 days (in respect of loans granted to legal entities) and 30 days (in respect of loans granted to individuals) for the last 180 calendar days. The debt servicing level of a loan is considered to be bad in cases if, among other things, the aggregate loan or interest repayment arrear exceed 30 days (in respect of loans granted to legal entities) and 60 days (in respect of loans granted to individuals) for the last 180 calendar days. In addition, restructuring of a loan (including change of the loan nominal currency and time periods for repayment of the loan and interest) may affect the debt servicing level. Loans should be classified on the basis of professional judgment by the credit organisation taking into account the borrower's financial standing and debt servicing level. The credit organisation must evaluate at its discretion the borrowers financial standing and debt servicing level as good, average or bad. Regulation No. 590-P sets forth the relevant tests to be applied towards a particular loan and borrower.

Finally, the regulation provides for a somewhat simplified procedure in respect of writing off bad debts, especially minor debts, as compared with the former procedures.

Provisions for loan losses are calculated at the end of each calendar month. Such provisions only cover losses relating to the principal amount of loans and exclude interest and any discount. The CBR and its regional branches may audit the banks' compliance with requirements relating to provisions for loan losses and verify the correctness of calculations in respect of such provisions.

The CBR also established rules concerning creation of provisions for loans other than loan impairment, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward contracts and other transactions. CBR Regulation No. 611-P of 23 October 2017 requires banks to rank such assets and operations into five categories of quality reflecting the following situations: (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively: (i) 0%; (ii) 1% to 20%; (iii) 21% to 50%; (iv) 51% to 100%; and (v) 100%. Banks must report to the CBR on the amount of non-loan impairment provisions it had created as a part of its general reporting obligations. The CBR and its regional units are responsible for monitoring bank compliance with these rules.

Pursuant to the CBR Directive No. 1584-U of 22 June 2005, mandatory provisions must also be created for operations with residents of certain off-shore jurisdictions in the amount of 25% or 50% depending on the jurisdictions involved.

Regulation of Currency Exposure

In CBR Instruction No. 178-I "On the Establishment of the Amounts (Limits) of the Open Currency Positions, on the Methods of their Calculation and Particularities of Lending Organisations' Control and Compliance therewith" of 28 December 2016, the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, "**currency exposure**"), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees, suretyships and letters of credit. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into Roubles in accordance with the official exchange rates and CBR's prices for precious metals.

The CBR established that at the end of each operation day, the total amount of all long or short currency positions should not exceed 20% of a bank's capital base. At the same time, at the end of each operation day, the long or short positions with respect to one particular currency or precious metal and balancing position in Roubles should not exceed 10% of a bank's capital base.

Accounting Practices

The CBR has established a standard format for the presentation of a bank's accounts and instructions on how transactions are recorded within the accounts. It requires the preparation of financial statements and other accounts in accordance with CBR Regulation No. 579-P of 27 February 2017, Directive of the CBR No. 2851-U "On the procedure for the filling in of and delivery of reporting statements to the CBR" of 16 July 2012, as amended. Despite certain differences, such financial statements represent an approximation to IFRS.

Annual financial statements may be published only after their certification by an independent auditor. Quarterly financial statements may be published without such certification by an independent auditor.

Credit organisations must prepare financial statements in accordance with IFRS on the basis of financial statements prepared in accordance with RAS. The CBR issued recommendations as to how to prepare IFRS financial statements in the CBR letter No. 234-T dated 6 December 2013 that contains pro forma IFRS financial statements and examples of typical adjustments to RAS financial statements.

Anti-Money Laundering Legislation

Russia, as a member of the FATF, has developed and enacted certain anti-money laundering legislation. The Anti-Money Laundering Law follows the FATF Forty Recommendations and the FATF Special Recommendations on Terrorist Financing and provides for measures to combat money laundering in Russia to be implemented by individuals and organisations, including Russian banking institutions which are involved in transactions involving money and certain property. Pursuant to the Anti-Money Laundering Law, Russian banks are obligated to, among other things: (1) establish and maintain systems of internal control ensuring that the bank and its clients are in compliance with Russian anti-money laundering legislation; (2) monitor and record certain client transactions, as specified in the Anti-Money Laundering Law; and (3) report certain client transactions specified by the Anti-Money Laundering Law to the relevant Russia authorities. Furthermore, in certain cases Russian banks must suspend client transactions and inform the relevant Russian authorities.

The Federal Service of Financial Monitoring is the main governmental authority acting as a financial intelligence unit, and, together with the CBR, exercises control over banks' compliance with the Anti-Money Laundering Law. Russian banks are obligated to report through the CBR to the Federal Services on Financial Monitoring with respect to the types of transactions mentioned above.

Failure by Russian banks and/or their officers to comply with the requirements of the Anti-Money Laundering Law may result in the imposition of sanctions, including the revocation of a banking licence (with a subsequent liquidation of the bank) and criminal penalties for individuals.

On 30 June 2013, several amendments to the Anti-Money Laundering Law came into force. They were introduced by the Federal Law No. 134-FZ "Amending Certain Legislative Acts of the Russian Federation on the Counter Measures on Illegal Financial Operations" dated 28 June 2013. These amendments, among other things:

- introduced the definition of the "beneficiary owner" to the Anti-Money Laundering Law in order to extend the scope of client identification procedure;
- set forth the obligation for the clients to provide all necessary information on their beneficiary owners to banks (for the banks to comply with the provisions of the Anti-Money Laundering Law);
- set forth the obligation for the banks to take reasonable steps for preliminary identification of the clients' reputation, financial position and objectives of the business activity;
- set forth the obligation for the banks to freeze monetary funds and other assets of individuals and legal entities under certain circumstances; and

- for additional measures against financing terrorism.

One more set of amendments to the Anti-Money Laundering Law was adopted by Federal Law No. 424-FZ “On amending the Anti-Money Laundering Law” dated 30 December 2015. This new law has extended the definition of the “client” to include concept of a “foreign structure without incorporation of a legal entity” which means a structure (such as fund, trust or partnership) entitled by law to do business without being a body corporate. According to these amendments, credit organisations are required to verify certain information related to the foreign structure.

Financial Consumer Protection

Financial consumer protection is generally based on the Law No. 2300-1 “On Consumer Protection” dated 7 February 1992, as amended (the “**Consumer Protection Law**”) and the Federal Law No. 353-FZ “On Consumer Lending” dated 21 December 2013, as amended (the “**Consumer Lending Law**”).

The Consumer Lending Law, which regulates consumer lending in Russia, came into force on 1 July 2014. The Consumer Lending Law is intended to provide more specific regulation of consumer protection in the Russian banking sector, and is in contrast to the Consumer Protection Law, which contains more general regulations. The Consumer Lending Law will not apply to mortgage loans.

The Consumer Lending Law sets requirements in relation to the terms of a consumer loan agreement. In particular, according to the Consumer Lending Law, a consumer loan agreement must contain general and specific terms. General terms of the consumer loan agreement are based on the lender’s template form, whilst the specific terms are agreed between the lender and the borrower. The Consumer Lending Law designates, among others, the following terms to be the specific terms of the consumer loan agreement: (i) amount of the loan or lending limit (and the procedure of change of the lending limit), (ii) term of the loan and repayment date, (iii) currency of the loan, (iv) the annual percentage rate (in case of floating interest rate – the calculation procedure), (v) payment schedule of the loan, (vi) purpose of the loan and (vii) borrower’s liability for undue performance of its obligations under the consumer loan.

The Consumer Lending Law sets the priority of payments under the loan in case the payment made by the borrower is insufficient to discharge its relevant payment obligations. In particular, the Consumer Lending Law sets out the following priority of payments: (i) overdue interest payments, (ii) overdue principal payments, (iii) penalty, (iv) current interest payments, (v) current principal payments and (vi) other payments as provided by the Russian legislation on consumer lending and the consumer loan agreement.

In addition, the Consumer Lending Law sets out the limits of penalties payable under a consumer loan agreement in case of the borrower’s payment default. The penalty shall not exceed (i) 20% per annum, if the consumer loan agreement states that the interest continues to accrue on the overdue payment of the principal of the loan, or (ii) 0.1% per day, if the consumer loan agreement states that the interest stops accruing on the overdue amount of the principal of the loan, after the payment default of the borrower has occurred.

According to the Consumer Lending Law, the effective interest rate of the loan shall not exceed the lower of (i) 365% per annum (1% per day) or (ii) one third the mid-market effective interest rate of the relevant category of consumer loans established by the CBR quarterly.

The mid-market effective interest rate is determined by the CBR 45 calendar days prior to each quarter, during the course of which the relevant mid-market effective interest rate will be applicable for the purposes of limitation stipulated by the Consumer Lending Law. The CBR calculates the effective interest rate using weighted average rate of (i) not less than 100 largest lenders in respect of the relevant category of loan or (ii) not less than one third of all lenders in respect of the relevant category of loan. The latest value of the mid-market effective interest rate has been published by the CBR on 15 November 2019. The effective interest rate for unsecured consumer loans for up to RUB30,000 and made for a period of less than one year must not exceed 29.013% for the fourth quarter of 2019.

In order to limit risks related to increasing debt burden of Russian households, the CBR set add-ons to risk weights on unsecured consumer loans in Roubles which are extended from 1 October 2019 depending on the borrower's DSTI ratio and the effective interest rate. The set of add-ons to risk weights is based on the CBR's analysis of portfolios of major banks that are engaged in unsecured consumer lending, and takes into regard the historical dynamics of credit risk depending on the effective interest rate and DSTI ratio and further takes into account the results of consultations with the banking sector. Increasing add-ons to risk weights is aimed at discouraging banks from extending consumer loans to borrowers with an already high DSTI ratio. This measure is also aimed at increasing banks' capital cushion to cover losses if materialising external or internal risks lead to a drop in household incomes and a deterioration of quality of consumer loans.

Bankruptcy (Insolvency) and Other Related Issues

Bankruptcy of credit organisations in Russia is governed by Federal Law No. 127-FZ "On Bankruptcy" dated 26 October 2002, as amended (the "**Bankruptcy Law**"), particularly Paragraph 4.1 of Chapter IX "Bankruptcy of Credit Organisations".

Bankruptcy

Bankruptcy proceedings against a Russian bank may only be initiated after the revocation by the CBR of its banking licence. Following the revocation of the bank's licence, amongst other consequences, all obligations of the bank will be deemed to have fallen due and until the liquidator or the competition manager is appointed, the bank will be prohibited from entering into transactions and performing its obligations, except for a limited number of current and settlement transactions and operations listed in the Banking Law.

Bankruptcy proceedings may be initiated against a Russian bank provided that its business has "signs" of insolvency, as described in the Bankruptcy Law; the overall amount of the outstanding obligations is not less than RUB100,000; the bank has failed to perform such obligations within 14 days of their due date; or after the revocation of the bank's licence, its total assets do not cover all of its outstanding obligations.

Prior to the institution of bankruptcy proceedings, the CBR, on its own initiative or upon the application of the authorised body of the bank, has the right to take action aimed at preventing the bank's bankruptcy. Such action may include (a) financial rehabilitation of the bank (for example, financial support, changing the structure of assets and liabilities or organisational structure of the bank), (b) appointment of a temporary administration to the bank, (c) reorganisation or (d) measures carried out by the Management Company to prevent bankruptcy of a bank that is licensed to hold retail deposits.

Recent amendments to the Banking Law granted the CBR a right to independently implement bankruptcy prevention measures over distressed banks. The CBR also has a right to appoint its representatives to a bank for analysis of its financial condition and decision on participation of the CBR in bankruptcy prevention measures or for settlement of such bank's obligations.

The CBR has created the Fund for Consolidation of the Banking Sector (the "**Fund**") and incorporated the Management Company. The Management Company is expected to participate in the implementation of the agreed bankruptcy prevention measures at the expense of the Fund.

Shareholders' Liability

As part of the financial rehabilitation process, pursuant to Article 189.15 of the Bankruptcy Law, shareholders may refuse the right to receive dividends and may divert their share in the bank's profit towards the bank's financial rehabilitation. Alternatively or additionally, shareholders may have to make extra contributions to the bank's share capital, write off the bank's debts, act as sureties on the bank's loans or place funds on deposit in the respective bank with a term of no less than 6 months and an interest rate not exceeding the CBR key rate. Shareholders may also be involved in other forms of financial rehabilitation measures upon their discretion, the discretion of the bank, the CBR and, in certain cases, the DIA.

Temporary Administration

Temporary administration is a procedure which is aimed at the financial rehabilitation of a bank. Technically, temporary administration precedes, and does not necessarily result in, the commencement of bankruptcy proceedings. Temporary administration may be imposed by the CBR in certain negative financial circumstances as set out in Article 189.26 of the Bankruptcy Law. The grounds for the appointment of a temporary administration include, among other things, breach of certain financial and regulatory capital ratios, a bank's failure to perform its payment obligations to some of its creditors for a period greater than seven days due to insufficient funds in its correspondent accounts, as well as the emergence of grounds for revocation of a bank's licence. Temporary administration may also be introduced pursuant to a plan of participation of the CBR in bankruptcy prevention measures adopted by the CBR's Board of Directors, or following the adoption by the CBR's Banking Supervision Committee of a plan of bankruptcy prevention measures to be taken by the DIA. If the plan is adopted by the CBR's Board of Directors, the functions related to temporary administration can be transferred either to the Management Company or the DIA.

The introduction of a temporary administration may entail a limitation or suspension of the powers of the executive bodies of a bank. The temporary administration can manage a bank and is further entitled to request that the CBR impose a three-month moratorium on all payments of a bank to counterparties and creditors, which may be prolonged for a period of up to three months. The temporary administration may also refuse performance of agreements or challenge transactions under Articles 189.39 and 189.40 of the Bankruptcy Law. The procedure for introduction of a temporary administration is described in CBR Regulations No. 675-P and No. 676-P, both dated 25 February 2019.

Priority of Claims

Under the Bankruptcy Law, claims of unsecured creditors against Russian banks are generally subordinated to the claims of individual clients arising out of deposit and bank account agreements, certain claims of creditors arising after the initiation of the bankruptcy proceedings and certain other ongoing payments, workplace injury and moral damages obligations, severance pay, employment related obligations and royalties. There is also a small risk that claims of unsecured creditors may be further subordinated to claims under certain tax and mandatory payment obligations to the Russian Government, although the Bankruptcy Law ranks such claims equally. Furthermore, unsecured claims are also effectively subordinated to claims secured by a Russian law pledge. Under the Bankruptcy Law, claims of creditors secured by a Russian law pledge are settled with the money received from the sale of pledged assets. Claims of creditors secured by a Russian law pledge remaining unsatisfied upon the sale of pledged assets would be ranked as claims of unsecured creditors after the obligations mentioned above, irrespective of the time of the creation of such claims.

The Bankruptcy Law provides that the proceeds from the sale of the pledged assets will be used as follows: (a) 70% (or 80% if the pledge secures a credit agreement) to satisfy secured claims; (b) 20% (or 15% if the pledge secures a credit agreement) to satisfy claims of creditors of the first and second priorities, provided the debtor's other property is insufficient to satisfy such claims; and (c) the remaining amount to cover court expenses, remuneration to a bankruptcy manager and related expenses. Any obligations of creditors secured by a pledge remaining unsatisfied following the sale of the pledged assets would be ranked as claims of unsecured creditors.

Liquidation and Revocation of the Banking Licence

Mandatory Liquidation

The procedure for the revocation of banking licences and liquidation of banks is regulated by the Banking Law. See “—*Regulation — Licensing*” above.

Upon the revocation of its licence, a bank must be liquidated either under mandatory solvent liquidation procedures set out in the Banking Law or under bankruptcy procedures set out in the Bankruptcy Law.

Article 20 of the Banking Law establishes the consequences of the revocation of the banking licence, including that the CBR must impose a “temporary administration” on the relevant bank, that all obligations of the bank are deemed to have fallen due, that enforcement of execution documents issued on the basis of court judgments, with certain exceptions, is suspended and that entering into transactions and performance by the bank of its obligations is prohibited until the liquidator or the competition manager is appointed.

The CBR must make a public announcement of the revocation of the banking licence within one week of resolving to revoke such a licence.

Voluntary Liquidation

In the case of voluntary liquidation of a bank, the shareholders (founders), upon the adoption of the relevant decision, must apply to the CBR for cancellation of the banking licence and, upon its cancellation, the liquidation should be carried out in accordance with the liquidation rules and applicable CBR regulations. In particular, shareholders will appoint the liquidation commission to oversee the liquidation process.

Banking and Other Relevant Reforms

Following the 1998 financial crisis, Russian banks took important steps towards developing more transparent business practices and more diversified portfolios of assets. In recent years, confidence in local banks has gradually improved, as evidenced by the substantial growth in the volume of private deposits in Russian banks.

On 5 April 2011, the Russian Government and the CBR issued their joint Strategy. The Strategy replaced the five year Strategies for the Development of the Banking Sector in the Russian Federation issued in December 2001 and April 2005, and set out an action plan for the facilitation of the development of the Russian banking sector up to 2015.

Among other things, the Strategy outlined the targets for the reform of the Russian banking sector, the forecast of the results of such reform and the analysis of the current condition of the Russian banking sector. The Strategy also listed measures, which should be implemented to achieve these targets.

The system of the insurance of private deposits was introduced in 2003. According to the Deposit Insurance Law, banks holding a CBR licence for attracting deposits from individuals and opening and administering individuals’ accounts will qualify for such activities. Subject to a bank’s compliance with certain regulatory requirements, it enters the system of the insurance of individuals’ deposits and thus qualifies to receive deposits and open accounts for individuals. If a bank fails to comply with the applicable requirements or chooses not to participate in the insurance system, it will be precluded from receiving deposits and opening accounts for individuals. Banks accepting private deposits and opening accounts for individuals are required to make quarterly payments to the insurance fund as described below.

On 30 December 2004, the President signed Federal Law No. 218-FZ “On Credit Histories” (the “**Credit Histories Law**”). Most of the provisions of the Credit Histories Law came into force on 1 June 2005. Pursuant to the Credit Histories Law, the “credit history” of a borrower (whether an individual or a legal entity) consists of certain data, as defined by the Credit Histories Law, which describe the borrower’s performance under loan or credit arrangements and which are stored with a “credit history bureau” (a Russian legal entity included in the State Register of Credit History Bureaus, whose principal activity is to collect, process and store credit history data and issue “reports”, as defined in the Credit Histories Law). As at 10 January 2020, 11 credit history bureaus were registered with the CBR and operating.

The Credit Histories Law defines the procedures for the submission of data to credit history bureaus, disclosure by bureaus of such data to authorised users, and the rights and obligations of borrowers and bureaus. It also sets out the procedures for the registration of credit history bureaus and the transfer of credit history data upon their liquidation.

Credit history bureaus may disclose credit history data only to:

- a borrower itself;
- banks or other legal entities which are users of such data (with the borrower's consent);
- courts and, with the consent of a prosecutor general, certain enforcement agencies;
- the Central Credit History Catalogue administered by the CBR to allow the centralised search of all credit history data;
- the Federal Service of Court Bailiffs;
- notaries in connection with inheritance procedures; and
- the CBR.

Credit organisations are obliged to make their activities compliant with the Credit Histories Law within nine months of the date of its entry into force. Since 1 September 2005, banks have been required to enter into agreements with at least one credit history bureau and provide it with the relevant information relating to the borrowers.

In connection with the entry into force of the Credit Histories Law, amendments to the Banking Law, the Civil Code and to the Code of Administrative Offences were introduced in order to make them compliant with the Credit Histories Law. Specifically, these amendments address issues concerning bank secrecy, liability for unauthorised access to, and disclosure of, credit history data, and violation of the procedure for the collection, storage and processing of such data.

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, Federal Law No. 152-FZ "On Mortgage Backed Securities" dated 11 November 2003 and amendments to the Civil Code, Tax Code and Federal Law No. 102-FZ "On Mortgage" were enacted in 2003/2004. By means of these laws, Russian legislators attempted to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. Another intention of this new legislation is to introduce improved regulation of mortgage backed securities in order to make them more attractive for investors.

On 18 June 2004, the Currency Control Law came into force, replacing the former Federal Law "On Currency Regulation and Currency Control" of 1992 almost in its entirety. The Currency Control Law is generally aimed at the gradual liberalisation of Russian currency control regulations. Pursuant to the Currency Control Law, the CBR had the power to regulate certain currency operations (including non-banking operations performed by Russian banks) by introducing a "special account requirement". As at 1 January 2007, the major remaining restrictions envisaged in the Currency Control Law (including the "special account requirement") have been abolished.

As part of implementing legislation contemplated by the Currency Control Law, the CBR passed Directive No. 1425-U of 28 April 2004, which came into force on 18 June 2004. Directive No. 1425-U confirms that no currency control limitations will apply to bank operations between authorised banks and sets forth a list of non-banking transactions between authorised banks that are exempt from currency control restrictions. Directive No. 1425-U specifically provides that all other non-banking transactions of authorised banks will fall under the general currency control regime applicable to resident legal entities.

The Rescue Measures Law

Federal Law No. 173-FZ dated 13 October 2008 "On Supplementary Measures to Support the Financial System of the Russian Federation", as amended (the "**Rescue Measures Law**") came into effect on 14 October 2008.

Under Article 4 of the Rescue Measures Law, Vnesheconombank is to receive deposits in the amount of up to RUB410 billion in the aggregate from the National Wealth Fund, which Vnesheconombank would use to provide unsecured subordinated loans to Russian banks. The availability period for such loans expired on 31 December 2010.

On 20 October 2008, the Supervisory Board of Vnesheconombank approved the “Procedure for implementation by Vnesheconombank of measures set out in Articles 4 and 6 of the Rescue Measures Law” which describes the measures implemented to provide additional liquidity to Russian banks through Vnesheconombank (the “**Procedure**”).

The Procedure lists certain eligibility criteria that a Russian bank must meet to qualify for Vnesheconombank financing, including a minimum credit rating of B- from Fitch or S&P’s and B3 from Moody’s, absence of outstanding tax liabilities at the federal or regional level and absence of CBR sanctions against the bank and some other criteria.

Chapter III of the Procedure sets out the key terms of Vnesheconombank loans, which include, *inter alia*, the requirement to appoint VEB representatives to the management bodies of the borrower upon VEB request.

The Securities Market Law

A banking licence does not authorise a credit organisation to act as a securities broker, dealer or forex dealer, registrar, securities manager or to provide custody services (other than acting as a paying agent). In order to perform these functions, according to Federal Law No. 39-FZ “On the Securities Market” dated 22 April 1996, as amended (the “**Securities Market Law**”) a credit organisation must obtain a licence from the CBR. The operations of Russian banks in the securities market are subject to Russian securities laws and regulations adopted by the CBR or its predecessors that govern the activities of brokers, dealers, forex dealers, securities managers, registrars and securities custodians, and the relations between professional market participants and investors. CBR also oversees the compliance of all professional market participants, including banks, with the Russian securities laws and regulations.

The Insider Dealing Law

The Insider Dealing Law generally came into force on 31 July 2011, save for the provisions relating to criminal liability for unlawful use of insider information and revocation of a banking licence due to multiple instances of non-compliance with the Insider Dealing Law during one year. The Insider Dealing Law enumerates categories of persons that can be considered insiders, including, among others, issuers and management companies, as well as professional market participants (including brokers and dealers) and other persons who transact on behalf of their clients with financial instruments, foreign currency and/or goods, and have received insider information from such clients. Under the Insider Dealing Law, any person who illegally uses insider information and publishes misleading information may be held liable for misuse of information and/or market manipulation. Furthermore, insiders must comply with certain new disclosure requirements, including, *inter alia*, keeping the insiders list and sending notices of transactions by the insiders to the CBR and the relevant legal entities. In implementing the Insider Dealing Law and pursuant to CBR Regulation No. 5140-U dated 6 May 2019, the CBR discloses certain information relating to Russian banks on its website, including: (1) the status and results of its inspections, (2) licence revocations, (3) cases of imposing an administrative liability upon a credit organisation and/or its sole executive body, (4) an invalidation of the CBR’s approval for taking retail deposits and opening and maintaining bank accounts for individuals, and (5) stages of issuance of securities by banks.

The Deposit Insurance Law

The Deposit Insurance Law introduced a mandatory retail deposit insurance scheme for Russian banks that offer retail deposit services pursuant to a CBR licence. The Deposit Insurance Law prescribed the requirements for admission to the deposit insurance scheme, and compliance with these requirements are verified by the CBR on a case-by-case basis.

According to the DIA, as at 10 January 2020, 364 operating banks participated in the deposit insurance scheme and were allowed to accept retail deposits. A bank that does not participate in the deposit insurance scheme is not permitted to accept retail deposits or open accounts for individuals.

The Deposit Insurance Law guarantees each customer's deposit for up to RUB1,400,000 per bank. Insurance proceeds are payable from the retail deposit insurance fund into which participating banks must make quarterly contributions. An insurance payment from the deposit insurance fund becomes payable to depositors if the CBR revokes the bank's licence or imposes a moratorium on payments by the bank. The amount of each bank's contribution to the deposit insurance scheme is assessed based on the quarterly average of daily balances of its retail deposits (excluding bearer deposits). Standard contribution premiums cannot exceed 0.15% of the contribution basis. In certain circumstances, the premium can be increased up to 0.3% of the contribution basis, but not for more than two quarters in any 18-month period. When the size of the insurance fund exceeds 5% of all Russian banks' combined retail deposits, all subsequent contribution premiums cannot exceed 0.05% of the contribution basis. When the size of the insurance fund exceeds 10% of all Russian banks' combined retail deposits, no contributions will need to be made, but contributions must be resumed if the size of the insurance fund falls below 10% of the combined retail deposits.

Starting from 1 July 2015, banks which satisfy certain conditions are obliged to make additional contributions established by the DIA. If a bank in a particular quarter has entered into any agreement with deposit rate exceeding the basic level of profitability by 2% to 3%, such bank is subject to additional contribution. If banks accept deposits with rates exceeding the basic level of profitability by more than 3% or certain additional conditions set out by the CBR are satisfied, then such banks must pay higher additional contributions. The basic level of profitability will be established by the CBR every month by determination of the average rate calculated on the basis of the highest deposit rates offered to unlimited range of depositors by the banks holding, in aggregate, two thirds of retail deposits in the Russian Federation.

The Deposit Insurance Law provides for the establishment of a new regulator, the DIA, which, among other things, collects fund contributions, manages the fund, calculates insurance premiums and monitors insurance payments. The DIA maintains a register of all banks that hold a retail banking licence.

The National Payment System Law

For the purposes of development and modernisation of the Russian banking sector and financial market, in light of establishment of International Financial Centre in Russia Federal Law No. 161-FZ "On the National Payment System" dated 27 June 2011, as amended (the "**National Payment System Law**") was adopted. The National Payment System Law generally came into force on 29 September 2011 with some provisions entering into force later in 2012.

The National Payment System Law sets out legal and administrative basis of the national payment system, regulates the procedure of rendering payment services, including the performance of the transfer of monetary resources, the employment of the electronic means of payment, the activity of the participants of the national payment system, determines the requirements of the organisation and functioning of payment systems, and the procedure of the supervision and observation in the national payment system.

The National Payment System Law provides, among other things, that a bank may act as an operator of the transfer of monetary funds, including operator of the electronic monetary resources and an operator of the payment system.

The National Payment System Law envisages that the CBR performs the function of supervision over the functioning of the national payment system. To that end, the CBR is vested, among other things, with the following powers with respect to the participants of payment systems and/or other entities falling under the CBR's supervision: (i) to inspect the documents and information relating to such entities; (ii) conduct scheduled and extraordinary audits; (iii) impose sanctions or other actions.

The Central Depositary Law

Federal Law No. 414-FZ “On the Central Depositary” dated 7 December 2011, as amended (the “**Central Depositary Law**”), which generally came into force on 1 January 2012, provides legal framework for establishment, and operational conditions, of the central depositary, in particular, setting out rights and obligations of the central depositary, requirements to its activities and specifics of the state control and supervision over its activities. The Central Depositary Law aims at improving effectiveness and competitiveness of Russian stock market, including, expediting and facilitating securities trade settlements and mitigating the risks associated therewith. Under this law, the central depositary is defined as a depositary that is a non-banking credit organisation (“**NCO**”), to which the status of the central depositary has been assigned. Only a joint-stock company registered in Russia can be the central depositary. Pursuant to the Central Depositary Law, the central depositary (within one year from the date of assignment of its status) shall take all necessary steps in order to open its nominal holder accounts, in particular, in all securities registers of issuers obliged to disclose information in accordance with the Securities Market Law. In addition, the Central Depositary Law prohibits persons maintaining securities registers from opening, and depositing securities to, other nominal holder accounts from the opening date of a nominal holder account of the central depositary. On 6 November 2012, CJSC NCO “National Settlement Depositary” was assigned the central depositary status by Order of the FSFM No. 12-2761/PZ-I.

Accession of Russia to the WTO

On 16 December 2011, Russia signed the Protocol on its accession to the WTO. The ratification procedures were completed in July 2012, and the accession to the WTO became effective for Russia on 22 August 2012. Upon the Protocol’s entry into force, Russia became subject to the WTO regime. However, in relation to its banking sector, Russia made a reservation that it would review market access requirements for the establishment of branches of foreign banks and securities firms in the context of future negotiations on the accession of Russia to the OECD or within the framework of the next round of the WTO multilateral trade negotiations. As at the date of this Prospectus, the CBR allows foreign banks either (i) to incorporate a subsidiary bank in Russia regulated by the CBR or (ii) to maintain a representative office in Russia, provided that, among other matters, the parent bank has a good reputation and is in good financial standing in its home country. A subsidiary of a foreign bank is an entity operational within the scope of its banking licence, which must comply with Russian laws and CBR regulations (including on mandatory CBR ratios), while the activities of a representative office are limited to facilitating banking operations and representing the interests of its foreign parent.

The accession of Russia to the WTO is also expected to necessitate unification of requirements applicable to private banks, banks under state control and foreign-controlled banks, including, among other things, abolishing some Russian law provisions that may be deemed discriminatory against foreign-owned banks in favour of banks controlled by Russian nationals or the state. At the same time, Russia managed to keep a limit on an overall amount of foreign investments into the banking sector of Russia post-accession, which shall not exceed 50% of the total equity capital of all credit organisations registered in Russia. If the threshold is exceeded, the CBR will have a right (i) not to authorise new foreign investments in the banking sector, and/or (ii) to impose a temporary ban on disposal of banks’ equity capital to foreign investors, including, among other things, through an increase of equity capital at the account of a foreign investor.

Measures to Support the Liquidity and Solvency of Russian Banks and Legal Entities since October 2008

Since October 2008, the Russian Government and the CBR have announced and, in many cases, fully implemented, measures intended to support the liquidity and solvency of Russian banks and to increase the availability of credit to businesses, which have been seen as critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy. These measures are set out below:

- The Russian Government through the CBR and Vnesheconombank may provide up to RUB910 billion in subordinated loans to State-owned and private banks under certain conditions. The RUB910 billion state contribution to banking sector capital in the form of long-term subordinated loans is one of the key economic initiatives announced by the Russian Government to restore confidence in the Russian banking sector. State-owned banks such as Sberbank, VTB and Russian Agricultural Bank received RUB500 billion, RUB200 billion and RUB25 billion, accordingly, as part of this initiative. The remaining amount has been distributed among privately-owned Russian banks subject to certain conditions.
- On the basis of special resolutions of the Russian Government the funds repaid by the banks as borrowers under the subordinated loan agreements may be used for purchasing preferred shares of such banks.
- The CBR was authorised to enter into agreements with non-state banks to partially compensate such banks for the losses suffered during the period from 14 October 2008 to 31 December 2010 as the result of operations on the interbank market with banks whose licences are revoked. Vnesheconombank had the right, until 31 December 2009, to originate foreign currency loans up to U.S.\$50 billion to Russian legal entities to repay and/or refinance the loans received from foreign lenders prior to 25 September 2008.
- In October 2008, the CBR temporarily decreased the reserve requirements for banks to 0.5% for all types of financial obligations (prior to the decrease, the reserve requirements for banks were 4.5% for financial obligations to non-resident banks, 1.5% for financial obligations to individuals and 2.0% for all other financial obligations).
- The Russian Government has increased the insurance coverage for retail deposits to RUB1,400,000.
- The Russian Government has pledged RUB500 billion to stabilise the financial markets, out of which Vnesheconombank, a state-owned bank, has received RUB250 billion to implement measures to support the Russian financial markets. In November 2008, Vnesheconombank received a contribution of RUB75 billion to its charter capital to help stabilise the repo market. The remaining RUB175 billion was deposited with Vnesheconombank and partially used to support the Russian debt and equity markets.
- The DIA added 27 Russian banks to a short list of banks which received an aggregate of RUB830 billion as additional support from the state in the form of Federal loan bonds (OFZ) in the amount equal to 25% of their capital (own funds) transferred to such banks on a *pro rata* basis.
- Federal Law No. 317-FZ “On Amending Articles 46 and 76 of the Federal Law on Central Bank of Russian Federation (Bank of Russia)” dated 30 December 2008 vested the CBR with the right to appoint its authorised representatives to the banks and credit institutions which, *inter alia*, have received any foreign currency loans and/or subordinated loans under the Rescue Measures Law. The CBR Regulation No. 2182-U dated 9 February 2009 provides for the procedure for such authorised representatives appointment, their rights and obligations including, *inter alia*, the right to participate in the meetings of the management bodies of such banks and credit institutions and the right to request information on management remuneration and the issuance of loans to third parties.
- CBR Regulation No. 2092-U “On Determination of Mandatory Reserve Requirements of the Bank of Russia” dated 14 October 2008 temporarily decreased the reserve requirements for all types of financial obligations, namely funds in Roubles and foreign currencies payable to non-resident banks, funds in Roubles payable to individuals and other obligations, to 0.5% from 4.5%, 1.5% and 2%, respectively. However, CBR Regulation No. 2582-U dated 25 February 2011 “On Determination of Mandatory Reserve Requirements of the Bank of Russia” increased these reserve requirements from 1 March 2011 to 4.5%, 3.5% and 3.5%, respectively. Pursuant

to CBR Regulation No. 2601-U dated 25 March 2011 “On Determination of Mandatory Reserve Requirements of the Bank of Russia”, from 1 April 2011 reserve requirements for the banks’ obligations to individuals and other obligations in Roubles or foreign currency have been increased to 4.0% and reserve requirements for the banks’ obligations to non-resident legal entities in Roubles or foreign currency have been increased to 5.5%. Furthermore, under CBR Regulation No. 2970-U dated 12 February 2013 “On Determination of Mandatory Reserve Requirements of the Bank of Russia”, for the period from 1 March 2013 to 1 April 2016, the mandatory reserve requirements were set at 4.25% for all categories of obligations. From 1 August 2016, the mandatory reserves requirements for the obligations of credit organisations were set at 5% and 6% for the banks’ obligations to individuals in Roubles or foreign currency, respectively, to 5% or 7% for the banks’ obligations to non-resident legal entities in Roubles or foreign currency, respectively, and to 5% or 7% for the other obligations of a bank in Roubles or foreign currency, respectively.

- Government Decree No. 18 “On the Procedure of National Welfare Fund Assets Management” was amended in 2008 and 2009 to increase the scope of financial instruments in which funds from the National Welfare Fund can be invested. The National Welfare Fund was established in 2008 using oil revenues, with a view to partially funding contributions to pensions of Russian citizens and to make up shortfalls in other contributions from the federal budget to federal pension funds. As a consequence, up to RUB955 billion of such funds may be deposited in Vnesheconombank to support the Russian financial markets.
- The number of instruments eligible for the CBR’s collateralised facility and for refinancing transactions with CBR has been increased and the CBR may accept, among other things, the pledge of certain bonds and suretyships granted by certain Russian banks as collateral under its facilities to credit organisations.
- On 29 August 2017, the CBR announced the adoption of “certain measures aimed at enhancing the financial stability” of Bank Otkritie, then Russia’s largest privately-owned bank, which is also included in the list of systemically important credit organisations in Russia. The measures involve an investment by CBR using the funds of CBR’s recently created Russian Banking Sector Stabilisation Fund, the introduction of a temporary administration by the CBR and the effective removal of most of the bank’s senior management. The measures were adopted further to the request made by Bank Otkritie for emergency funding in an amount of U.S.\$6.9 billion, one of the largest rescues in the Russian banking sector to date, reportedly made by the owners of Bank Otkritie in view of the insufficiency of its capital to cover the recent aggressive asset growth or the quality of its assets. On 21 September 2017, the CBR announced the adoption of similar measures with respect to B&N Bank (then Russia’s twelfth largest lender by assets) and certain other banks affiliated with it, similarly in response to the bank’s own request for emergency funding due to insufficiency of capital to cover the asset base. Further, on 15 December 2017, the CBR announced the adoption of similar measures with respect to Promsvyazbank (then Russia’s ninth largest lender by assets) in response to, among other things, the bank’s insufficient provisions for impairment of loans. As part of the measures aimed at strengthening the financial health and stability of Bank Otkritie and B&N Bank, the CBR has initiated the merger of B&N Bank and Bank Otkritie (under the brand of Bank Otkritie), which became effective on 1 January 2019. Although the measures adopted in each case did not include the introduction of any moratorium or bail-in with respect to creditor claims, or any curtailment of the banks’ activities, the fact they were adopted, within a space of several months, with respect to three banks considered part of the Russian banking sector’s elite, has led to market speculation that other large Russian banks may have similar regulatory capital problems, and/or may be subject to similar measures adopted by the regulator in the near future. Furthermore, in the case of both Bank Otkritie and B&N Bank, certain subordinated bonds were written down or converted, including subordinated bonds issued under Regulation No. 395-P.

List of Systemically Important Banks

In September 2017, the CBR included CBM, among certain other Russian banks, in the list of so-called 'systemically important banks'. Whilst this is a recognition of CBM's important role and market share in the Russian banking sector, this has brought CBM, along with the other banks on the list, under yet closer regulatory scrutiny by the CBR. Systemically important banks are also required to comply with the following additional capital adequacy and other regulatory requirements:

- to devise and file with the CBR financial rehabilitation plans, subject to periodic review and amendments. Based on the submitted plans, the CBR shall devise action programmes tailored to each of the systemically important banks, providing for special measures to be implemented in case the actions envisaged by the financial rehabilitation plans do not result in the restoration of financial stability;
- under Order No. 510-P dated 3 December 2015 of the CBR, systemically important banks are subject to special requirements relating to the calculation of the Basel III short-term liquidity coverage ratio (N26(27)), measured as the cumulative stock of high quality liquid assets divided by total net cash outflows. As of 1 January 2018, the statutory minimum of this ratio was set at the level of 90% and was subsequently increased to 100% as of 1 January 2019;
- as of 1 January 2018, pursuant to Order No. 596-P dated 26 July 2017 of the CBR, systemically important banks are obliged to comply with the statutory threshold for the Basel III ratio of structural liquidity (net stable funding ratio) (N28(29)). This ratio is defined as the amount of available stable funding relative to the amount of required stable funding, and should amount to at least 100% on an on-going basis; and
- further, starting from 1 January 2019, CBR introduced into the Russian banking regulation the provisions of the Large Exposure Framework, and requires, in particular, that systemically important banks calculate and report the ratio of maximum concentration of exposure per borrower or group of related borrowers (PKC6.1).

THE ISSUER

General

CBOM Finance p.l.c. was incorporated in Ireland on 22 August 2006, with registered number 425241, as a public limited company under the Companies Acts 1963-2005 (as amended) of Ireland. The registered office of the Issuer is 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland and its telephone number is +353 1 905 8020.

The authorised share capital of the Issuer is EUR40,000 divided into 40,000 ordinary shares of par value EUR1 each (the “**Shares**”). The Issuer has issued 40,000 Shares, which are fully paid and are held on trust under the terms of a declaration of trust (the “**Declaration of Trust**”) dated 11 September 2006, under which the Shares are held on trust for charity. Cafico Trust Company Limited (the “**Share Trustee**”) became the Share Trustee on 12 October 2016, replacing Deutsche International Finance (Ireland) Limited. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

Cafico Corporate Services Limited (the “**Corporate Services Provider**”), an Irish company, acts as the corporate services provider for the Issuer. The Corporate Services Provider replaced Deutsche Corporate Services (Ireland) Limited on 12 October 2016. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 12 October 2016 between the Issuer and the Corporate Services Provider (the “**Corporate Services Agreement**”), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days’ written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary. The Corporate Services Provider’s principal office is Palmerston House, Fenian Street, Dublin 2, Ireland.

Principal Activities

The principal objects of the Issuer are set forth in clause 3 of its Memorandum of Association (as currently in effect) and permit the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use an amount equal to the proceeds of each such issuance to advance loans to CBM.

Since its incorporation and prior to the issuance of the Notes, the Issuer has not engaged in any material activities other than the issue of loan participation notes for the sole purpose of funding senior or subordinated loans to CBM. The Issuer has no employees.

Directors and Company Secretary

The Issuer’s Articles of Association provide that the board of directors of the Issuer will consist of at least two Directors.

The Directors of the Issuer are Rolando Ebuna and Stuart Maher.

The business address of the Directors is at: 2nd Floor Palmerston House, Fenian Street, Dublin 2, Ireland.

The Company Secretary is Cafico Secretaries Limited.

The Directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the Directors is provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement. The Directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

Financial Statements

The Issuer published its most recent financial statements in respect of the financial year ending on 31 December 2018. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account, the financial statements of the Issuer and balance sheet can be obtained free of charge from the registered office of the Issuer.

The Issuer has appointed Grant Thornton, 24-26 City Quay, Dublin 2, Ireland as its auditors, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland.

LOAN AGREEMENT

THIS LOAN AGREEMENT is made on 27 January 2020

BETWEEN

- (1) **CREDIT BANK OF MOSCOW (public joint-stock company)**, a commercial bank organised as a public joint-stock company established under the laws of the Russian Federation whose registered office is at 2 (Building 1) Lukov Pereulok, Moscow, 107045, Russian Federation, as borrower (the **Borrower**); and
- (2) **CBOM Finance p.l.c.**, a public limited company incorporated under the laws of Ireland whose registered office is at 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland and registered under number 425241, as lender (the **Lender** which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Trust Deed).

WHEREAS

The Lender has, at the request of the Borrower, agreed to make available to the Borrower a loan facility in the amount of U.S.\$600,000,000 on the terms and subject to the conditions of this Agreement.

NOW IT IS HEREBY AGREED as follows:

1. Definitions and interpretation

1.1 Definitions

In this Agreement (including the recitals), the following expressions have the following meanings:

Account means the account with account number 12361043 of the Lender with the Principal Paying Agent;

Advance means the advance made or to be made by the Lender under Clause 3 (*Drawdown*) of the sum equal to the amount of the Facility, as from time to time reduced by prepayment;

Affiliate of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) or (ii) above. For the purposes of this definition, **control** when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms **controlling** and **controlled** have meanings correlative to the foregoing;

Agency means any agency, authority, central bank, department, government, legislature, minister, official or public statutory Person (whether autonomous or not) of, or of the government of, any state or supra national body;

Agency Agreement means the agency agreement (as amended, varied or supplemented from time to time) to be dated 29 January 2020, with the agents named therein (the **Agents**, which expression shall include any successor Agent(s) appointed from time to time in connection with the Notes), the Borrower and the Trustee;

Agreed Form means that the form of the document in question has been agreed between the proposed parties thereto, subject to any amendments that the parties may agree prior to the Closing Date;

Agreement means this Agreement as originally executed or as it may be amended or supplemented from time to time;

Auditors means the auditors of the Borrower's IFRS consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose, such approval not to be unreasonably withheld;

Authorised Signatory means, in relation to the Borrower, any Person who is duly authorised (in such manner as may be reasonably acceptable to the Lender) and in respect of whom the Lender has received a certificate signed by a director of the Borrower setting out the name and signature of such Person and confirming such Person's authority to act;

BIS Guidelines means the guidelines on capital adequacy standards (including the constituents of capital included in the capital base, the risk weights by category for on balance sheet assets, the credit conversion factors for off balance sheet items, and the target standard ratio) for international banks contained in the July 1988 (as amended in November 1991) text of the Basle Capital Accord, published by the Basle Committee on Banking Supervision (as amended, updated or supplemented from time to time), without any amendment or other modification by any other Agency;

Business Day means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets generally are open for business in Moscow, New York, London, Dublin and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located;

Capital Stock means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued;

CBR means the Central Bank of the Russian Federation or such other governmental or other authority as shall from time to time carry out functions in relation to the supervision of banks in the Russian Federation as are, on the date hereof, carried out by the CBR;

Change of Control means (i) Mr Roman Avdeev ceasing to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting interest or stock of LLC Concern Rossium while LLC Concern Rossium continues to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting stock of the Borrower or (ii) LLC Concern Rossium ceasing to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting stock of the Borrower notwithstanding that Mr Roman Avdeev continues to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting stock of LLC Concern Rossium or (iii) simultaneously Mr Roman Avdeev ceasing to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting interest or stock of LLC Concern Rossium and LLC Concern Rossium ceasing to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting stock of the Borrower;

Closing Date means, subject to Clause 11.2 (*Postponed closing*) of the Subscription Agreement, 29 January 2020;

Conditions means the terms and conditions of the Notes, as set out in Schedule 2 to the Trust Deed and all references to a numbered **Condition** are to the corresponding provision thereof;

Development Organisation means any development finance institution established or controlled by one or more sovereign states and any other person which is, or is controlled by a Russian governmental body acting on behalf of, or funded in relation to, the relevant Indebtedness by one or more of the foregoing development finance institutions;

Event of Default has the meaning assigned to such term in Clause 11 (*Events of Default*) hereof;

Facility means the U.S.\$600,000,000 facility granted by the Lender to the Borrower, as specified in Clause 2 (*Facility*);

Facility Fee has the meaning assigned to such term in Clause 2.3 (*Facility Fee and Other costs*) hereof;

Fair Market Value means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the board of directors of the Borrower, whose determination shall be conclusive if evidenced by a resolution of such board of directors;

Fee Side Letters means the Upfront Fee Side Letter and the Ongoing Fee Side Letter;

Finance Documents means this Agreement and any other agreements and deeds relating to the Loan and/or issuance of the Notes, including any relevant subscription agreement related to such Notes to which the Lender is a party;

Fiscal Period means any fiscal period for which the Borrower or the Group (if consolidated accounts are then prepared) has produced financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

Fitch means Fitch Ratings Ltd. (or its successors);

Governmental Entity means any governmental or other regulatory body, agency, authority (including, but not limited to, any central bank, stock exchange or taxing authority) or another entity (including, but not limited to, any court or tribunal) exercising executive, prosecutorial, legislative, judicial, regulatory or administrative functions of or pertaining to government;

Group means the Borrower and its consolidated Subsidiaries from time to time taken as a whole, and a **member of the Group** means any of the Borrower or any of its Subsidiaries from time to time;

Guarantee means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

- (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise); or
- (b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however*, that the term **Guarantee** will not include endorsements for collection or deposit in the ordinary course of business; the term **Guarantee** used as a verb has a corresponding meaning;

IFRS means the International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (**IASB**) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re issued from time to time);

incur means, with respect to any Indebtedness or other obligation of any Person, to create, issue, assume, Guarantee, incur (including by conversion, exchange or otherwise) or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such

person (and *incurrence*, *incurred* and *incurring* shall have meanings correlative to the preceding) *provided, however*, that any Indebtedness or Capital Stock of any acquired Person or any of its Subsidiaries existing at the time such acquired Person becomes a Subsidiary (or is merged into or consolidated with the Borrower or any Subsidiary), whether or not such Indebtedness was incurred in connection with, as result of, or in contemplation of, such acquired Person becoming a Subsidiary (or being merged into or consolidated with the Borrower or any Subsidiary), shall be deemed incurred at the time any such acquired Person becomes a Subsidiary or merges into or consolidates with the Borrower or any Subsidiary;

Indebtedness means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation:

- (a) any amount raised by acceptance under any acceptance credit facility;
- (b) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (c) any amount owed pursuant to any issue of shares which are expressed to be redeemable either on a compulsory basis or at the option of the shareholder;
- (d) any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing;
- (e) the amount of any liability in respect of any Guarantee or indemnity for any of the items referred in (a) to (d) above;
- (f) any indebtedness of such Person or any third parties secured by a Lien granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest half year period of the Person providing the Lien) of such Person, whether or not such indebtedness is assumed by such Person;
- (g) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto); and
- (h) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation;

Independent Appraiser means any third party expert of such investment banking, accountancy or appraisal firm of international standing whose business is to value and appraise companies or other relevant assets appointed by the Borrower pursuant to Clause 10.4 (*Transactions with Affiliates*) and approved by the Lender and the Trustee, *provided, however*, that such Independent Appraiser is not an Affiliate of any member of the Group;

Interest Payment Date means 29 January and 29 July of each year, commencing on 29 July 2020 and ending on the Repayment Date;

Interest Period means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date (or in the case of the first Interest Period, the first Interest Payment Date and in the case of the last Interest Period – the Repayment Date);

Lien means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without

limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease having a similar effect, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest) securing any obligation of any Person;

Loan means, at any time, an amount equal to the aggregate principal amount of the Facility granted by the Lender pursuant to this Agreement and outstanding at such time;

Material Adverse Effect means a material adverse effect on the:

- (a) business, results of operations, property, condition (financial or otherwise) or immediate prospects of the Borrower or the Group taken as a whole;
- (b) Borrower's ability to perform or comply with its obligations under this Agreement, the Agency Agreement or the Subscription Agreement; or
- (c) validity or enforceability of this Agreement, the Agency Agreement or the Subscription Agreement or the rights or remedies of the Lender thereunder;

Material Subsidiary means any Subsidiary of the Borrower:

- (a) which has gross income representing 10 per cent. or more of the consolidated gross income of the Group for the most recent Fiscal Period; or
- (b) which has total assets representing 10 per cent. or more of the consolidated total assets of the Group; or
- (c) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Borrower which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction),

in each case calculated on a consolidated basis in accordance with IFRS, as consistently applied;

Moody's means Moody's Investors Service, Inc.;

Noteholder means, in relation to a Note, the Person in whose name such Note is, for the time being, registered in the register of Noteholders (or, in the case of joint holders, the first named holder thereof) and **Noteholders** shall be construed accordingly;

Notes means the U.S.\$600,000,000 4.700 per cent. loan participation notes due 2025 proposed to be issued by the Lender (in its capacity as issuer of such Notes) and constituted by the Trust Deed;

Officers' Certificate means a certificate signed on behalf of the Borrower by an authorised officer of the Borrower who shall be a principal executive officer, principal accounting officer or principal financial officer of the Borrower;

Ongoing Fee Side Letter means a side letter to be dated 29 January 2020 between, *inter alios*, the Trustee, the Lender and the Borrower;

Opinion of Counsel means a written opinion from international legal counsel who is acceptable to the Lender and the Trustee and as reasonably selected by the Borrower and approved in writing by the Trustee;

Original Financial Statements means the reviewed consolidated financial statements of the Group as at and for the nine months ended 30 September 2019 prepared in accordance with IAS34 'Interim Financial Reporting' and the audited consolidated financial statements of the Group for the year ended 31 December 2018 prepared in accordance with IFRS;

Permitted Liens means:

- (a) any Lien over or affecting any property, income or any assets of any Person existing at the time such Person is acquired, merged or consolidated with or into the Group after the date hereof and subject to which such property, income or asset is acquired, if:
 - (i) such Lien was not created in contemplation of the acquisition of such property, income or asset by a member of the Group;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such property, income or asset by a member of the Group;
 - (iii) such Lien is removed or discharged within four calendar months of the date of acquisition of such property, income or asset; and
 - (iv) such Lien does not extend to any other property, income or assets of such Person or to any other property or assets of the Subsidiaries of such Person or the Group;
- (b) any Lien over or affecting property, income or any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:
 - (i) such Lien was not created in contemplation of the acquisition of such company;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company;
 - (iii) such Lien is removed or discharged within four calendar months of such company becoming a member of the Group; and
 - (iv) such Lien does not extend to any other property, income or assets of such Person or to any other property or assets of the Group;
- (c) any Lien comprising a netting or right of set off arrangement, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;
- (d) any Lien upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation of receivables, asset backed financing or similar financing structure and whereby all payment obligations secured by such Lien or having the benefit of such Lien, are to be discharged solely from such assets or revenues, *provided* that the aggregate value of assets or revenues subject to such Lien when added to the aggregate value of assets or revenues which are the subject of any securitisation of receivables, asset backed financing or similar financing structure permitted pursuant to Clause 10.3 (*Disposals*), does not, at any such time, exceed 30 per cent. of the loans and advances to customers, as determined at any time by reference to the most recent quarterly balance sheet of the Borrower prepared in accordance with IFRS;
- (e) any title transfer or retention of title arrangement entered into by any member of the Group in the normal course of its trading activities on the counterparty's standard or usual terms;
- (f) any Lien arising by operation of law and in the normal course of business;
- (g) any Lien incurred, or pledges or deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;

- (h) any Lien for *ad valorem*, income or property Taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower has set aside in its accounts reserves to the extent required by IFRS;
- (i) any Lien granted by any Subsidiary of the Borrower in favour of the Borrower;
- (j) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;
- (k) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations in respect of obligations under hedging agreements so long as the related indebtedness is permitted to be incurred under the terms of this Agreement and any such hedging agreement is not speculative;
- (l) Liens upon or with respect to immovable property acquired by the Group after the date of this Agreement where the aggregate value of such immovable property subject to such Liens does not at any one time exceed 2 per cent. of the total assets of the Group as calculated by reference to the most recent consolidated financial statements of the Group prepared under IFRS;
- (m) any Liens existing on the date of this Agreement;
- (n) any other Lien where the aggregate value of the assets or revenues subject to such Lien does not exceed 10 per cent. of the total assets of the Group as calculated by reference to the most recent consolidated financial statements of the Group prepared under IFRS;
- (o) Liens created in connection with the Borrower's banking business, easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Borrower, including:
 - (i) bankers' Liens in respect of deposit accounts;
 - (ii) statutory landlords' Liens; and
 - (iii) deposits to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature,

(so long as, in each case with respect to items described in (i), (ii) and (iii) above of this paragraph (o), such Liens (1) do not secure obligations constituting Indebtedness for borrowed money; (2) are incurred in the ordinary course of business), and (3) arise only from such judgments, decrees or other orders which by themselves do not constitute an Event of Default;

- (p) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market in connection with (i) contracts entered into for sales and purchases of precious metals or securities and/or for financing of such sales and purchases, (ii) financing of customers primarily engaged in mining, production, processing or trading of precious metals and/or minerals, (iii) the establishment of margin deposits and similar instruments relating to interest rate and foreign currency hedging operations and/or securities trading or (iv) the Borrower's foreign exchange dealings or foreign exchange proprietary trading activities;

- (q) Liens over debt securities issued by a sovereign, state or government which are created to secure indebtedness owed to a national central bank under credit advanced by such national central bank to the Borrower in the ordinary course of the Borrower's banking business; and
- (r) Liens granted by the Borrower or any Subsidiary of the Borrower in favour of a Development Organisation to secure Indebtedness owed by the Borrower or such Subsidiary to such Development Organisation pursuant to any loan agreement or other credit facility entered into between the Borrower or such Subsidiary and such Development Organisation, provided that the amount of Indebtedness so secured pursuant to this paragraph (s) shall not exceed in aggregate an amount in any currency or currencies equivalent to 10 per cent. of the total assets of the Group as calculated by reference to the most recent financial statements of the Group prepared under IFRS;

Person means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organisation, government, or any Agency or political subdivision thereof or any other entity, whether or not having a separate legal personality;

Potential Event of Default means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition or after making any determination under this Agreement (or any combination of the foregoing) would constitute an Event of Default;

Principal Paying Agent means Citibank, N.A., London Branch;

Prospectus means the final prospectus dated 27 January 2020 prepared in connection with the offering and issue of the Notes (which expression includes, where the context permits, any amendment or supplement to the Prospectus published by or with the consent of the Lender);

Put Event means a Change of Control, which results in a Rating Decline;

Put Event Payment Date means, in respect of a Put Event, the date specified by or on behalf of the Lender in the Put Event Redemption Notice on which any part of the Advance is to be prepaid in accordance with Clause 5.4 (*Prepayment upon a Put Event*), which date shall not be less than 30 days after the Borrower has notified the Lender that a Put Event has or is deemed to have occurred in accordance with Clause 5.4 (*Prepayment upon a Put Event*);

Put Event Redemption Notice means, in respect of a Put Event, a notice given by or on behalf of the Lender to the Borrower specifying, *inter alia*, (i) the principal amount of the Advance to be prepaid; and (ii) the Put Event Payment Date;

Qualifying Jurisdiction means any jurisdiction which has a double taxation treaty with Russia under which the payment of interest by Russian borrowers to lenders in the jurisdiction in which the Lender is incorporated is generally able to be made without deduction or withholding of Russian income tax upon completion of any necessary formalities required in relation thereto;

Rate of Interest has the meaning assigned to such term in Clause 4.1 (*Rate of Interest*);

Rating Agency means S&P, Moody's or Fitch, or any of their affiliates or successors or any other rating agency substituted for any of them or added by the Borrower with the prior written approval of the Lender. (together, the **Rating Agencies**);

Rating Categories means (i) with respect to S&P, any of the following categories (any of which may or may not include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Fitch, any of the following categories (any of which may or may not include a Rating Modifier): AAA, AA, A, BBB, BB, B, CCC, CC, C

and D (or equivalent successor categories); (iii) with respect to Moody's, any of the following categories (any of which may or may not include a Rating Modifier): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (iv) the equivalent of any such categories of S&P, Moody's or Fitch used by another rating agency, if applicable;

Rating Decline means any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the later of the announcement or the occurrence of a Change of Control that the corporate credit rating of the Borrower or the credit rating of the Notes is decreased or downgraded by either:

- (a) one or more Rating Categories by two or more Rating Agencies; or
- (b) one or more Rating Modifiers within a Rating Category by each of the Rating Agencies then rating the Borrower or the Notes, as the case may be,

in each case as compared to the corporate credit rating of the Borrower or the credit rating of the Notes immediately prior to the earlier of the announcement or occurrence of a Change of Control and in each case as a result of such Change of Control, as specified by the relevant Rating Agency;

Rating Modifier means (i) with respect to S&P, any of the following modifiers: plus ("+"), flat (no symbol) and minus ("-") (or equivalent successor modifiers); (ii) with respect to Fitch, any of the following modifiers: plus ("+"), flat (no symbol) and minus ("-") (or equivalent successor modifiers); (iii) with respect to Moody's, any of the following modifiers: "1", "2" and "3" (or equivalent successor modifiers); and (iv) the equivalent of any such modifiers of S&P, Moody's or Fitch used by another rating agency, if applicable;

Related Party means, with respect to any Person, (a) an Affiliate of such Person or (b) any of its Affiliates or (c) a group of its Affiliates;

Repayment Date means 29 January 2025;

Repo means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term **securities** means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

Same-Day Funds means U.S. dollar funds settled through the cash settlement centre of the CBR or such other funds for payment in U.S. dollars as the Lender may at any time determine to be customary for the settlement of international transactions in Moscow of the type contemplated hereby;

Security means the security to be granted by the Lender to the Trustee under the Trust Deed over rights of the Lender under this Agreement, including an assignment of such rights in favour of the Trustee;

S&P means Standard & Poor's Rating Services;

Subscription Agreement means the subscription agreement dated 27 January 2020 between, *inter alios*, the Lender, the Borrower and the joint lead managers named therein (the **Joint Lead Managers**), providing for the issuance and subscription of the Notes;

Subsidiary of any specified Person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired;

- (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first named Person and/or any of its Subsidiaries and such first named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or
- (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first named Person or any of its Subsidiaries has the power, by contract or otherwise, to direct or cause the direction of the management, policies and affairs of such entity if (in each case) in accordance with IFRS, as consistently applied, such entity would be consolidated with the first named Person for financial statement purposes; or
- (c) any limited partnership of which such Person or any Affiliate of such Person is a general partner;

Taxes means any present or future tax (including interest, penalties and other liabilities related thereto) imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Ireland or any tax authority thereof or therein or any other jurisdiction through which the Borrower is directed by the Lender to effect payments, *provided, however*, that for the purposes of this definition references to Ireland shall, upon enforcement of the Security following a Relevant Event (as defined in the Trust Deed), be deemed to include references to the jurisdiction in which the Trustee or, as the case may be, another entity entitled to exercise the rights of the Lender under this Agreement is resident for tax purposes; and the term **Taxation** shall be construed accordingly;

Total Tier 1 Capital means the total Tier 1 capital of the Group, as such term is defined in the BIS Guidelines;

Trust Deed means the trust deed to be dated 29 January 2020 between the Lender and the Trustee to constitute the Notes for the equal and rateable benefit of the Noteholders (as may be amended or supplemented from time to time);

Trustee means Citibank, N.A., London Branch, as trustee under the Trust Deed and any successor thereto as provided thereunder;

Upfront Fee Side Letter means a side letter dated the date hereof between, *inter alios*, the Lender and the Borrower;

U.S. dollars and **U.S.\$** mean the lawful currency of the United States of America; and

Voting Stock means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

1.2 Other definitions

Unless the context otherwise requires;

- (a) terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the Notes, the Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein;
- (b) all references to **taxes** include all present or future taxes, levies, imposts, charges, withholdings and duties of any nature and the terms **tax** and **taxation** shall be construed accordingly;
- (c) a **month** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar

month, in which case it shall end on the immediately preceding Business Day, *provided that*, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to *months* shall be construed accordingly;

- (d) the *equivalent* on any given date in one currency (the *first currency*) of an amount denominated in another currency (the *second currency*) is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page; and
- (e) the term *repay* (or any derivative form thereof) shall, subject to any contrary indication, be construed to mean *prepay* (or, as the case may be, the corresponding derivative form thereof).

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

- (a) all references to *Clause* or *sub Clause* or *paragraph* are references to a Clause or sub Clause or paragraph of this Agreement;
- (b) the terms *hereof*, *herein* and *hereunder* and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;
- (c) the *Lender* or the *Borrower* shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests;
- (d) the table of contents and the headings are for convenience only and shall not affect the construction hereof;
- (e) *or* is not exclusive;
- (f) any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted;
- (g) provisions apply to successive events and transactions; and
- (h) an accounting term not otherwise defined has the meaning assigned to it in accordance with IFRS.

1.4 Amended documents

Except where the contrary is indicated, any reference in this Agreement to *this Agreement* or any other agreement shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated, supplemented or replaced.

2. Facility

2.1 Facility

On the terms and subject to the conditions of this Agreement and subject to the terms and conditions in the Subscription Agreement, the Lender hereby agrees to make available to the Borrower, and the Borrower hereby agrees to borrow from the Lender, a loan facility in the amount of U.S.\$600,000,000.

2.2 Purpose

The proceeds of the Advance will be used by the Borrower for general banking purposes, but the Lender shall not be concerned with the application thereof.

2.3 Facility Fee and Other costs

In consideration of the Lender agreeing to advance the facility to the Borrower, the Borrower shall pay (a) a fee of U.S.\$1,676,613.55 to the Lender in connection with the provision of the Facility (the **Facility Fee**) and (b) certain costs and expenses which may arise and which are referred to under the Upfront Fee Side Letter between the Lender, the Borrower and the parties thereto (the **Other Costs**).

3. Drawdown

3.1 Drawdown

On the terms and subject to the conditions of this Agreement, the Lender shall make the Advance to the Borrower on the Closing Date and the Borrower shall make a single drawdown in the full amount of the Facility (less any amount to be deducted (if any) in accordance with Clause 3.2 (*Payment of Facility Fee and Other costs*)).

3.2 Payment of Facility Fee and Other costs

In consideration of the Lender's undertaking to make a Loan available to the Borrower, the Borrower hereby agrees that it shall pay:

- (a) the Facility Fee to the Lender in Same Day Funds by 12.00 noon (London time) one Business Day prior to the Closing Date; and
- (b) the Other Costs set out in, and in the manner described in, the Upfront Fee Side Letter.

In the event that the Lender has not received from the Borrower by 12.00 noon (London time) one Business Day prior to the Closing Date an amount in U.S. dollars in payment of the Facility Fee and Other Costs, then the Facility Fee and Other Costs shall be deducted from the amount of the Advance.

3.3 Disbursement

Subject to the conditions set forth in this Agreement, the Lender shall transfer the amount of the Advance (less any amount to be deducted (if any) in accordance with Clause 3.2 (*Payment of Facility Fee and Other costs*)) on the Closing Date to the Borrower's account designated:

BENEFICIARY:	CREDIT BANK OF MOSCOW
SWIFT:	MCRB RU MM
ACC NO.:	36940272
BANK NAME:	CITIBANK N.A.
SWIFT:	CITIUS33

3.4 Ongoing fees and expenses

In consideration of the Lender (i) agreeing to make the Loan to the Borrower, and (ii) making available and supporting such a continuing Facility, the Borrower shall pay on demand to the Lender from time to time an additional facility fee in an amount equating to all ongoing fees, commissions, taxes and reasonable costs properly incurred by the Lender (including, without limitation, listing fees and expenses, audit fees and expenses, taxes, legal fees, corporate service provider fees and the anticipated winding up expenses of the Lender) as set forth in the Ongoing Fee Side Letter (the **Ongoing Facility Fee**). For the avoidance of doubt, this Clause 3.4 shall survive the termination of this Agreement.

4. Interest

4.1 Rate of interest

The Borrower will pay interest in U.S. dollars to the Lender on the outstanding principal amount of the Loan from time to time hereunder at the rate of 4.700 per cent. per annum (the ***Rate of Interest***).

4.2 Payment

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date to (but excluding) the Repayment Date (unless the Loan has been repaid or prepaid in full pursuant to Clause 5 (*Repayment and prepayment*)) and shall be paid by the Borrower to the Lender in arrear not later than 10.00 a.m. (London time) on each Interest Payment Date.

4.3 Accrual of interest

If any Interest Payment Date is not a Business Day, interest on the Loan will accrue at the Rate of Interest up to and excluding the relevant Interest Payment Date, notwithstanding that the interest for the relevant Interest Period shall be paid on the next Business Day following such Interest Payment Date. Interest on the Loan will cease to accrue from the Repayment Date (or any earlier date upon which the Loan is prepaid in full pursuant to Clause 5 (*Prepayment and repayment*) or repaid pursuant to Clause 11 (*Events of Default*)) provided that, in each case, if payment of principal is withheld or refused by the Borrower in breach of its obligations under this Agreement, interest will continue to accrue (before or after any judgment) at the relevant Rate of Interest to but excluding the date on which payment in full of the whole or the relevant proportion (as applicable) of the principal amount of the Loan is made. If the Repayment Date is not a Business Day, interest on the Loan will accrue at the Rate of Interest on the outstanding principal amount of the Loan up to and excluding the Repayment Date notwithstanding the payment of the outstanding principal amount in full and interest for the last Interest Period on the next Business Day following the Repayment Date.

4.4 Calculations

The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the applicable Rate of Interest to the outstanding principal amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360 day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5. Repayment and prepayment

5.1 Repayment

Except as otherwise *provided herein*, the Borrower shall repay the Loan, including accrued but unpaid interest and any additional amounts thereon not later than 10.00 a.m. (London time) on the Repayment Date.

5.2 Prepayment in the event of Taxes or increased costs

If,

- (a) as a result of the application of, or any amendments to or change in, the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any constituent part or political sub division thereof or any authority having power to tax therein (including as a result of a judgment of a court of competent jurisdiction) or a change in, or clarification of, the application or

official interpretation of such laws or regulations which change or amendment becomes effective on or after the date of this Agreement, the Borrower would thereby be required to make or increase any payment due hereunder;

- (b) as a result of the enforcement of the Security, the Borrower would thereby be required to make or increase any payment due hereunder as provided in Clauses 6.2 (*No set-off, counterclaim or withholding; gross-up*) or 6.4 (*Withholding on the Notes*) (unless the increase in payment is in respect of any amounts due or paid pursuant to Clause 3 (*Drawdown*)); or
- (c) if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 8 (*Change in law or banking practices; increase in cost*), and

in any such case, such obligation cannot or could not be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 20 days' written notice to the Lender (copied to the Trustee) (which notice shall be irrevocable) specifying the date for prepayment of the Loan and attaching an Officer's Certificate confirming that the Borrower would be required to increase the amount payable or to pay additional amounts and that the obligation to make such payment cannot or could not be avoided by the Borrower taking reasonable measures available to it, supported by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction (which notice shall be irrevocable), prepay the Loan in whole (but not in part).

5.3 Prepayment in the Event of Illegality

If, at any time after the date of the Loan, by reason of the introduction of, or any change in, any applicable law, regulation, regulatory requirement or directive of an Agency (having applicable jurisdiction) after the date of this Agreement the Lender reasonably determines (such determination being accompanied and verified, if so requested by the Borrower, by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender, as the case may be, to allow all or part of the Loan to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement or the Security and/or to charge or receive or to be paid interest at the rate then applicable to such Loan (an **Event of Illegality**), as the case may be, then upon notice by the Lender to the Borrower (with a copy to the Trustee) in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; *provided, however*, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which the Lender so notified the Borrower (with a copy to the Trustee). If such a basis has not been determined within such 30 days (or on such earlier date as the Lender shall certify to be necessary to comply with such regulation, regulatory requirement or directive), then upon written notice by the Lender to the Borrower (with a copy to the Trustee), the Borrower shall prepay such Loan (without penalty or premium) in whole (but not in part) in an amount equal to the outstanding principal amount of the Loan together with interest accrued to the date of prepayment and all other amounts payable by the Borrower pursuant to this Agreement, on the next Interest Payment Date, or, on such date as the Lender shall certify to be necessary to comply with such regulation, regulatory requirement or directive.

5.4 Prepayment upon a Put Event

- (a) Promptly, and in any event within 10 calendar days after a Put Event, the Borrower shall deliver to the Lender, the Principal Paying Agent and the Trustee a written notice substantially in the form of Schedule 1 (*Form of Put Event Notice*) (the **Put Event Notice**) hereto signed on behalf of the Borrower by two officers of the Borrower at least

one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower, which notice shall be irrevocable, stating:

- (i) that a Put Event has occurred;
 - (ii) the circumstances and relevant facts giving rise to such Put Event; and
 - (iii) the date upon which such Put Event occurred.
- (b) The Borrower shall, having been given a Put Event Redemption Notice by or on behalf of the Lender (following receipt by the Lender of written confirmation from the Principal Paying Agent of the outstanding principal amount of the Advance to be prepaid following the Put Event (the ***Put Redemption Amount***)), prepay the amount equal to the Put Redemption Amount specified in the Put Event Redemption Notice, together with accrued but unpaid interest (if any) on such principal amount, up to (but excluding) the Put Event Payment Date, and all other amounts owing to the Lender hereunder, not later than 12.00 noon (London time) on the Put Event Payment Date.

5.5 Reduction of Loan upon cancellation of corresponding Notes

The Lender (acting on behalf and at request of the Borrower), the Borrower or any Subsidiary of the Borrower or any Person on behalf of the Borrower may from time to time, in accordance with the Conditions and to the extent permitted by applicable law, purchase Notes in the open market or by tender or by a private agreement at any price. The Borrower or any Subsidiary of the Borrower or any Person (other than the Lender) acting on behalf of the Borrower may deliver to the Lender such purchased Notes, having an aggregated principal value of at least U.S.\$1,000,000, together with a request for the Lender to present such Notes to the Registrar for cancellation, or, where the Notes are represented by the Global Notes (as defined in the Trust Deed), may also from time to time procure the delivery to or to the order of the Registrar or relevant clearing system of instructions (in each case, with a copy to the Lender) to cancel a specified aggregate principal amount of Notes represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar or relevant clearing system that the Borrower is entitled to give such instructions), whereupon the Lender shall, pursuant to Clause 8.3 (*Redemption and cancellations*) of the Agency Agreement, request the Registrar or relevant clearing system to cancel such Notes (or specified aggregate principal amount of Notes represented by the Global Notes). In the event that an amount of Notes has been surrendered to the Lender or the Registrar for cancellation by the Borrower or any of the Borrower's Subsidiaries and cancelled, the Loan shall be deemed to have been prepaid by the Borrower in an amount equal to the aggregate principal amount of the Notes delivered to the Lender (as issuer of such Notes) for surrender and cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

5.6 Payment of other amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 5.2 (*Prepayment in the Event of Taxes or increased costs*), Clause 5.3 (*Prepayment in the Event of Illegality*) or Clause 5.4 (*Prepayment upon a Put Event*), the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement with respect to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.5 (*Reduction of Loan upon cancellation of corresponding Notes*), then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the Loan is so reduced and the Borrower or the relevant Subsidiary of the Borrower, as the case may be, shall not be entitled to any interest in respect of the cancelled Notes.

The Borrower shall indemnify the Lender on demand against any costs and expenses incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 5 (*Repayment and prepayment*).

5.7 Provisions exclusive

The Borrower shall not voluntarily prepay or repay all or any part of the amount of the Loan except at the times and in the manner expressly provided for in the terms of this Agreement. The Borrower shall not be permitted to re borrow any amounts prepaid or repaid to the Lender under this Agreement.

5.8 Interest refund

If, pursuant to Clauses 5.2 (*Prepayment in the Event of Taxes or increased costs*), 5.3 (*Prepayment in the Event of Illegality*), 5.6 (*Payment of other amounts*) or 11.3 (*Default remedies*), the Loan is declared due and payable and the sum paid by the Borrower in repayment of such Loan is greater than the amount required by the Lender to discharge in full its obligations under the Notes, the Lender shall return to the Borrower, or to its order, an amount, by way of a refund of interest payable on such Loan, equal to such excess sum.

6. Payments

6.1 Making of payments

All payments of principal and interest to be made by the Borrower under this Agreement, and any payments made in connection with Clause 5 (*Repayment and prepayment*) (except for Clause 5.4 (*Prepayment upon a Put Event*)), shall be made unconditionally by credit transfer to the Lender's Account not later than 10.00 a.m. (London time) on each Interest Payment Date, the Repayment Date or the relevant prepayment date (as the case may be) in Same Day Funds.

The Borrower shall, in the case of any payments of principal and interest being made by the Borrower under this Agreement and any payments made in connection with Clause 5 (*Repayment and prepayment*), on the relevant due date, procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by authenticated SWIFT the irrevocable payment instructions relating to such payment. The Lender agrees with the Borrower that the Lender will not deposit any other monies into the Account and that no withdrawals shall be made from such account other than for payments to be made in accordance with the Conditions and this Agreement.

6.2 No set-off, counterclaim or withholding; gross-up

All payments made by the Borrower under this Agreement shall be made in full (except to the extent required by law) without set off or counterclaim and free and clear of and without deduction or withholding for or on account of, any present or future Taxes imposed, collected, withheld, assessed or levied on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein having the power to tax (each a **Taxing Authority**) within Russia or Ireland. If the Lender or the Borrower becomes subject at any time to any taxing jurisdiction other than or in addition to Russia or Ireland, as the case may be, references to jurisdiction in this Clause 6.2 (*No set-off, counterclaim or withholding; gross-up*) shall be construed as references to Russia and/or Ireland and/or such other jurisdiction and in addition, upon enforcement of the Security under the Finance Documents over certain rights, benefits and/or obligations under this Agreement, references in this Clause 6.2 (*No set-off, counterclaim or withholding; gross-up*) to Ireland shall be construed to include the jurisdiction which the Trustee or, as the case may be, another entity entitled to exercise the rights of the Lender under this Agreement is a resident of and acting through for tax purposes.

If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall, on the date

such payment is made, pay such additional amounts as may be necessary to ensure that the Lender receives and retains (free from any liability in respect of such withholding, deduction or increased payment) a net amount in U.S. dollars equal to the full amount which it would have received and retained had payment not been made subject to such Taxes, shall promptly account to the relevant Taxing Authority (within the time specified by legislation or assessment) for the relevant amount of such Taxes so withheld or deducted, together with a sum (if any), calculated up to the date of such payment, sufficient to ensure that the Lender is able to discharge in full its obligations under this Agreement due on such date, ignoring any limitation of the liability of the Lender to pay only sums actually received and retained (net of tax) but treating all sums potentially payable by the Lender as due, within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant Taxing Authority.

If the Lender is or will be subject to any liability or required to make any payment for or on account of Taxes in relation to a sum received or receivable (or any sum deemed for the purposes of Taxes to be received or receivable) under or in respect of the Notes, the Borrower shall on demand pay to the Lender an amount equal to the loss, liability or cost which the Lender, or as the case may be, Trustee has or will have (directly or indirectly) suffered for or on account of Tax.

6.3 Alternative payment arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event, for the Borrower to make any payments under this Agreement in the manner specified in Clause 6.1 (*Making of payments*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made; *provided* that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

6.4 Withholding on the Notes

Without prejudice to Clause 6.4 (*Withholding on the Notes*), if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it is obliged (or would be but for the limited recourse nature of the Notes) to make any withholding or deduction for or on account of any Taxes from any payment that is due or would otherwise be due but for the imposition of such withholding or deduction for or on account of such taxes, or in circumstances where the Lender is required to pay additional amounts pursuant to Condition 8 (*Taxation*), the Borrower agrees to pay to the Lender, not later than 10.00 a.m. (London time) on the date on which payment is due to the Noteholders in Same Day Funds to the Lender, an additional amount equal to such additional amounts which the Lender must pay pursuant to Condition 8 (*Taxation*) or pursuant to this Provision; *provided, however*, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid in respect of the Lender's obligations under Condition 8 (*Taxation*) and to the extent that the Noteholders or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of the Notes, repay such additional amounts to the Borrower as are recovered (it being understood that none of the Lender, the Trustee, the Principal Paying Agent and Transfer Agent nor any other Paying Agent (each as defined in the Agency Agreement) shall have any obligation to determine whether any Noteholder is entitled to any such additional amount).

6.5 Tax Indemnity

Without prejudice to, and without duplication of the provisions of Clauses 6.2 (*No set-off, counterclaim or withholding; gross-up*) or 6.4 (*Withholding on the Notes*), if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account

of any Noteholder) on account of any Tax (other than any Tax on income or capital gains payable by the Lender) in respect of the Loan or the Notes imposed by any taxing authority of Ireland, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) made by the Lender, indemnify the Lender against any such payment or liability, or any claim, demand, action, damages or loss in respect thereof, together with any interest, penalties, costs and expenses (including without limitation, legal fees and any applicable value added tax) payable or incurred in connection therewith.

Any payments required to be made by the Borrower under this Clause 6.5 (*Tax Indemnity*) are collectively referred to as ***Tax Indemnity Amounts***. For the avoidance of doubt, the provisions of this Clause 6.5 (*Tax Indemnity*) shall not apply to any withholding or deductions of Taxes with respect to the Loan or Notes in respect of which any additional amount is payable under Clauses 6.2 (*No set-off, counterclaim or withholding; gross-up*) and 6.4 (*Withholding on the Notes*).

If the Lender intends to make a claim for any Tax Indemnity Amounts, it shall promptly notify the Borrower thereof.

6.6 Reimbursement

If an additional amount is paid under Clause 6.2 (*No set-off, counterclaim or withholding; gross-up*) or a Tax Indemnity Amount is paid under Clause 6.5 (*Tax Indemnity*) by the Borrower and the Lender, in its absolute discretion, determines that it has received and retained (net of tax) or been granted a credit against, a relief from, remission for, or a repayment of any Taxes or other reimbursements relating to a deduction or withholding, then if and to the extent that the Lender determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such increased payment, or, as the case may be, in respect of an additional payment with reference to the loss, liability or cost giving rise to the additional payment, the Lender shall, to the extent that it determines in its absolute discretion that it can do so without prejudice to its right to the amount of such credit, relief, remission or repayment, and without worsening the position it would have been in had such additional amount or Tax Indemnity Amount not been required to be repaid, repay to the Borrower an amount equal to such amount as is attributable to such deduction or withholding or, as the case may be, such loss, liability or cost; *provided, however*, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender. Subject to Clauses 6.7 (*Mitigation*) and 6.8 (*Tax treaty relief*) the Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and nothing shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose any confidential information or any information relating to its tax affairs, any computations in respect thereof, or its business or any part of its business, *provided* that the Lender shall notify the Borrower of any tax credit or allowance or other reimbursement it receives in respect of any Tax Indemnity Amount with respect to which the Borrower has made a payment pursuant to Clause 6.5 (*Tax indemnity*).

If the Borrower makes a withholding or deduction for or on account of Taxes from a payment under or in respect of this Agreement, and if an additional amount is paid under Clause 6.2 (*No set-off, counterclaim or withholding; gross-up*) or a Tax Indemnity Amount is paid under Clause 6.5 (*Tax Indemnity*) by the Borrower, the Borrower may apply on behalf of the Lender to the relevant Russian Taxing Authority for a payment to be made by such authorities to the Lender with respect to such Tax. If, whether following a claim made on its behalf by the Borrower or otherwise, the Lender receives such a payment (***Russian Tax Payment***) from the Russian

Taxing Authority with respect to such Taxes, it will as soon as reasonably possible notify the Borrower that it has received that payment (and the amount of such payment); whereupon, *provided* that the Borrower has notified the Lender in writing of the details of a bank account of the Borrower specified for that purpose by the Borrower to which a payment or transfer should be made, and that the Lender is able to make a payment or transfer under applicable laws and regulations and without worsening the position it would have been in had such additional amount or Tax Indemnity Amount not been required to be paid, the Lender will pay or transfer an amount equal to the Russian Tax Payment to the bank account of the Borrower specified for that purpose by the Borrower.

6.7 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 6.2 (*No set-off, counterclaim or withholding; gross-up*) or 6.4 (*Withholding on the Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that the parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances, including in the case of the Lender (without limitation) by transfer of its rights or obligations under this Agreement (but only in accordance with the terms and conditions of the other Finance Documents). The Borrower agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.7 (*Mitigation*).

6.8 Tax treaty relief

The Lender, at the cost of the Borrower, shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and Ireland, including its obligations under Clause 6.9 (*Delivery of forms*).

6.9 Delivery of forms

The Lender shall, at the expense of the Borrower, no later than 10 Business Days before the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year), use its best endeavours to deliver to the Borrower a certificate issued by the Revenue Commissioners in Ireland (or by the competent Agency in such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming the status of the Lender as a resident of Ireland for tax purposes for the appropriate year (or such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) and (to the extent it is able to do so under applicable law including Russian laws) from time to time, deliver to the Borrower such duly completed application form and, if required, any other documents, and such other information as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian tax has not been obtained. The application form and, if required, other documents issued by the Lender referred to in this Clause 6.9 (*Delivery of forms*) shall be duly signed by the Lender and stamped or otherwise approved by the Revenue Commissioners in Ireland and the power of attorney shall be duly signed and apostilled or otherwise legalised.

If a relief from deduction or withholding of Russian tax or a tax refund under this Clause 6.9 (*Delivery of forms*) has not been obtained and further to an application of the Borrower to the relevant Russian tax authorities the latter requests the Lender's U.S. dollar bank account details, the Lender shall at the request of the Borrower (a) use reasonable efforts to procure that such U.S. dollar bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such U.S. dollar bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such U.S. dollar bank account and shall use its reasonable efforts to assist the Lender with all required information in order to obtain the certificate mentioned above.

The Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the Revenue Commissioners in Ireland (or by the competent Agency in such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes), but shall promptly notify the Borrower about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate.

6.10 Lender notification

The Lender agrees promptly, upon becoming aware thereof, to notify the Borrower if it ceases to be resident in Ireland or a Qualifying Jurisdiction.

7. Conditions precedent

7.1 Documents to be delivered

The obligation of the Lender to make the Advance shall be subject to the receipt by the Lender on or prior to the Closing Date of a signed copy of each of the following documents in the Agreed Form:

- (a) the Fee Side Letters;
- (b) evidence that the persons mentioned in Clause 13.5 (*Service of process (Borrower)*) have agreed to receive process in the manner specified herein; and
- (c) evidence that the persons mentioned in Clause 13.6 (*Service of process (Lender)*) have agreed to receive process in the manner specified herein.

7.2 Further Conditions

The obligation of the Lender to make the Advance (less any deduction (if any) in accordance with Clause 3.2 (*Payment of Facility Fee and Other costs*)) shall be subject to the further conditions precedent that, as of the Closing Date:

- (a) the representations and warranties made and given by the Borrower in Clause 9.1 (*Borrower's representation and warranties*) are true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing;
- (b) no event shall have occurred and be continuing that constitutes a Potential Event of Default or an Event of Default;
- (c) the Borrower shall not be in breach of any of the terms, conditions and provisions of this Agreement;
- (d) the Subscription Agreement, the Trust Deed and the Agency Agreement shall have been executed and delivered; and

- (e) the Lender shall have received in full the proceeds of the issue of the Notes pursuant to the Subscription Agreement and the fees and expenses pursuant to Clauses 2.3 (*Facility Fee and Other costs*) and 3.4 (*Ongoing fees and expenses*).

8. Change in law or banking practices; increase in cost

8.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any Person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, Agency or any official of any such authority, which:

- (a) subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income, capital gains or any Taxes referred to in Clauses 6.2 (*No set-off, counterclaim or withholding; gross-up*) or 6.4 (*Withholding on the Notes*)); or
- (b) increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income, capital gains or as a result of any Taxes referred to in Clauses 6.2 (*No set-off, counterclaim or withholding; gross-up*) or 6.4 (*Withholding on the Notes*)); or
- (c) imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by an office of the Lender; *provided, however*, that the foregoing shall not include any increase in the rate of tax payable on the overall net income of the Lender as a result of any change in the manner in which the Lender is required to allocate resources to this Agreement; or
- (d) imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

- (i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or
- (ii) the amount of principal, interest or other amount payable to or received by the Lender under this Agreement is reduced; or
- (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower under this Agreement or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then subject to the following, and in each such case:

- (A) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two authorised officials of the Lender describing in reasonable detail the introduction, change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such certificate; and
- (B) the Borrower, in the case of paragraphs (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of paragraph (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; *provided, however*, that in the case of sub Clause 8.1(c) above (relating to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement), the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement and provided that the Lender shall not be entitled to such additional amount where such increased cost arises as a result of the negligence or wilful default of the Lender and further provides, however, that this Clause 8.1 (*Compensation*) will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 6.2 (*No set-off, counterclaim or withholding; gross-up*) or 6.4 (*Withholding on the Notes*) or 6.5 (*Tax Indemnity*).

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1 (*Compensation*), the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause shall obligate the Lender to incur any costs or expenses in taking any action under this Agreement which, in the reasonable opinion of the Lender, is prejudicial to its interests and unless the Borrower agrees to reimburse the Lender such costs or expenses.

8.3 Lender tax event

If, as a result of a change in the law, practice or interpretation of the law, the Lender is unable to obtain relief in computing its Irish tax liability for some or all of the interest payable on any Notes (having duly and timely claimed such relief and notwithstanding receipt of confirmation from the relevant tax authorities that such relief is available), the Borrower agrees to pay such additional amount to the Lender that the Lender reasonably determines will leave it in the same after tax position as if it were able to obtain tax relief for all of the interest payable on such Notes. The Borrower's obligation to pay such additional amounts shall survive the termination of this Agreement.

9. Representations and warranties

9.1 Borrower's representations and warranties

The Borrower makes the representations and warranties to the Lender set out in this Clause 9.1 (*The Borrower's representations and warranties*) with the intent that such shall form the basis of this Agreement and shall remain in full force and effect, at the date hereof and shall be deemed to be repeated by the Borrower on the Closing Date and acknowledges that the Lender has entered into this Agreement in reliance on the following representations and warranties:

- (a) it and each of its Material Subsidiaries is (i) duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation, is not in liquidation or receivership, examinership, has not been made subject to the bankruptcy prevention measures or restructuring procedures or other analogous proceedings, and no grounds exist for the institution of any such measures with respect to it, (ii) has the corporate power and legal right to own its property, to conduct its business as currently conducted and, in the case of the Borrower only, to enter into and to perform its obligations under this Agreement and to borrow the Advance, and (iii) has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;
- (b) it is in compliance in all respects with the applicable mandatory capital ratios of the CBR and is not in the process of a bailout, nationalisation, re-capitalisation or analogous proceedings introduced by the CBR or any other Governmental Entity with the respective powers or the Russian Banking Sector Consolidation Fund, in full or in part, it has not applied to the CBR for any emergency funding including by way of any equity linked scheme and no such decision has been made or being considered by the Borrower;
- (c) this Agreement has been or will be duly executed by it and constitutes legal, valid and binding obligations of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and as to enforceability, (i) to general principles of equity, (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments, and (iii) to the fact that certain gross up and indemnity provisions may not be enforceable under Russian law;
- (d) the execution, delivery and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of or default under:
 - (i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Russian Federation;
 - (ii) the constitutive documents, rules and regulations of the Borrower or any of its Material Subsidiaries or the terms of the banking licence granted to the Borrower by the CBR; or
 - (iii) any agreement or other undertaking or instrument to which the Borrower or any of its Material Subsidiaries is a party or which is binding upon the Borrower or any of its Material Subsidiaries or any of their respective assets, nor result in the creation or imposition of any Liens on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument;

- (e) all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation (including, without limitation, the CBR, where applicable), if any, required by the Borrower in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement (subject to a Russian legal requirement to provide to a Russian court a duly certified translation thereof into Russian) have been obtained or effected and are and shall remain in full force and effect, other than in each case, any such consent, licence, notification, authorisation, approval or filing required in relation to exchange control regulations which may only be obtained after the date of this Agreement;
- (f) no event has occurred and is continuing that constitutes an Event of Default or a Potential Event of Default or a default under any agreement or instrument evidencing any Indebtedness of the Borrower, and no such event will occur upon the making of the Advance;
- (g) there are no judicial, arbitral or administrative actions, proceedings or claims (including, without limitation, with respect to Taxes) current or, to the knowledge of the Borrower, threatened or pending, against the Borrower or any of its Material Subsidiaries, the adverse determination of which could singly or in the aggregate:
 - (i) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations under this Agreement; or
 - (ii) have a Material Adverse Effect;
- (h) except for Liens of the types referred to in the definition of Permitted Liens in Clause 1.1 (*Definitions*), each of the Borrower and each of its Material Subsidiaries has good title to its property necessary for the conduct of its business, duly registered, where applicable, in its name and free and clear from all Liens and adverse third party claims that are likely to have a Material Adverse Effect and the Borrower's obligations under this Agreement rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness;
- (i) the reviewed consolidated financial statements of the Group as at and for the nine months ended 30 September 2019 were prepared in accordance with IAS34 '*Interim Financial Reporting*' and the audited consolidated financial statements for the Group as at and for the years ended 31 December 2018 and 2017 were prepared in accordance with IFRS and:
 - (i) unless not required by IFRS, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and
 - (ii) present fairly, in all material respects, the assets and liabilities of the Group, the financial condition and the results of operations of the Group as at the dates and in respect of the periods for which they were prepared; and
 - (iii) since the date of the latest reviewed IFRS consolidated financial statements of the Group, there has been no significant change in the financial or trading position of the Group and, since the date of the latest audited IFRS consolidated financial statements of the Group, there has been no material adverse change in the condition (financial or otherwise), results of business, operations or immediate prospects of the Group or in the Borrower's ability to perform its obligations under this Agreement;
- (j) under the laws of the Russian Federation in force at the date of this Agreement, the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp

duty or similar levy, imposed by or within the Russian Federation or any constituent part or political subdivision or Taxing Authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court);

- (k) neither the Borrower nor any Material Subsidiary nor their respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement;
- (l) the Borrower and each Material Subsidiary are in compliance in all material respects with all applicable provisions of applicable law;
- (m) there are no labour strikes, disturbances, lockouts, slowdowns, stoppages of employees or other employment disputes, of or against the Borrower or any of its Material Subsidiaries which exist, or to the Borrower's knowledge, threatened, imminent or pending, except for those which would not have a Material Adverse Effect;
- (n) save as disclosed in the section "*Enforcement of Foreign Judgments*" on page viii of the Prospectus, in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in the Russian Federation;
- (o) subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any Taxes is required to be made from any payment by the Borrower under this Agreement;
- (p) all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable the Borrower or any of its Material Subsidiaries to own its assets and carry on its business are in full force and effect and the Borrower and its Material Subsidiaries are conducting such business in accordance with such licences, consents, examinations, clearances, filings, registrations and authorisations in all material respects;
- (q) it is subject, without reservation, to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes;
- (r) neither the Borrower nor any of its Material Subsidiaries is materially overdue in the filing of any tax returns, reports and other information required to be filed by it with any appropriate Taxing Authority, and each such tax return, report or other information was, when filed, accurate and complete in all material respects; and each of the Borrower and its Material Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it (other than those it is contesting in good faith) and to the best of the knowledge of the Borrower, no Tax deficiency is currently asserted against the Borrower or any of its Material Subsidiaries and no judicial, arbitral or administrative actions, proceedings or claims with respect to Taxes are current or, to the knowledge of the Borrower, threatened or pending against the Borrower or any of its Material Subsidiaries, the adverse determination of which would singly or in the aggregate:
 - (i) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations under this Agreement; or
 - (ii) have a Material Adverse Effect;

- (s) neither the Borrower, nor any of its Material Subsidiaries, has taken any corporate action nor, to the best of the Borrower's knowledge, have any other steps been taken or legal proceedings been started or threatened in writing (including no petition has been filed or a resolution passed) against the Borrower or any of its Material Subsidiaries for its liquidation, bankruptcy, winding up, dissolution, temporary and/or external administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues;
- (t) under current laws and regulations of Russia and Ireland and any respective political subdivisions thereof, and based upon the representations of the Lender set forth in Clause 9.2 (*Lender's representations and warranties*) and compliance by the Lender with Clause 6.9 (*Delivery of forms*), all payments of principal and/or interest, additional amounts, Tax Indemnity Amounts or any other amounts payable on or in respect of any Loan may be paid by the Borrower to the Lender in U.S. dollars and will not be subject to Taxes under laws and regulations of Russia, or any political subdivision or Taxing Authority thereof or therein, respectively, and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Ireland, Russia, or any political subdivision or Taxing Authority thereof or therein (provided, however, that the Borrower makes no representation as to any income or similar tax of Ireland (or any Qualifying Jurisdiction) which may be assessed thereon) and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein; and
- (u) save as disclosed in the section "*Capitalisation and Indebtedness*" and the section "*Operating and Financial Review*" of the Prospectus, there have not been any changes in share capital or any material increase in non-current liabilities or any material decreases in current assets or total assets or any decrease in shareholders' equity of the Group as compared with amounts shown in the consolidated balance sheet of the Borrower as at 30 September 2019, and since 30 September 2019, there have not been any material decreases in the Group's interest income, net interest income, non-interest income or net income as compared with the period from 30 September 2018 to the date which is one year prior to the date this representation is given.

9.2 Lender's representations and warranties

The Lender makes the representations and warranties to the Borrower set out in this Clause 9.2 (*Lender's representations and warranties*) with the intent that such shall form the basis of this Agreement and acknowledges that the Borrower has entered into this Agreement in reliance on these representations and warranties:

- (a) the Lender is duly incorporated under the laws of Ireland and has full power and capacity to execute this Agreement, to issue the Notes and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary corporate action to approve and authorise the same;
- (b) the execution of this Agreement, and the documents or deeds evidencing or relating to the issue of the Notes and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Ireland or the constitutive documents, rules and regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of Indebtedness in relation to which it is a surety;
- (c) this Agreement and the Notes have been duly authorised, executed and delivered by the Lender and constitute or will constitute legal, valid and binding obligations of the Lender, enforceable against the Lender in accordance with their respective terms

(subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity);

- (d) all Irish authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement, and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein, have been obtained and are in full force and effect (other than, in relation to the Security, the filing of a form C1 containing particulars of the Trust Deed together with the prescribed fee within 21 days of the granting of the Security);
- (e) the Lender is resident in Ireland, is subject to taxation in Ireland on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Ireland merely on income from sources in Ireland or connected with property located in Ireland and it will be able to receive certification to this effect from the Irish tax authorities;
- (f) the Lender does not have a permanent establishment in the Russian Federation save for any which may be created solely as a result of the Lender entering into this Agreement or any previous loan agreements with the Borrower and the transactions contemplated therein; and
- (g) the Lender does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Ireland and subject to taxation in Ireland.

10. Covenants by the Borrower

For so long as any amount remains outstanding under this Agreement:

10.1 Negative pledge

The Borrower shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or permit to exist any Liens, other than Permitted Liens, upon or on any of its or their undertaking property income assets or revenues, present or future, or any income or profits therefrom, to secure any Indebtedness, unless, at the same time or prior thereto, the Borrower's obligations under this Agreement are secured equally and rateably therewith or benefit from such other security or other arrangements, as the case may be.

10.2 Mergers

- (a) The Borrower shall not enter into any merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation, or any other reorganisation under Russian law but excluding, for the avoidance of doubt, a change in the shareholdings in the Borrower alone (each a **Reorganisation Event**); and
- (b) the Borrower shall ensure that, without the prior written consent of the Lender and the Trustee, no Material Subsidiary (A) enters into any Reorganisation Event, or (B) in the case of a Material Subsidiary incorporated in a jurisdiction other than the Russian Federation participates in any event analogous under the legislation of the relevant jurisdiction to a Reorganisation Event,

if (in the case of either (a) or (b) above) any such reorganisation or other type of corporate reconstruction would have a Material Adverse Effect. For the avoidance of doubt, a Reorganisation Event will not be considered to be capable of having a Material Adverse Effect for the purposes of this Clause 10.2 (*Mergers*) in the event that it does not lead to a downgrading of either the senior ratings given to the Borrower by any Rating Agency or, in the circumstances under (a) above where the Borrower is not the surviving entity following such Reorganisation

Event, the ratings granted to such surviving entity immediately following such reorganisation by Moody's and Fitch are no less than the ratings granted to the Borrower by each of Moody's and Fitch immediately prior to the Reorganisation Event *provided that* such surviving entity assumes all the Borrower's obligations under this Agreement.

10.3 Disposals

The Borrower shall not and shall ensure that none of its Material Subsidiaries shall sell, lease, transfer or otherwise dispose of by one or more transactions or series of transactions (whether related or not), the whole or any part (the book value of which is 10 per cent. or more of the book value of the whole) of its revenues or its assets (except for sales or other disposals of current assets in the ordinary course of its trading and payments of cash) unless, without prejudice to Clause 10.12 (*Ranking of claims*), the terms of such transaction(s) (a) are substantially no less favourable to the Borrower, or the relevant Material Subsidiary, as the case may be, than those which would be obtained in a comparable arm's length transaction and on commercially reasonable terms and (b) has/have been approved by a resolution of the appropriate decision making body of the Borrower resolving that the transaction complies with the requirements of this Clause 10.3 (*Disposals*) and such resolution has been adopted by a majority of the members of such appropriate decision making body disinterested with respect to such transaction or series of transactions or, if there are insufficient disinterested members, by an Independent Appraiser.

For the avoidance of doubt, this Clause 10.3 (*Disposals*) shall not apply to any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset backed financing or similar financing structure originated by the Borrower whereby all payment obligations are to be discharged solely from such assets or revenues, *provided that* the aggregate value of assets or revenues which are the subject of all such securitisations of receivables, asset backed financing, or similar financing structures, when added to the aggregate value of assets or revenues subject to any Lien described under (d) in the definition of ***Permitted Liens*** and permitted under the terms of this Agreement, does not at any time exceed 30 per cent. of loans and advances to customers, as determined at any such time by reference to the most recent quarterly balance sheet of the Borrower prepared in accordance with IFRS (or its equivalent in other currencies).

10.4 Transactions with Affiliates

The Borrower shall not, and shall ensure that none of its Material Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an ***Affiliate Transaction***) including, without limitation, intercompany loans unless:

- (a) the terms of such Affiliate Transaction are no less favourable to the Borrower or such Material Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction with a Person that is not an Affiliate of the Borrower or such Material Subsidiary; or
- (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof).

With respect to an Affiliate Transaction which is not an Exempted Transaction involving aggregate payments or value in excess of 2 per cent. of Total Tier 1 Capital as determined at any time by reference to the most recent financial statements of the Group prepared under IFRS, the Borrower shall deliver to the Lender and the Trustee, a written opinion from a member of the management board of the Borrower who has no interest in that Affiliate Transaction to the

effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower or the relevant Material Subsidiary, as the case may be.

For the purposes of this Clause 10.4 (*Transactions with Affiliates*), an ***Exempted Transaction*** means:

- (a) any transaction solely for the provision of credit scoring and/or information technology services; or
- (b) any transaction solely for the provision of hedging services.

This Clause 10.4 (*Transactions with Affiliates*) does not apply to (a) compensation or employee benefit arrangements with any officer or director of the Borrower or a Material Subsidiary, as the case may be, arising as a result of their employment contract, or (b) any Affiliate Transaction between the Borrower and any of its Material Subsidiaries or between any Material Subsidiaries of the Borrower.

10.5 Maintenance of authorisations

The Borrower shall, and shall procure that each of its Material Subsidiaries will:

- (a) take all necessary action to obtain, and do or cause to be done all things necessary, in the opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business;
- (b) take all necessary action to obtain, and do or cause to be done all things necessary to maintain in full force and effect all consents, licences, approvals and authorisations; and
- (c) make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the legality, validity, enforceability or admissibility in evidence in Russia thereof, *provided* that, in any case where the Borrower and/or the relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 10.5 (*Maintenance of authorisations*) within 60 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

10.6 Maintenance of property

The Borrower shall, and shall ensure that its Material Subsidiaries will, cause all property that is used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Borrower or such Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

10.7 Payment of Taxes and other claims

The Borrower shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all Taxes levied or imposed upon the income, profits or property of the Borrower and its Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Borrower or any of its Material Subsidiaries; *provided, however*, that none of the Borrower nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (x) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied or other appropriate provision has been made or

(y) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$25,000,000 (or its equivalent in other currencies).

10.8 Maintenance of insurance

So long as any amount remains outstanding under this Agreement, the Borrower shall and shall ensure that each of its Material Subsidiaries will, keep those of their material properties which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

10.9 Financial information

- (a) the Borrower hereby undertakes that so long as the Advance or any other sum owing under this Agreement remains outstanding and as soon as the same become available, but in any event within 150 days after the end of each of its financial years, deliver to the Lender and the Trustee copies of the Group's consolidated financial statements for such financial year, in each case audited by the Auditors and prepared in accordance with IFRS, consistently applied with the corresponding financial statements for the preceding period;
- (b) the Borrower hereby undertakes that so long as the Advance or any other sum owing under this Agreement remains outstanding and as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years, deliver to the Lender and the Trustee the Group's consolidated financial statements for such period, in each case reviewed by the Auditors and prepared in accordance with IFRS, consistently applied with the corresponding financial statements for the preceding period;
- (c) the Borrower hereby undertakes that, so long as the Advance or any other sum owing under this Agreement remains outstanding it shall deliver to the Lender and the Trustee, within a reasonable timeframe, such additional information regarding the financial position or the business of the Borrower or the Group and its Material Subsidiaries, taken as a whole, as the Lender may reasonably request, including providing certificates to the Trustee pursuant to the Trust Deed;
- (d) the Borrower shall ensure that each set of consolidated financial statements delivered by it pursuant to this Clause 10.9 (*Financial information*) is:
 - (i) prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with IFRS and consistently applied;
 - (ii) in the case of the statements provided pursuant to sub Clause 10.9(a) above, accompanied by an audit report thereon of the Auditors, and in the case of the statements provided pursuant to sub-Clause 10.9(b) above, accompanied by a review report thereon of the Auditors, in each case including opinions of such Auditors with accompanying notes and annexes and in a form satisfactory to the Lender; and
 - (iii) in the case of the statements provided pursuant to sub Clause 10.9(a) above and sub-Clause 10.9(b) (above), certified by an Authorised Signatory of the Borrower as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period; and

- (e) the Borrower shall from time to time, on the request of the Lender, furnish the Lender with such information about the business and consolidated financial condition of the Borrower or the Group as the Lender or the Trustee may reasonably require.

10.10 Financial covenants

- (a) The Borrower shall ensure full compliance with prudential supervision ratios and other requirements of the CBR; and
- (b) The Borrower shall ensure that each Material Subsidiary which carries on a banking business shall not permit its total capital ratio to fall below the minimum total capital ratio required by each relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in the jurisdictions in which it carries on its banking business, such calculation to be made by reference to, the latest annual non-consolidated audited financial statements of such Material Subsidiary or, if such Material Subsidiary does not prepare audited financial statements, the latest annual non-consolidated unaudited financial statements of such Material Subsidiary, *provided, however*, that, should any Material Subsidiary carry on a banking business in more than one jurisdiction, it shall not permit its total capital ratio to fall below the minimum ratio required by the relevant banking authorities responsible for setting and/or supervising capital adequacy requirements for financial institutions in each such jurisdiction.

10.11 Change of business

The Borrower shall procure that no material change is made to the general nature of the business of itself or any of its Material Subsidiaries from that carried on at the date of this Agreement.

10.12 Ranking of claims

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all the Borrower's other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

10.13 Restricted Payments

- (a) Subject to sub-Clause 10.13(b), the Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly: (i) declare or pay dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital, other than dividends or distributions payable to the Borrower or any of its Subsidiaries; (ii) voluntarily purchase, redeem or otherwise retire for value any Capital Stock of the Borrower or, prior to scheduled maturity or scheduled repayment, subordinated debt of the Borrower or any Subsidiary of the Borrower (except for the repayment of inter-company debt owed by any member of the Group to any other member of the Group from time to time) any such action being referred to herein as a ***Restricted Payment***.
- (b) The Borrower and any of its Subsidiaries may make a Restricted Payment if at the time of such payment no Event of Default has occurred and is continuing or would result therefrom and the aggregate amount of all Restricted Payments made during the fiscal year of such payment does not exceed 50 per cent. of the Group's consolidated net profit (calculated in accordance with IFRS) for the immediately preceding fiscal year.

10.14 Officers' certificates

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date) or promptly upon request by the Lender (and in any event within 15 Business

Days after such request), the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date) or promptly upon request by the Lender (and in any event within 15 Business Days after such request), the Borrower shall deliver to the Lender copied to the Trustee, written notice in the form of an Officers' Certificate listing its Material Subsidiaries.

10.15 Notes held by the Borrower or any of its Subsidiaries

At any time after the Borrower or any of its Subsidiaries or any other Person acting on behalf of the Borrower shall have purchased any Notes and retained such Notes for its own account, the Borrower shall notify the Trustee and the Lender to that effect and thereafter deliver to the Lender (copied to the Trustee) as soon as practicable after being so requested in writing by the Lender an Officers' Certificate of the Borrower setting out the total principal amount of Notes which, at the date of such certificate, are held by the Borrower (or any Subsidiary of the Borrower or any other Person acting on behalf of the Borrower) and have not been cancelled and are retained by it for its own account or for the account of any other company.

10.16 Maintenance of legal validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of the Russian Federation to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in the Russian Federation of this Agreement. The Borrower shall promptly pay all amounts payable in respect of fees, expenses and payments under indemnities as required by this Agreement (**Relevant Payments**) *provided that*, in the event that the Borrower is prevented, hindered or limited from paying such amounts by virtue of any laws and regulations of the Russian Federation or any requirement of the CBR or any other relevant authority, the Borrower undertakes to use its best endeavours to promptly take all actions necessary to comply with such laws and regulations or requirements of the CBR in order to enable it to make the Relevant Payments and shall, as soon as such compliance is achieved, make all Relevant Payments under this Agreement.

10.17 FATCA compliance and tax reporting

The Borrower hereby covenants with the Lender that it will provide the Lender with sufficient information, provide all reasonable assistance necessary, and pay any costs associated with, compliance by the Lender with (i) Section 1471(b) of the US Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Section 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof and (ii) and any other tax reporting or the automatic exchange of information regime which the Lender is subject to.

11. Events of Default

11.1 Events of Default

Each of Clause 11.1(a) (*Failure to pay*) to Clause 11.1(q) (*Analogous events*) describes the circumstances which constitute an Event of Default for the purposes of this Agreement. If one or more Events of Default shall occur and be continuing, the Lender shall be entitled to the remedies set forth in Clause 11.3 (*Default remedies*):

- (a) Failure to pay

The Borrower fails to pay any amount of principal or interest payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein provided such failure to pay continues for more than five Business Days;

(b) Breach of obligations

The Borrower fails to perform or observe or is otherwise in breach of any obligation, covenant or agreement contained herein to be performed or observed by it, provided such failure continues for more than 30 Business Days;

(c) Misrepresentation

Any representation or warranty by the Borrower or any statement deemed to be made by the Borrower in this Agreement or any other document, certificate or notice delivered by the Borrower in connection with this Agreement, the Subscription Agreement, the Trust Deed or the Agency Agreement or the issue of Notes proves to have been inaccurate, incomplete or misleading in any material respect in the opinion of the Lender and the Trustee at the time it was made or repeated or deemed to have been made or repeated;

(d) Cross default:

- (i) Any Indebtedness of the Borrower or any of its Subsidiaries is not paid when due (after the expiry of any applicable grace period); or
- (ii) any such Indebtedness becomes, following a default of the Borrower, due and payable prior to its stated maturity, otherwise than at the option of the Borrower or (as the case may be) the relevant Subsidiary or *provided that* no event of default or potential event of default, howsoever described, (has occurred) any Person entitled to such Indebtedness,

provided that (i) the amount of the relevant Indebtedness referred to in sub paragraph (a) and/or sub paragraph (b) above, individually or in the aggregate, exceeds U.S.\$50,000,000 (or its equivalent in any other currency or currencies); and (ii) provided that this sub-clause 11.1 (d) shall not apply to any write down measures with respect to the Borrower's subordinated debt, where such write down measures have been effected in accordance with the terms of the relevant subordinated debt and there has been no failure to pay any such subordinated debt when due.

(e) Bankruptcy and insolvency

The occurrence of any of the following events:

- (i) the Borrower or any of its Material Subsidiaries fails or is unable, or admits inability, to pay its debts generally as they become due;
- (ii) the Borrower or any of its Material Subsidiaries generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Indebtedness and/or makes a general assignment for the benefit of or a composition with its creditors generally and/or a moratorium is declared in respect of any Indebtedness of any of the Borrower or its Material Subsidiaries;
- (iii) the value of the assets of any of the Borrower or any of its Material Subsidiaries is less than its liabilities;
- (iv) the Borrower, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a

liquidation commission (*likvidatsionnaya komissiya*, as such term in its Russian transliteration is defined in the Federal Law of the Russian Federation No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October 2002 (as amended or restated from time to time) (the **Bankruptcy Law**)) or of a similar management body or an officer for the Borrower or any of its Material Subsidiaries, as the case may be, or any analogous procedure or event in any other relevant jurisdiction;

- (v) the presentation or filing of a petition in respect of any of the Borrower or its Material Subsidiaries in any court, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Borrower or its Material Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous;
- (vi) institution with regard to the Borrower or any of its Material Subsidiaries of the bankruptcy management (*konkursnoye proizvodstvo*) or any other procedure as prescribed by the Bankruptcy Law or any analogous procedure or event having a similar effect in any other relevant jurisdiction;
- (vii) any judicial liquidation dissolution, administration or winding up of the Borrower or any of its Material Subsidiaries; and/or
- (viii) revocation, suspension or other loss of the general banking licence of the Borrower or, if applicable, of any of its Material Subsidiaries, or any prohibition on the conduct by the Borrower or, if applicable, any of its Material Subsidiaries, of any banking operation envisaged in its general banking licence;

(f) Expropriation of property

Any expropriation, attachment, sequestration, execution, compulsory acquisition, nationalisation or distress is levied by any government authority against, or an encumbrancer takes possession of or sells, the whole or any material (in the opinion of the Lender and the Trustee) part of the property, undertaking, revenues or assets of the Borrower or any of its Material Subsidiaries, in each case without an appropriate and adequate compensation;

(g) Authorisations

Any governmental authorisation necessary for the performance of any obligation of the Borrower under this Agreement fails to be in full force and effect and prevents the Borrower from performing any material obligation under this Agreement;

(h) Governmental or court action

Any government, Agency or court takes any action that, in the opinion of the Lender and the Trustee, has a Material Adverse Effect on the Borrower or any of its Material Subsidiaries, including, without prejudice to the foregoing:

- (i) the management of any member of the Group is wholly or partially displaced or the authority of any member of the Group in the conduct of its business is wholly or partially curtailed; or
- (ii) all or a majority of the issued shares of any member of the Group or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or

- (iii) the revocation, suspension or other loss of the general banking licence of the Borrower or, if applicable, of any of its Material Subsidiaries, or any prohibition on the conduct by the Borrower or, if applicable, any of its Material Subsidiaries, of any banking operation envisaged in its general banking licence;
- (i) Liquidation

The shareholders of the Borrower or any Material Subsidiary shall have approved any plan of liquidation, administration or dissolution of the Borrower or any Material Subsidiary other than by way of a reorganisation permitted pursuant to Clause 10.2 (*Mergers*);
- (j) Unsatisfied judgements

The aggregate amount of unsatisfied final judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money (including, without limitation, payments in respect of Taxes) against the Borrower or any Subsidiary in the aggregate exceeds 2 per cent. of the total assets of the Group as calculated by reference to the most recent consolidated financial statements of the Group prepared under IFRS, or the equivalent thereof in any other currency or currencies and there is a period of 60 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 30 days after the notice specified in Clause 11.2 (*Notice of Default*);
- (k) Illegality

At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject, in the case of enforceability, as provided in sub Clause 9.1(b)) are not, or cease to be, legal, valid, binding and enforceable;
- (l) Change of business

The Borrower or any of its Material Subsidiaries ceases to carry on the principal business which it carried on at the date hereof, being the conduct of banking business as described in the Prospectus;
- (m) Repudiation

The Borrower repudiates this Agreement, the Subscription Agreement or the Agency Agreement or evidences an intention to repudiate this Agreement, the Subscription Agreement or the Agency Agreement;
- (n) Amendments to charter

The charter of the Borrower is amended in a way which would contravene or result in the contravention of any material provision of this Agreement;
- (o) Possession

A secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Borrower or any of its Material Subsidiaries having a Fair Market Value in excess of U.S.\$50,000,000 (or its equivalent in any other currency or currencies); and/or
- (p) Analogous events

Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub Clauses.

11.2 Notice of Default

The Borrower shall deliver to the Lender and the Trustee, immediately upon becoming aware of the same, written notice in the form of an Officers' Certificate of any event which is a Potential Event of Default or an Event of Default, its status and what action the Borrower or the relevant Material Subsidiary, as the case may be, is taking or proposes to take with respect thereto.

11.3 Default remedies

(a) Acceleration

If any Event of Default shall occur and be continuing, the Lender and/or the Trustee as applicable in accordance with the Trust Deed may, by notice in writing to the Borrower (with a copy to the Trustee):

- (i) declare the Facility and the obligations of the Lender hereunder to be immediately terminated, whereupon the Facility and such obligations shall terminate; and
- (ii) declare all amounts payable by the Borrower hereunder that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower; *provided, however*, that if any event of any kind referred to in sub Clause 11.1(e) (*Bankruptcy and Insolvency*) occurs, the Facility and obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

(b) Amounts due on demand

If, pursuant to sub Clause 11.3(a) (*Acceleration*), the Lender and/or the Trustee declares the outstanding principal amount of the Facility to be due and payable on demand of the Lender and/or the Trustee, then, and at any time thereafter, the Lender and/or the Trustee, may, by written notice to the Borrower, require repayment of the outstanding principal amount of the Facility on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

11.4 Rights not exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. Indemnity and Default Interest

12.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each Person controlling the Lender within the meaning of the United States securities laws (each an *indemnified party*) incurs any properly incurred out of pocket loss, liability, cost, claim, charge, expense (including without limitation, Taxes, any value added tax, legal fees, costs and expenses and any applicable stamp duties, capital duties and other similar duties payable, including any interest and penalties thereon or

in connection therewith), demand, action or damages (a **Loss**) as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Loan and/or corresponding Notes outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all properly incurred out of pocket costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred as a result of or arising out of or in relation to any failure to pay by the Borrower or delay by the Borrower in paying the same, unless such Loss was caused either by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in the Agreement or the Subscription Agreement. The Lender shall not have any duty or obligation, whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this Clause 12.1 (*Indemnification*).

12.2 Independent Obligation

Clause 12.1 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement, the Subscription Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 12.1 (*Indemnification*) and specifying in full detail the basis therefor and calculations thereof shall, in the absence of manifest error, be *prima facie* evidence of the amount of such loss, cost, charges, expenses and liabilities.

12.4 Currency Indemnity

To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in U.S. dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in U.S. dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in U.S. dollars that may be so purchased for any reason falls short of the amount originally due (the **Due Amount**), the Borrower hereby agrees to indemnify and hold harmless the Lender against any such deficiency in U.S. dollars. Any obligation of the Borrower not discharged by payment in U.S. dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as *provided herein*, shall continue in full force and effect. If the amount in U.S. dollars that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to the Borrower.

12.5 Survival

The obligations of the Borrower pursuant to Clauses 6.2 (*No set-off, counterclaim or withholding; gross-up*), 6.4 (*Withholding on the Notes*), 6.5 (*Tax Indemnity*), 6.6 (*Reimbursement*), 12.1 (*Indemnification*) and 12.4 (*Currency indemnity*) shall survive the execution and delivery of this Agreement and the drawdown and repayment of the Loan by the Borrower.

12.6 Default Interest Periods

If any sum due and payable by the Borrower under this Agreement is not paid on the due date therefore in accordance with the provisions of Clause 6 (*Payments*) or if any sum due and

payable by the Borrower under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an ***unpaid sum***) is discharged shall be divided into successive periods, each of which (other than the first, which shall commence on and shall include the day on which such unpaid sum is initially due and payable and unpaid) shall start on the last day of the preceding such period and the duration of each of which shall (except as otherwise provided in this Clause 12 (*Indemnity and default interest*)) be selected by the Lender (but shall in any event not be longer than one month).

12.7 Default interest

During each such period relating thereto as is mentioned in Clause 12 (*Indemnity and default interest*) an unpaid sum shall accrue interest for each day it remains unpaid at a rate per annum equal to the Rate of Interest.

12.8 Payment of Default Interest

Any interest which shall have accrued under Clause 12.7 (*Default interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

13. Governing Law and Arbitration

13.1 Governing Law

This Agreement, including any non-contractual obligations arising out of or in connection with this Agreement, shall be governed by, and construed in accordance with, the laws of England.

13.2 Arbitration

The parties irrevocably agree that any claim, dispute or difference of whatever nature arising under, out of or in connection with this Agreement (including a claim, dispute or difference regarding its existence, termination or validity, and further including any dispute relating to any non-contractual obligations arising out of or in connection with this Agreement) (a ***Dispute***), shall be referred to and finally settled by arbitration in accordance with the Rules of the LCIA (the ***Rules***) as at present in force and as modified by this clause, which Rules shall be deemed incorporated into this clause. The number of arbitrators shall be three, one of whom shall be nominated by each of the parties and the third of whom, who shall act as chairman, shall be nominated by the two party nominated arbitrators. If the two party-nominated arbitrators cannot agree on a third arbitrator to act as chairman, the LCIA court will appoint a chairman. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

13.3 No claim of immunity

To the extent that the Borrower may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or award or otherwise) or other legal process including in relation to the enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower or its assets or revenues, the Borrower agrees not to claim and irrevocably waive such immunity to the full extent permitted by the laws of such jurisdiction.

13.4 Proceedings

The Borrower consents generally in respect of any proceedings (including arbitral proceedings pursuant to Clause 13.2 (*Arbitration*)) to the giving of any relief (interim or otherwise) or the

issue of any process in connection with any such proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement which is made or given in such proceedings.

13.5 Service of process (Borrower)

The Borrower agrees that the service of process relating to any proceedings in England and Wales may be made by delivery to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall (i), immediately notify the Lender and (ii) promptly appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days of the notification referred to in (i) above, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 13.5 (*Service of Process (Borrower)*) shall affect the right of the Lender to serve process in any other manner permitted by law.

13.6 Service of Process (Lender)

The Lender agrees that the service of process relating to any proceedings in England and Wales may be made by delivery to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, the Lender shall (i) immediately notify the Borrower and (ii) promptly appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days of the notification referred to in (i) above, the Borrower shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause 13.6 (*Service of process (Lender)*) shall affect the right of the Borrower to serve process in any other manner permitted by law.

14. Notices

14.1 Addresses for notices

All notices, requests, demands or other communications to or upon the respective parties to this Agreement shall be given or made in the English language by letter or fax or email (subject to the subsequent dispatch of the original by post), by hand or by courier to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

Lender: if to the Lender, to it at:
CBOM Finance p.l.c.
2nd Floor, Palmerston House
Fenian Street
Dublin 2
Ireland

Fax: +353 1 905 8029
Attention: The Directors

Borrower: if to the Borrower, to it at:
CREDIT BANK OF MOSCOW (public joint-stock company)
5, Koroviy Val St
Moscow 119049
Russian Federation

Fax: +7 495 797 4222 (ext. 1590)
Email: financial.institutions@mkb.ru
Attention: International Business Division

Trustee: if to the Trustee, to it at:
Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Fax: +44 203 0604796
Email: emea.at.debt@citi.com
Attention: Agency & Trust

or to such other address or fax number as any party may hereafter specify in writing to the other.

14.2 Effectiveness

Every notice or other communication sent in accordance with this Clause 14 (*Notices*) shall be effective upon receipt by the addressee on a Business Day in the city of the recipient, *provided however*, that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding Business Day in the city of the addressee.

15. Assignment

15.1 Binding effect

This Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective successors and any permitted assignee or transferee of some or all of such party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the assignment pursuant to the grant of the Security referred to in Clause 15.3 (*Succession*) below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower pursuant to Clause 6.6 (*Reimbursement*) or Clause 8 (*Change in law or banking practices; increase in cost*).

15.2 No entitlement

The Borrower shall not be entitled to assign, dispose of, novate or transfer all or any part of its rights or obligations hereunder to any other party.

15.3 Succession

Subject to Clause 15 (*Substitution*) of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights (other than Reserved Rights (as defined in the Trust Deed)) and benefits or obligations under this Agreement except to the Trustee by granting the Security. In the event a successor Lender is appointed to act as lender, the Lender shall deliver to the successor Lender sufficient information to allow the successor Lender to perform its obligations under this Agreement and the successor Lender shall accede to this Agreement and at such time give the same representations, warranties and undertakings as set out herein.

16. General

16.1 Evidence of debt

The entries made in the Account shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Borrower's obligations recorded therein.

16.2 Stamp duties

- (a) the Borrower shall pay all stamp, registration and documentary taxes, duties or similar charges (if any) imposed on the Borrower by any Person in the United Kingdom, the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and all related documents and shall indemnify the Lender against any and all costs, penalties and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges upon presentation by the Lender to the Borrower of properly documented evidence of such costs and expenses.
- (b) the Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes, duties or similar charges (if any) imposed by any Person in the United Kingdom, the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and all related documents, the Borrower shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes, duties or similar charges and shall indemnify the Lender against any and all costs and expenses properly documented which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such taxes, duties or similar charges.

16.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

16.4 Prescription

Subject to the Lender having previously received from the Borrower the principal amount thereof or interest thereon, the Lender shall forthwith repay to the Borrower the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 11 (*Prescription*) of the Notes (as confirmed to the Lender by the Trustee).

16.5 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

16.6 Counterparts

This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or email (PDF) shall be effective as delivery of a manually executed counterpart of this Agreement. In relation to each counterpart, upon confirmation by or on behalf of the signatory that the signatory authorises the attachment of such counterpart signature

page to the final text of this Agreement such counterpart signature page shall take effect together with such final text as a complete authoritative counterpart.

16.7 Language

The language which governs the interpretation of this Agreement is the English language.

16.8 Amendments

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties.

16.9 Partial invalidity

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

17. Limited recourse and non-petition

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, actually received and retained (net of tax) from the Borrower by or for the account of the Lender pursuant to this Agreement (the ***Lender Assets***), subject always (A) to the Security Interests (as defined in the Trust Deed) and (B) to the fact that any claims of the Joint Lead Managers (as defined in the Subscription Agreement) under the Subscription Agreement shall rank in priority to any claims of the Borrower, and that any such claim by the Joint Lead Managers or the Borrower shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the Lender Assets, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower (nor any person acting on its behalf) shall be entitled at any time to institute against the Lender or join in any institution against the Lender of any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

The provisions of this Clause 17 (*Limited recourse and non-petition*) shall survive the termination of this Agreement.

Schedule 1
Form of Put Event Notice

[On the letterhead of CREDIT BANK OF MOSCOW (public joint-stock company)]

[Date]

To:

CBOM Finance p.l.c.

Citibank, N.A., London Branch as trustee

Citibank, N.A., London Branch as principal paying agent

Dear Sirs:

**Re: U.S.\$600,000,000 Loan Agreement dated 27 January 2020 (the *Loan Agreement*),
between CBOM Finance p.l.c. (the *Lender*) and CREDIT BANK OF MOSCOW (public
joint-stock company) (the *Borrower*)**

1. We refer to Clause 5.4 (*Prepayment upon a Put Event*) of the Loan Agreement.
2. Capitalised terms used, but not defined herein, have the meanings ascribed to them in the Loan Agreement.
3. We hereby notify you that a Put Event has occurred. The date upon which the Put Event occurred is [date].
4. The circumstances and relevant facts giving rise to the Put Event are as follows:
[provide details of Put Event].

Yours faithfully,

For and on behalf of)
CREDIT BANK OF MOSCOW)
(public joint-stock company))

Authorised Signatory

Authorised Signatory

TERMS AND CONDITIONS

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued).

The U.S.\$600,000,000 4.700 per cent. Loan Participation Notes due 2025 (the **Notes** which expression includes, unless the context requires otherwise, any further Notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith) of CBOM Finance p.l.c. (the **Issuer** or the **Lender**, as the case may be) which expressions shall include (unless the context requires otherwise) any entity substituted for the Issuer pursuant to Condition 10(C) (*Substitution*) are constituted by, are subject to, and have the benefit of, a trust deed dated 29 January 2020 (the **Trust Deed**, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) and made between the Issuer and Citibank, N.A., London Branch (the **Trustee**, which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan in an aggregate amount of U.S.\$600,000,000 (the **Loan**) to CREDIT BANK OF MOSCOW (public joint-stock company) (the **Bank**). The terms of the Loan are recorded in a loan agreement dated 27 January 2020 between the Issuer (in its capacity as lender thereunder) and the Bank (as amended and supplemented from time to time, the **Loan Agreement**).

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed). Noteholders must therefore rely solely and exclusively on the Bank's covenant to pay under the Loan Agreement, the benefit of the Security Interests (as defined below) and the credit and financial standing of the Bank. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer (as lender) under the Trust Deed has charged by way of first fixed charge in favour of the Trustee for itself and on behalf of the Noteholders certain of its rights and interests as lender under the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the **Charge**) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the **Assigned Rights** and, together with the Charge, the **Security Interests**) in each case excluding the Reserved Rights (as defined in the Trust Deed).

In certain circumstances, the Trustee may (subject to it being indemnified and/or secured (including by way of prefunding) to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Bank) pursuant to a paying agency agreement (the **Agency Agreement**) dated 29 January 2020 and made between the Bank, the Issuer, Citigroup Global Markets Europe AG, as the registrar (the **Registrar**, which expressions shall include any successors), Citibank, N.A., London Branch as Trustee, Citibank, N.A., London Branch as the principal paying agent (the **Principal Paying Agent**, which expressions shall include any successors), and the transfer agents and paying agents named therein (the **Transfer Agents** and **Paying Agents** respectively together, the **Agents**, which expressions shall include any successors) and the Trustee.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection by Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer (being, at the date hereof 2nd Floor, Palmerston House, Fenian Street, Dublin 2, Ireland) the principal office of the Trustee (being, at the date hereof, Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB, United Kingdom) and at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent.

Certain provisions of these terms and conditions (the **Conditions**) are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Loan Agreement and the Agency Agreement which are applicable to them.

1. STATUS AND LIMITED RECOURSE

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the secured, limited recourse obligation of the Issuer to apply an amount equal to the net proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax and any other deductions whatsoever) by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Trust Deed). The right of the Issuer to receive such sums is being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights and subject to Condition 8 (*Taxation*), will be made *pro rata* among all Noteholders, on the payment dates on which such payments are due in respect of the Notes, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, the Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Bank.

Noteholders are deemed to have notice of, and to have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly *provided that*, and Noteholders are deemed to have accepted that:

- (a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph (f) below, liability or obligation in respect of the performance and observance by the Bank of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest or any additional amounts (if any) due or to become due from the Bank under the Loan Agreement;
- (b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Bank;
- (c) neither the Issuer nor the Trustee shall at any time be liable for any representation, misrepresentation, breach of warranty or warranty or any act, default or omission of the Bank under or in respect of the Loan Agreement;
- (d) the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, the Paying Agent, the

Registrar, any Transfer Agent or any other Agents of their respective obligations under the Agency Agreement;

- (e) the financial servicing and performance of the terms of the Notes depends solely and exclusively upon performance by the Bank of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Bank has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Bank;
- (f) the Issuer and (following the creation of the Security Interests) the Trustee shall be entitled to rely on certificates of the Bank (and, where applicable, certification by third parties) as a means of monitoring whether the Bank is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Bank's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security; and
- (g) the Issuer shall at no time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until it has received from the Bank the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

Under the Trust Deed, the Notes constitute direct, general, limited recourse and secured obligations of the Issuer. The obligations of the Issuer in respect of the Notes will at all times rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Bank to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes, except to the extent that there is a subsequent failure to make payment to the Noteholders.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or have any direct recourse to the Bank except to enforce its rights against the Issuer through action by the Trustee pursuant to the Charge and the assignment of the Assigned Rights granted to the Trustee in the Trust Deed.

The Trustee may (subject to the non-petition covenant contained in this Condition 1) at any time, at its discretion and without notice, institute such proceedings or take such other action as it thinks fit to enforce its rights under the Trust Deed and these Conditions in respect of the Notes (including, without limitation, after the occurrence of a Relevant Event, exercising its rights under or enforcing, the Security Interests created in the Trust Deed), but in any such case it shall not be bound to do so unless it has been directed or requested to do so by the Noteholders as described herein and indemnified and/or secured (including by way of prefunding) to its satisfaction.

Notwithstanding any other provision hereof, the obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equal to each sum actually received and retained (net of tax)

by or for the account of the Issuer from the Bank in respect of principal, interest or, as the case may be, other amounts relating to the Loan (less any amounts in respect of the Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered and retained (net of tax) by or on behalf of the Issuer or the Trustee (following a Relevant Event or (if applicable) an Event of Default). Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

None of the Noteholders or other creditors (nor any other person acting on behalf of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in respect of a liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgement as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes.

2. FORM AND DENOMINATION

The Notes are issued in registered form in the denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each a *Specified Denomination*).

The Notes may be sold to (i) qualified institutional buyers (within the meaning of Rule 144A under the U.S. Securities Act of 1933, as amended (the *Securities Act*)) (*QIBs*) who are also qualified purchasers (within the meaning of Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended) (*QPs*) in the United States in reliance on Rule 144A (the *Restricted Notes*) or (ii) investors outside the United States in reliance on Regulation S under the Securities Act (the *Unrestricted Notes*).

3. REGISTER, TITLE AND TRANSFERS

(A) Register

The Issuer will cause a register (the *Register*) to be kept at the Specified Office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the *holder* or *Noteholder* of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A Definitive Note Certificate will be issued to each Noteholder in respect of its registered holding. Each Definitive Note Certificate will be serially numbered with an identifying number which will be recorded in the Register.

In these Conditions, *Definitive Note Certificate* means Notes, substantially in the forms set out in Schedule 1 (*Forms of Definitive Notes*) to the Trust Deed and includes any replacement definitive note certificate issued pursuant to Condition 13 (*Replacement of Definitive Note Certificates*) and any other definitive note certificates representing Further Notes or any of them.

(B) Title

The holder of any Note as recorded in the Register, will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing on the Definitive Note Certificate by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous loss or theft of such Definitive Note Certificate) and no Person shall be liable for so treating such holder. No person shall have any rights to enforce any term or condition of the Notes or Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

In these Conditions, **Person** means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality,

(C) Transfers

Subject to paragraphs (F) and (G) below, a Note may be transferred, subject to the transfer being duly recorded in the Register and upon surrender of the relevant Definitive Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer *provided*, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred each amounts to a Specified Denomination or a multiple thereof. Where not all the Notes represented by the surrendered Definitive Note Certificate are the subject of the transfer, a new Definitive Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(D) Registration and delivery of Definitive Note Certificates

Within five business days of the surrender of a Definitive Note Certificate in accordance with paragraph (C) above, the Registrar will register the transfer and deliver a new Definitive Note Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, **business day** means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the Transfer Agent has its Specified Office.

(E) No charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) Closed periods

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) Regulations concerning transfers and registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (each as defined in the Trust Deed), agree to any amendments to or any modification of, or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

So long as any Note remains outstanding, the Issuer shall not, without the prior written consent of the Trustee, *inter alia*, incur any other indebtedness for borrowed moneys, other than the issue of Notes on a limited recourse basis for the sole purpose of making any loan to the Bank, engage in any other business (other than acquiring and holding the Security Interests in respect of the Notes, making the Loan to the Bank pursuant to the Loan Agreement or any future loans to the Bank or any other issue of notes as aforesaid (including derivative transactions on a limited recourse basis) and performing any act incidental to or necessary in connection with the foregoing including purchasing Notes in accordance with Condition 6 (E)), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions, the Trust Deed and the Loan Agreement), issue any shares, give any guarantee or assume any other liability, or, subject to the laws of Ireland, petition for any winding-up or bankruptcy.

5. INTEREST

On 29 January and 29 July of each year, commencing on 29 July 2020 and ending on 29 January 2025 (each an ***Interest Payment Date***), or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement (with respect to the corresponding interest payment thereunder) which interest under the Loan Agreement is equal to 4.700 per cent. per annum (the ***Rate of Interest***). Each period beginning on (and including) 29 January 2020 or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an ***Interest Period***.

Where interest is to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360 day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6. REDEMPTION AND PURCHASE

(A) Scheduled redemption

Unless previously prepaid or repaid pursuant to Clauses 5.2 (*Prepayment in the Event of Taxes or Increased Costs*), 5.3 (*Prepayment in the Event of Illegality*), Clause 5.4 (*Prepayment upon a Put Event*), Clause 5.5 (*Reduction of Loan Upon Cancellation of Corresponding Notes*) or Clause 11 (*Events of Default*) of the Loan Agreement, the Bank will be required to repay the Loan (in full and not in part) by 10.00 a.m. (London time) on 29 January 2025 (the ***Repayment Date***) and, subject to such repayment, as set forth in the Loan Agreement, all Notes then outstanding will, on the Repayment Date or as soon thereafter as such repayment of the Loan is actually received, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof.

(B) Early redemption at the option of the Bank or the Issuer

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement prior to the Repayment Date, as set forth in the Loan Agreement, all Notes then remaining outstanding will thereupon become due and redeemable at par together with interest accrued to the date

of redemption, and the Issuer will endeavour to give not less than 20 days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable).

Under the Loan Agreement:

- (i) the Bank may prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.2 (*Prepayment in the Event of Taxes or Increased Costs*) of the Loan Agreement; and
- (ii) the Issuer may require the Bank to prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.3 (*Prepayment in the Event of Illegality*) of the Loan Agreement.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights (as defined in the Trust Deed)) from the Bank following prepayment of the Loan, the Issuer shall pay an amount equal to such amounts on the business day (as defined in Condition 7 (*Payments*)) following receipt of such amounts, subject as provided in Condition 7 (*Payments*).

Prior to the publication of any notice of redemption referred to in this Condition 6(B), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 6(B). A copy of the Bank's notice of prepayment or details of the circumstances contemplated by Clause 5.2 (*Prepayment in the Event of Taxes or Increased Costs*) or Clause 5.3 (*Prepayment in the Event of Illegality*) of the Loan Agreement (as the case may be) and the date fixed for redemption shall be set out in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 6(B) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Trustee on behalf of the Noteholders as is referred to in this Condition 6(B), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(B), subject to Condition 7 (*Payments*).

(C) Redemption at the option of the Noteholders

If a Put Event (as defined below) occurs while any Note is outstanding, each Noteholder shall have the option (unless, prior to giving by such Noteholder of the Put Option Exercise Notice referred to below, the Notes are being redeemed under Condition 6(B) above or the Loan becomes due and payable pursuant to Clause 11 (*Events of Default*) of the Loan Agreement) to require the Issuer to redeem each Note held by the relevant Noteholder on the Put Settlement Date (as defined below) at its principal amount together with accrued interest (if any) to (but excluding) the Put Settlement Date to the extent that such payment is received by the Issuer under the Loan Agreement. Such option shall operate as set out below.

Upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a ***Put Event Notice***) to the Noteholders in accordance with Condition 14 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 6(C) (*Redemption at the option of the Noteholders*).

To exercise the right to require the redemption of a Note under this Condition 6(C) (*Redemption at the option of the Noteholders*), the Noteholder must deliver, on any Put Business Day falling within the period (the ***Put Period***) of 30 days after the Put Event Notice is given, to the Specified Office of any Paying Agent, the Note together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the Specified Office of any Paying Agent (a ***Put Option Exercise Notice***).

The Paying Agent to which such Note and Put Option Exercise Notice is delivered will issue to the Noteholder concerned a non-transferable receipt. *Provided that* any Note that is the subject of such Put

Option Exercise Notice has been delivered to the Principal Paying Agent or other Paying Agent prior to the expiry of the Put Period, the Issuer shall, subject to receipt of sufficient funds to do so from the Bank under the Loan Agreement and subject to Condition 7 (*Payments*), redeem each Note so delivered and the subject of a Put Option Exercise Notice on a date which is the fifteenth Put Business Day immediately following the last day of the Put Period (the ***Put Settlement Date***). A Put Option Exercise Notice, once given, shall be irrevocable except where the Notes become immediately due and repayable prior to the Put Settlement Date or if upon due presentation payment of the relevant redemption amount is improperly withheld or refused, in which event the relevant Paying Agent shall deliver the Notes the subject of any Put Option Exercise Notice back to the relevant Noteholders and the Put Option Exercise Notice will be deemed withdrawn.

In this Condition 6(C) (*Redemption at the option of the Noteholders*):

Change of Control means (i) Mr Roman Avdeev ceasing to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting interest or stock of LLC Concern Rossium while LLC Concern Rossium continues to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting stock of the Borrower or (ii) LLC Concern Rossium ceasing to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting stock of the Borrower notwithstanding that Mr Roman Avdeev continues to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting stock of LLC Concern Rossium or (iii) simultaneously Mr Roman Avdeev ceasing to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting interest or stock of LLC Concern Rossium and LLC Concern Rossium ceasing to own or control (directly or indirectly) 50 per cent. plus one share of the issued and outstanding voting stock of the Borrower;

Put Business Day means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in, New York City, London, Dublin and Moscow and in the place of presentation;

Put Event means a Change of Control, which results in a Rating Decline;

Rating Agency means Moody's Investors Service Limited, Fitch Ratings Limited or Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. or any of their affiliates or successors or any other rating agency substituted for any of them or added by the Borrower with the prior written approval of the Lender (together, the ***Rating Agencies***);

Rating Categories means (i) with respect to S&P, any of the following categories (any of which may or may not include a + or -): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Fitch, any of the following categories (any of which may or may not include a Rating Modifier): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (iii) with respect to Moody's, any of the following categories (any of which may or may not include a Rating Modifier): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (iv) the equivalent of any such categories of S&P, Moody's or Fitch used by another rating agency, if applicable;

Rating Decline means any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the later of the announcement or the occurrence of a Change of Control that the corporate credit rating of the Borrower or the credit rating of the Notes is decreased or downgraded by either:

- (a) one or more Rating Categories by two or more Rating Agencies; or
- (b) one or more Rating Modifiers within a Rating Category by each of the Rating Agencies then rating the Borrower or the Notes, as the case may be,

in each case as compared to the corporate credit rating of the Borrower or the credit rating of the Notes immediately prior to the earlier of the announcement or occurrence of a Change of Control and in each case as a result of such Change of Control, as specified by the relevant Rating Agency;

Rating Modifier means (i) with respect to S&P, any of the following modifiers: plus (“+”), flat (no symbol) and minus (“-”) (or equivalent successor modifiers); (ii) with respect to Fitch, any of the following modifiers: plus (“+”), flat (no symbol) and minus (“-”) (or equivalent successor modifiers); (iii) with respect to Moody’s, any of the following modifiers: “1”, “2” and “3” (or equivalent successor modifiers); and (iv) the equivalent of any such modifiers of S&P, Moody’s or Fitch used by another rating agency, if applicable.

(D) Compulsory sale

The Issuer may compel any holder of the Restricted Notes to sell its holding in such Notes, or may sell such holding on behalf of such holder, if such holder is not both a QIB and a QP.

(E) Purchase of Notes

The Loan Agreement provides that the Issuer (acting on behalf of the Bank) or the Bank or any of the Bank’s subsidiaries or any Person on behalf of the Borrower may at any time purchase or procure others to purchase for its or their account the Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (*provided that* such resale is in compliance with all applicable laws) or surrendered to the Registrar for cancellation at the option of the Issuer, the Bank or the relevant Bank’s subsidiary or otherwise, as the case may be in compliance with Condition 6(F) (*Cancellation of Notes*) below. The Loan Agreement further provides that the Borrower or any subsidiary of the Borrower or any Person (other than the Issuer) acting on behalf of the Borrower may, among other things, from time to time deliver to the Issuer any such purchased Notes with a request for the Issuer to present such Notes to the Registrar for cancellation, whereupon the Issuer shall, pursuant to the Agency Agreement, request the Registrar to cancel such Notes. Upon any such cancellation of the Notes by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation, together with accrued, but unpaid, interest (if any) thereon, and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

The Notes so purchased, while held by or on behalf of the Issuer, the Bank or any such subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or otherwise for the purposes of Condition 10(A) (*Meetings of Noteholders*) or for the purposes of passing any Extraordinary Resolution (as defined in the Trust Deed).

(F) Cancellation of Notes

All Notes which are surrendered to the Registrar for cancellation pursuant to Condition 6(E) (*Purchase of Notes*) will be cancelled and may not be reissued or resold.

7. PAYMENTS

(A) Principal

Payments of principal shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of the Registrar or of any Paying Agent.

(B) Interest

Payments of interest shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of the Registrar or of any Paying Agent.

(C) Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in FATCA or any law implementing an intergovernmental approach thereto, but in each case without prejudice to the provisions of Condition 8 (*Taxation*). In these Conditions, **FATCA** means sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and any intergovernmental agreement to implement the foregoing, any current or future regulations or agreements thereunder or official interpretations thereof.

(D) Payments on business days

If the due date for payments of any amount in respect of any Notes is not a business day, the holder of a Note will not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, **business day** means a day on which banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London, Dublin, New York, Moscow and the city where the Specified Office of the Principal Paying Agent is located.

(E) Record Date

Each payment of principal and/or interest due in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the fifteenth day before the due date for such payment (the **Record Date**). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 7(A) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 7(A) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder). Each payment in respect of the Notes pursuant to Conditions 7(A) (*Principal*) and 7(B) (*Interest*) will be mailed to the holder of the relevant Note at his address appearing in the Register.

(F) Accrued interest

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, in respect of the first Interest Payment Date only, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

(G) Payments by the bank

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, the Issuer will require the Bank to make all payments of principal, interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer. Pursuant to the Trust Deed, the Issuer has charged by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of itself and the Noteholders.

(H) Currency other than U.S. dollars

In respect of the Issuer's obligations under Conditions 5 (*Interest*), 6 (*Redemption and Purchase*) and 8 (*Taxation*), and subject to the following sentence, if the Issuer receives any amount under the Loan Agreement in a currency other than U.S. dollars, the Issuer's obligation under the relevant Condition shall be fully satisfied by paying such sum (after deducting any costs of exchange) as the Issuer receives upon conversion of such sum into U.S. dollars in accordance with customary banking practice in the spot market on the business day on which such sum is received by the Issuer. If the Issuer receives any payment from the Bank pursuant to Clause 12.4 (*Currency Indemnity*) of the Loan Agreement with

respect to amounts due under the Notes, the Issuer shall pay such sum to the Noteholders in accordance with this Condition 7 (*Payments*).

8. TAXATION

All payments of principal or interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Ireland, the Russian Federation or any political subdivision or any authority thereof or therein having power to tax (the ***Relevant Tax Jurisdiction***), unless such deduction or withholding is required by law.

In such event, the Issuer shall, subject as provided below, pay such additional payments as will result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive and retain (net of tax and any other deductions whatsoever) equivalent sums from the Bank under the Loan Agreement. To the extent that the Issuer does not receive and retain any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received and retained (net of tax and any other deductions whatsoever) by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, *provided that* no such additional amount will be payable:

- (i) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority of the Relevant Tax Jurisdiction; or (ii) is liable for such taxes, duties, assessments or governmental charges by reason of his having some connection with the Relevant Tax Jurisdiction other than the mere holding of such Notes or the receipt of payments in respect thereof;
- (ii) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;
- (iii) for any withholding or deduction required to be made from a payment pursuant to FATCA or an intergovernmental agreement between a non-U.S. jurisdiction and the United States with regard to implementation of FATCA;
- (iv) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment in Ireland; or
- (v) in respect of any combination of (i) through (v).

As used herein, ***Relevant Date*** means (i) the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Bank has not been received in New York by, or for the account of, the Issuer or the Principal Paying Agent pursuant to the Loan Agreement on or prior to such date, means the date on which, the full amount plus any accrued interest shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14 (*Notices*).

Any reference in these Conditions or in the Trust Deed to payments of principal and/or interest in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Loan Agreement or the Trust Deed.

If the Issuer or the Bank becomes subject at any time to any taxing jurisdiction other than Ireland or Russia, as the case may be, references in these Conditions to Ireland or Russia shall be construed as references to Ireland or Russia and/or such other jurisdiction.

9. ENFORCEMENT

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing *provided that* any judgment or amount obtained as a result of such action or exercise of rights must be entered or held or, as the case may be, registered in the name of the Trustee and shall be held or dealt with by or on behalf of the Trustee in accordance with the Trust Deed.

At any time after the occurrence of an Event of Default (as defined in the Loan Agreement), or a Relevant Event (as defined in the Trust Deed), the Trustee (subject to the Non-Petition Covenant in Condition 1) may, at its discretion, and shall, if requested to do so in writing by Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified (including by way of prefunding) to its satisfaction against all liabilities, proceedings, actions, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith, take the action permitted to be taken by the Issuer as lender under the Loan Agreement (in the case of an Event of Default), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon the repayment of the Loan or the receipt in full of all principal and interest accrued under the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

The Trustee may, in making any determination under these Conditions, the Trust Deed or the Loan Agreement, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Auditors (as defined in the Loan Agreement), or any auditor, pursuant to the Conditions or the Trust Deed, whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE LENDER

(A) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Loan Agreement, these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined in the Trust Deed) or a Written Resolution (as defined in the Trust Deed). Such a meeting may be convened on not less than 21 days' prior written notice (exclusive of the day on which the notice is given and of the day on which the relevant Meeting is to be held) by the Issuer or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured (including by way of prefunding) to its satisfaction, upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be at least two persons present holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, at least two persons present being or representing Noteholders whatever the outstanding principal amount of the Notes held or represented; *provided, however*, that Reserved Matters (as defined in the Trust

Deed) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which at least two persons present holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

None of the Issuer, the Bank, any subsidiary of the Bank, any holding company of the Bank and any subsidiary of any such holding company who is or are also Noteholders shall be allowed to vote at a meeting or be included in a quorum and such Notes shall not be deemed to be outstanding for such purposes.

An **Extraordinary Resolution** means a resolution passed at a Meeting duly convened and held in accordance with Schedule 4 to the Trust Deed by a majority of no less than three quarters of the votes cast.

In addition, a resolution in writing signed by or on behalf of Noteholders holding at least 75 per cent. in principal amount of the Notes for the time being outstanding (a **Written Resolution**) will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(B) Modification and waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, these Conditions, the Trust Deed or the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (other than in respect of a Reserved Matter) is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Notes, these Conditions or the Trust Deed or by the Bank of the terms of the Loan Agreement, or determine that any Event of Default or Potential Event of Default shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (other than in respect of a Reserved Matter) and *provided* always that the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution or Written Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

(C) Substitution

The Trust Deed and the Loan Agreement contain provisions to the effect that the Issuer may, having obtained the consent of the Bank and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein including (i) the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes and its rights as Lender under the Loan Agreement and (ii) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) or the Issuer shall use its best endeavours to ensure that the substitute obligor does so. Any such substitution shall be binding on all the Noteholders.

(D) Exercise of powers

In connection with the exercise of any of its powers, trusts, authorities or discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests

arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any. Noteholder be entitled to claim from the Issuer, the Bank or the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

11. PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the Relevant Date in respect thereof.

12. TRUSTEE AND AGENTS

The Trust Deed provides for the Trustee to take action on behalf of the Noteholders in certain circumstances, for the indemnification, security and prefunding of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment and/or taking any other action or step under the Trust Deed or the Loan Agreement unless indemnified and/or secured (including by way of prefunding) to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and the Bank and any entity relating to the Issuer and the Bank without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its subsidiaries.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Bank in respect of the Loan Agreement.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; *provided, however*, that the Issuer shall at all times maintain (a) a Principal Paying Agent and a Registrar and (b) a Paying Agent and Transfer Agent having Specified Offices in at least one major European city approved by the Trustee (including Dublin, if so required by the guidelines of Euronext Dublin).

As provided in the Trust Deed, any Trustee for the time being may retire at any time upon giving not less than three months' notice in writing to the Issuer and the Bank without assigning any reason therefor and without being responsible for any costs occasioned by such retirement. The retirement of any Trustee shall not become effective unless there remains a trustee (being a Trust Corporation (as defined in the Trust Deed)) in office after such retirement. In the event of a Trustee giving such notice, the Issuer shall use its reasonable endeavours to procure a new trustee to be appointed. If the Issuer has not appointed a new trustee within 60 days of the Trustee giving such notice or within 60 days after any Extraordinary Resolution as hereafter mentioned, the Trustee may procure a new trustee to be so appointed. The Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being hereof. The removal of any trustee shall not become effective unless there remains a trustee hereof (being a Trust Corporation) in office after such removal.

Notice of any change in the Trustee or any of the Agents shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

13. REPLACEMENT OF DEFINITIVE NOTE CERTIFICATES

If a Definitive Note Certificate is mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of Euronext Dublin (as defined in the Trust Deed), be replaced at the Specified Office of the Registrar or the Transfer Agent upon payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, for so long as the Notes are listed on Euronext Dublin, filed with the Companies Announcements Office of Euronext Dublin. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in accordance with this Condition 14 may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that such notice is also delivered to Euronext Dublin and given in accordance with the rules of Euronext Dublin. So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in accordance with this Condition 14 may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders, provided that such notice is also delivered to Euronext Dublin and given in accordance with the rules of Euronext Dublin.

15. PROVISION OF INFORMATION

The Issuer shall, during any period in which it is not subject to or in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the **Exchange Act**) nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, duly provide to any holder of a Note which is a **restricted security** within the meaning of Rule 144(a)(3) under the Securities Act or to any prospective purchaser of such securities designated by such Noteholder, upon the written request of such Noteholder or (as the case may be) prospective Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

16. FURTHER ISSUES

The Issuer may from time to time, with the consent of the Bank but without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on the further Notes) so as to form to be consolidated and form a single series with the Notes ("**Further Notes**"). Any Further Notes shall be constituted by a deed supplemental to the Trust Deed. In relation to any such issue of Further Notes (i) the Issuer will enter into a further loan agreement with the Bank or an amendment or supplement to the Loan Agreement on the same terms as the Loan Agreement (except with regard to the principal amount and the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee would not materially prejudicial to the interests of the Noteholders and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such Further Notes also and/or new security will be granted over any further loan agreement or the Loan Agreement as so amended or supplemented to secure amounts due on the Notes and such Further Notes and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. GOVERNING LAW AND JURISDICTION

The Notes, the Trust Deed, the Agency Agreement and the Loan Agreement and any non-contractual obligations arising out of or in connection with them, are governed by and shall be construed in accordance with, English law.

The Issuer has (i) submitted in the Trust Deed to the non-exclusive jurisdiction of the courts of England for the purposes of hearing any determination and suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed and the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated a person in England to accept service of any process on its behalf; and (iv) consented to the enforcement of any judgment.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Certificates which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Certificates.

The Notes will be evidenced on issue either (i) in the case of Regulation S Notes, by a Regulation S Global Certificate deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg; or (ii) in the case of Rule 144A Notes, by a Rule 144A Global Certificate deposited with a custodian for, and registered in the name of Cede & Co, as nominee of DTC.

Beneficial interests in the Regulation S Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See “*Book-Entry Procedures for the Global Certificates*”. On acquisition of a beneficial interest in a Regulation S Note, as represented by a Regulation S Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person (as defined in Regulation S) and that, prior to the expiration of 40-day distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes (i) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or (ii) to be a person who is eligible to take delivery in the form of an interest in the Rule 144A Global Certificate. See “*Transfer Restrictions*”.

Beneficial interests in the Rule 144A Global Certificate may only be held through DTC at any time. See “*Book-Entry Procedures for the Global Certificates*”. By acquisition of a beneficial interest in a Rule 144A Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See *Transfer Restrictions*.

Beneficial interests in a Global Certificate will be subject to certain restrictions on transfer set forth in such Global Certificate and in the Agency Agreement, and with respect to the Rule 144A Global Certificate, as set forth in Rule 144A. The Rule 144A Global Certificate will bear the legends regarding such restrictions set forth under *Transfer Restrictions*. A beneficial interest in the Regulation S Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate, in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Certificate, and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. person and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate will, upon transfer, cease to be an interest in the Regulation S Global Certificate and become an interest in the Rule 144A Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificate for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Certificate and become an interest in the Regulation S Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may

require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Amendments to the Terms and Conditions

In addition, the Global Certificates will contain a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Certificates.

Notices

Notwithstanding Condition 14 (*Notices*) of the Notes, so long as the Global Certificates are held by or on behalf of DTC, Euroclear, Clearstream, Luxembourg or any other clearing system, provided such other clearing system is regarded as a recognised clearing system by Irish Revenue Commissioners (an “**Alternative Clearing System**”), notices to Noteholders represented by the Global Certificates may be given by delivery of the relevant notice to DTC, Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System, *provided that*, for so long as the Notes are listed on Euronext Dublin, and the guidelines of Euronext Dublin so require, notice shall also be given in accordance with the guidelines published by Euronext Dublin. Notices will be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to the relevant clearing system.

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Certificate will be made to the person who appears on the register of the Noteholders as holder of the Notes represented by a Global Certificate on the Clearing System Business Day immediately prior to the date of the relevant payment against presentation and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. Upon any payment of principal or interest on a Global Certificate, the amount so paid shall be endorsed by or on behalf of the Principal Paying Agent on behalf of the Issuer in the appropriate schedule to the relevant Global Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes. As used in this paragraph, “**Clearing System Business Day**” means Monday to Friday inclusive, except 25 December and 1 January.

Meetings

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of holders of the Notes.

In considering the interests of Noteholders while a Global Certificate is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Certificate and may consider such interests as if such accountholders were the holders of such Global Certificate.

Cancellation

All payments in respect of the Global Certificate will be made to the common depositary and will be effective to satisfy and discharge the corresponding liabilities of the Borrower in respect of the Notes.

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Certificate.

Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by Global Certificates will become void unless it is presented for payment within a period of ten years

(in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7 of the Notes).

Exchange for Definitive Certificates

Exchange

Each Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Definitive Certificates if: (i) interests in the relevant Global Certificate are held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Certificate or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC; or (B) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent; or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Definitive Certificates and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Certificate for Definitive Certificates on or after the date specified in the notice.

The holder of the relevant Global Certificate may surrender such Global Certificate to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Certificate for interests evidenced by Definitive Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

If only one of the Global Certificates (the “**Exchange Global Certificate**”) becomes exchangeable for Definitive Certificates in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Definitive Certificates issued in exchange for beneficial interests in the Exchange Global Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Certificate.

Delivery

After the circumstances set out above have occurred, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Borrower (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes; and (b) in the case of the Rule 144A Global Certificate, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB that is also a QP. Definitive Certificates issued in exchange for a beneficial interest in the Rule 144A Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under *Transfer Restrictions*.

Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part (subject to the applicable minimum denomination) by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Note representing a Rule 144A Note (the “**Rule 144A Definitive Certificate**”) bearing the legend referred to under *Transfer Restrictions*, or upon specific request for removal of the legend on a Rule 144A Definitive Certificate, the Issuer will deliver only Rule 144A Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

TRANSFER RESTRICTIONS

Prospective purchasers of the Notes are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby because of the following restrictions.

Rule 144A Notes

Each purchaser of Rule 144A Notes within the United States, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) it is (a) a QIB that is also a QP; (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) not a participant-directed employee plan, such as a 401(k) plan; (d) acquiring such Note for its own account, or for the account of a QIB that is also a QP; (e) not formed for the purpose of investing in the Notes or the Issuer; and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provision of section 5 of the Securities Act provided by Rule 144A, and the Issuer is relying on an exemption from the Investment Company Act provided by section 3(c)(7) thereof;
- (2) it will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.\$200,000; and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book- entry depositories;
- (3) it understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it or any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP; or (b) in an offshore transaction to non U.S. persons in accordance with Rule 903 or 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or another jurisdiction of the United States;
- (4) it understands that the Issuer has the power under the Trust Deed to compel any beneficial owner of Rule 144A Notes that is within the United States or is a U.S. person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and also a QP;
- (5) it understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE, THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER OR ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “**QIB**”) THAT IS ALSO A QUALIFIED PURCHASER (A “**QP**”) WITHIN THE MEANING OF SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “**INVESTMENT COMPANY ACT**”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE MORE QIBs, EACH OF WHICH IS A QP WHO THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT

LESS THAN U.S.\$200,000 PRINCIPAL AMOUNT OF NOTES AND THAT CAN REPRESENT, IN EACH CASE, THAT IT: (A) IS A QIB THAT IS ALSO A QP; (B) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS; (C) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN; (D) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (E) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.\$200,000 IN RELIANCE ON RULE 144A; (F) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES; AND (G) WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE; OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATIONS UNDER THE SECURITIES ACT (“**REGULATION S**”) TO OR FOR THE ACCOUNT OR BENEFIT OF A PERSON KNOWN TO THE TRANSFEROR NOT TO BE A U.S. PERSON (AS DEFINED IN REGULATION S), BY PRE-ARRANGEMENT OR OTHERWISE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT BOTH A QIB AND A QP, THE ISSUER MAY (1) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (A) A U.S. PERSON WHO IS A QIB AND ALSO A QP AND THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (B) OUTSIDE THE UNITED STATES AND IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (2) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE BORROWER, THE ISSUER OR AN AFFILIATE OF EITHER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER, IN ANY CASE, AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN: (1) IT IS NOT, AND IT IS NOT USING THE ASSETS OF, A BENEFIT PLAN INVESTOR AS DEFINED IN SECTION 3(42) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”); (2) IT IS NOT AND IS NOT USING THE ASSETS OF A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA), CHURCH PLAN (AS DEFINED IN SECTION 3(33) OF ERISA), OR NON-U.S. PLAN (AS DESCRIBED IN SECTION 4(B)(4) OF ERISA) SUBJECT TO LAWS WHICH

ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/OR PROHIBITED TRANSACTION PROVISIONS OF ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE “PLAN ASSETS” OF SUCH PLAN UNLESS THE PURCHASE AND HOLDING OF THIS NOTE WILL NOT VIOLATE SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON UNLESS THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS ARE DEEMED TO APPLY TO THAT PERSON;

- (6) it understands and acknowledges that its purchase and holding of such Rule 144A Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Rule 144A Notes or any interest therein: (a) it is not a benefit plan investor as defined in Section 3(42) of ERISA, as amended; (b) it is not and is not using the assets of a governmental plan (as defined in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA), or non-U.S. plan (as described in Section 4(b)(4) of ERISA) subject to laws which are substantially similar to the fiduciary responsibility and/or prohibited transaction provisions of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended, and/or laws or regulations that provide that the assets of the issuer could be deemed to include “plan assets” of such plan unless the purchase and holding of such Rule 144A Notes will not violate such similar law; and (c) it will not sell or otherwise transfer any such Rule 144A Note or interest to any person unless the same foregoing representations and warranties are deemed to apply from that person;
- (7) it acknowledges that the Issuer, the Borrower, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Borrower and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account;
- (8) it understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Certificate. Before any interest in the Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with the foregoing acknowledgements, representations and agreements and applicable securities laws; and
- (9) it is relying on the information contained in this Prospectus in making its investment decision with respect to the Rule 144A Notes. It acknowledges that none of the Issuer, CBM or the Joint Lead Managers has made any representation to it with respect to the Issuer or CBM or the offering or sale of the Rule 144A Notes, other than the information contained in this Prospectus which has been delivered to it and upon which it is relying in making its investment decision with respect to the Rule 144A Notes. It has had access to such financial and other information concerning the Issuer, CBM and the Rule 144A Notes as it has deemed necessary in connection with its decision to purchase the Rule 144A Notes, including an opportunity to ask questions of and request information from the Issuer, CBM and the Joint Lead Managers.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States pursuant to Regulation S and each

subsequent purchaser of such Regulation S Notes in resales prior to the expiration of the Distribution Compliance Period, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) it is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and (b) it is not an affiliate of the Issuer, CBM or a person acting on behalf of such an affiliate;
- (2) it understands that such Regulation S Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the applicable distribution compliance period for such Notes, it will not offer, sell, pledge or otherwise transfer such Regulation S Notes except: (a) in accordance with Rule 144A to a person that it or any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP; or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States;
- (3) it acknowledges that the Issuer, CBM, the Registrar, the Joint Lead Managers and their affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, CBM and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account;
- (4) it acknowledges that the Regulation S Notes offered in reliance on Regulation S will be represented by the Regulation S Global Certificate. Prior to the expiration of the Distribution Compliance Period, before any interest in the Regulation S Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws;
- (5) it understands that the Regulation S Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE, THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT, AND IT IS NOT USING THE ASSETS OF, A BENEFIT PLAN INVESTOR AS DEFINED IN SECTION 3(42) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"); (2) IT IS NOT AND IS NOT USING THE ASSETS OF A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA), CHURCH PLAN (AS DEFINED IN SECTION 3(33) OF ERISA), OR NON-U.S. PLAN (AS DESCRIBED IN SECTION 4(B)(4) OF ERISA) SUBJECT TO LAWS WHICH ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/OR PROHIBITED TRANSACTION PROVISIONS OF ERISA OR SECTION 4975

OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE “PLAN ASSETS” OF SUCH PLAN UNLESS THE PURCHASE AND HOLDING OF THIS NOTE WILL NOT VIOLATE SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON;

- (6) it understands and acknowledges that its purchase and holding of such Regulation S Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Regulation S Notes or any interest therein (a) it is not a benefit plan investor as defined in Section 3(42) of ERISA, as amended; (b) it is not and is not using the assets of a governmental plan (as defined in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA), or non-U.S. plan (as described in Section 4(b)(4) of ERISA) subject to laws which are substantially similar to the fiduciary responsibility and/or prohibited transaction provisions of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended, and/or laws or regulations that provide that the assets of the issuer could be deemed to include “plan assets” of such plan unless the purchase and holding of such Regulation S Notes will not violate such similar law; and (c) it will not sell or otherwise transfer any such Regulation S Note or interest to any person unless the same foregoing representations and warranties are deemed to apply to that person; and
- (7) it understands that the Issuer may receive a list of participants holding positions in the Issuer’s securities from one or more book-entry depositories.

Book-Entry Procedures for the Global Certificates

Custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See “*Book-Entry Ownership*” and “*Settlement and Transfer of Notes*” below.

Investors may hold their interests in the Global Certificates directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**”) and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing

agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and to facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Certificate directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Certificate as to which such Participant or Participants has or have given such direction. However, in the circumstances described under Summary of Provisions Relating to the Notes while in Global Form, DTC will surrender the Rule 144A Global Certificate for exchange for Definitive Notes (which Definitive Notes will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Certificate representing the Regulation S Notes will have an ISIN, a Common Code and a CFI Code and will be registered in the name of a nominee for, and deposited with the common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Certificate representing the Rule 144A Notes will have an ISIN, a Common Code, and a CUSIP number and will be deposited with a custodian (the “**DTC Custodian**”) for, and registered in the name of Cede & Co. as nominee of, DTC. The DTC Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear and Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Certificate is held, or the nominee in whose name it is registered, will immediately credit the relevant Participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate, and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may

be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent (as defined in the Terms and Conditions of the Notes) will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system, and its records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC Participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding

a beneficial interest in the Rule 144A Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the DTC Custodian of the Rule 144A Global Certificate will instruct the Registrar to: (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Certificate of the relevant class; and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will: (a) transmit appropriate instructions to the DTC Custodian of the Rule 144A Global Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant; and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Certificate; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Certificate.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Certificates among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any agent will have the responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of the Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade the Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of the Notes may be affected by such local settlement practices, and purchasers of the Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

TAXATION

Russian Taxation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as taxation of interest payments on the corresponding Loan. The summary is based on the laws of Russia in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date (possibly with retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaties and the eligibility of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming and obtaining such double tax treaty relief. Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance. Further, the substantive provisions of Russian tax law applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change (possibly with retroactive effect) and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions not provided for by the existing legislation. Similarly, court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a “**Non-Resident Noteholder**” means:

- an individual Noteholder actually present in Russia for an aggregate period of less than 183 calendar days (including days of arrival to Russia and including days of departure from Russia) in any period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted for an individual’s short term departure (less than 6 months) from Russia for medical treatment or education. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that for withholding tax purposes an individual’s tax residency status should be determined on the date of income payment (based on the number of Russian days in the 12-month period preceding the date of payment). The individual’s final tax liability in the Russian Federation for the reporting calendar year should be determined based on the number of days spent in Russia in such calendar year; or
- a legal entity or organisation, in each case not organised under Russian law, which purchases, holds and/or disposes of the Notes otherwise than through a permanent establishment in Russia (as defined by Russian tax law) and which is not a Russian tax resident. Russian tax residence rules for organisations have been adopted in Federal Law N 376-FZ dated 24 November 2014 “On amending Parts I and II of the Tax code of the Russian Federation (in respect of taxation of profits of controlled foreign companies and income of foreign organisations)” (the “**Federal Law**”) and came into force from 1 January 2015. Generally, a foreign organisation should be recognised as a Russian tax resident pursuant to an applicable double tax treaty or if the place

of actual management of such organisation is the Russian Federation (unless otherwise provided by an applicable double tax treaty) or if it has declared itself such voluntarily.

A “**Resident Noteholder**” means any Noteholder (including any individual and any legal entity or organisation) who or which is not a Non-Resident Noteholder.

Please note that terms “resident” and “non-resident” in the context of this Annex relate to tax residency only. In addition, as at the date of this Prospectus, the Russian Ministry of Finance was considering the adoption of certain changes to the criteria applicable for the purposes of determining the tax residency status of individuals. However, at the date of this Prospectus, such changes were yet to be adopted.

Taxation of the Notes

Resident Noteholders

Resident Noteholders are generally subject to Russian taxes with respect to income realised by them in connection with acquisition, ownership and/ or disposal of the Notes (including the interest received on the Notes). Resident Noteholders – Legal entities are subject to corporate income tax, while individuals are required to pay personal income tax on the respective income.

Taxation of Resident Noteholders – Individuals

Generally, Resident Noteholder that is an individual (natural person) is subject to all applicable Russian taxes in respect to the interest and other ancillary payments derived from the Issuer, unless otherwise stipulated under the Russian tax legislation.

Acquisition of Notes

The acquisition of Notes at market value in itself does not give rise to any Russian taxes. However, if the acquisition price is below fair market value (calculated under a specific procedure), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to deemed income received by individuals as a result of acquiring securities. In such a case deemed income will be subject to Russian personal income tax at 13% rate.

Sale or other disposal of the Notes

Sale and other disposal of the Notes by an individual Resident Noteholder gives rise to Russian personal income tax at 13% rate. The tax is levied on the gain from such disposal (the gain generally being calculated as the gross proceeds from such disposal, calculated in Roubles as prescribed under the Russian Tax Code, less any available cost deduction, including the original purchase price and deemed income taxed on acquisition and, if any, calculated in Roubles as prescribed under the Russian Tax Code).

Interest payments

Interest and other ancillary payments derived from the Issuer and received by the Russian Resident Noteholder – individual are subject to personal income tax at 13% rate.

Taxation of the Resident Noteholders – Legal Entities

A Resident Noteholder – Legal Entity is subject to all applicable Russian taxes in respect to the income received by it in respect to the acquisition, holding and disposal of the Notes, including interest and other ancillary payments. Generally, a 20% corporate income tax is levied in the respective taxable events.

Non-Resident Noteholders

Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer. Subject to what is stated in “–Taxation of Interest on the Loan”.

Non-Resident Noteholders also generally should not be subject to any Russian taxes in respect of any gains or other income realised on the Notes (including gains upon redemption, sale or other disposal of the Notes), provided that this income is not considered as being received from a source within Russia.

Taxation of the Non-Resident Noteholders – Individuals

Acquisition of the Notes

Generally, the acquisition of Notes at fair market value by a Non-Resident Noteholder who is an individual should not be considered as taxable income. However, if the transfer of legal title to the Notes takes place in Russia and the acquisition price is below fair market value (calculated under a specific procedure), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to deemed income received by individuals as a result of acquiring securities. In such a case deemed income may be subject to Russian personal income tax. The taxable income (subject to any available double tax treaty relief) will be calculated as the difference between the fair market price of the Notes and the documented acquisition expenses of the Noteholder.

Sale or other disposal of the Notes

In general, Non-Resident Noteholder - individuals are subject to Russian tax on their income from a sale of the Notes if such income is treated as received from Russian sources (e.g. the sale which takes place in Russia, for instance, through a Russian broker). The income the Non-Resident Noteholder – individual realised from a sale, exchange or disposal of the Notes and received from a Russian source will generally be subject to personal income tax at the rate of 30% payable on the gain from such disposal, calculated in Roubles as prescribed under the Russian Tax Code, less any available cost deduction, including the original purchase price and deemed income taxed on acquisition, if any, calculated in Roubles (as prescribed under the Russian Tax Code) subject to any available double tax treaty relief.

Since the Russian Tax Code contains no clear definition of a sale taking place in Russia, there is an inherent risk that, given that a transaction is executed in Russia, and/or a party to the transaction is a Russian resident, the income from the sale of the Notes would be treated as received from a Russian source. In this case the Noteholders income from disposal of the Notes will be subject to tax in Russia.

If the disposal proceeds are paid by a tax agent (a Russian legal entity or a foreign legal entity carrying out activities in Russia through a permanent establishment which is a licensed broker, asset manager, management company or any other person that carries out operations under an agency agreement, a commission agreement or a brokerage contract), the applicable personal income tax should be withheld at source. If the tax is not withheld (i.e. if there is no tax agent), a Non-Resident Noteholder- individual, should file a tax return and pay tax in Russia on his/her own.

Depending on the double tax treaty between Russia and the tax jurisdiction of the Non-Resident Noteholder, income derived from a disposal of the Notes by a Non-Resident Noteholder may be exempt from Russian tax provided the stipulated conditions are met.

Double tax treaty relief

Application of the foreign tax credit in Russia

According to the general provisions of Russian tax law, the amounts of tax actually paid according to tax legislation of the foreign state by a taxpayer who is a Russian tax resident on the income received outside Russia could not be credited against Russian personal income tax liability of the taxpayer unless otherwise provided for by a relevant double tax treaty between Russia and that foreign state. Therefore, the taxpayer may have the right to make a foreign tax credit against its Russian personal income tax liabilities provided that all the following conditions are met:

- a taxpayer is a recognised the Russian tax resident in the tax period when the income taxable in Russia and in the foreign state was received;

- there is a valid double tax treaty between Russia and the foreign state, which provides for the foreign tax credit in the state of residence (Russia);
- the taxpayer can confirm the amount claimed for tax credit with the documents required by Russian tax law. Also, the tax authorities may request a confirmation of residency status, however, current provisions of the Russian Tax Code do not oblige the taxpayer to provide such evidence along with supporting documents when claiming a foreign tax credit.

If the above-mentioned conditions are not met, the taxpayer will not be able to apply foreign tax credit and reduce its tax liability in Russia.

Russian legislation also prescribes how tax treaty benefits can be obtained via the tax agent, i.e. if tax on such income is subject to tax at source. Russian legislation requires the relevant claim and supporting documents to be filed to the tax agent or to the tax authorities (for refund of tax withheld).

At the same time the provisions of the law are not quite clear on how exemption should be claimed in terms of income, which is not subject to tax at source. Conservatively, an individual should submit to the Russian tax authorities a certificate confirming his/her tax residency in the other country, amongst other documents, to substantiate the treaty exemption.

Non-Resident Noteholders should consult their own tax advisors with respect to possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition, sale or other disposal of the Notes.

Taxation of Non-Resident Noteholders – Legal Entities

Acquisition of the Notes

Acquisition of the Notes by Non-Resident Noteholders that are legal entities and organisations should not constitute a taxable event under Russian law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for Non-Resident Noteholders that are legal entities and organisations.

Interest on the Notes

Pursuant to the Russian Tax Code interest income received on the Notes by Non-Resident Noteholders should not be subject to withholding of Russian tax.

Sale or other disposal of the Notes

Income received by Non-Resident Noteholders that are legal entities from the sale or redemption of Notes should not be subject to Russian tax.

It should be noted, however that there is a risk that Russian tax authorities may try to challenge exemption from the withholding tax of the amounts of accrued interest (coupon) income on the Notes paid to non-resident seller under disposal of the Notes on the secondary market. Although in its clarifications Russian Ministry of Finance adheres to an unambiguous opinion that accrued interest income paid by Russian legal entities to non-resident foreign entities as part of purchase price at disposal of “traded” bonds issued by foreign organisations should not be subject to withholding tax in Russia, court practice with respect to Russian withholding tax on dispositions of “traded” bonds is inconsistent and negative rulings exist. There is a risk that payments from Russian counterparties to non-resident Noteholders under disposal of the Notes could be considered as income derived from sources in the Russian Federation and thus subject to Russian withholding tax.

Redemption of the Notes

Non-Resident Noteholders that are legal entities generally should not be subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Double Tax Treaty Relief

For receiving the benefits of an applicable double tax treaty in cases where proceeds on the Notes are received from a Russian source and are subject to Russian taxes, Non-Resident Noteholders (whether an individual, legal entity or organisation) are required to confirm the beneficial ownership title on receivable income.

Currently a Non-Resident Noteholder that is a legal entity will need to provide the payer of income which is regarded a tax agent with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income and confirm that it is the beneficial owner of this income. However, the payer of income in practice may request additional documents confirming the entitlement and eligibility of such Non-Resident Noteholder to the benefits of the relevant double tax treaty in relation to income concerned. The certificate should confirm that the respective Non-Resident Noteholder is the tax resident of the relevant double tax treaty country (specifically for the purposes of the applicable double tax treaty). This certificate generally should be apostilled or legalised. A notarised Russian translation of the certificate will have to be provided to the person which is regarded a tax agent. Non-Resident Noteholders that are legal entities or organisations should consult their own tax advisers with respect to the possibilities to enjoy any double tax treaty relief and the relevant Russian procedures.

Non-Resident Noteholders should consult their own tax advisors with respect to possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition, sale or other disposal of the Notes.

Refund of Tax Withheld

If Russian withholding tax applicable to income derived from Russian sources by a Non-Resident Noteholder that is a legal entity or organisation, for which double tax treaty relief is available, was withheld at source, a refund of the tax that was excessively withheld at source is possible by filing a claim with the Russian tax authorities within three years following the year in which the tax was withheld. If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder who is an individual for whom double tax treaty relief is available was withheld at source a refund of tax which was excessively withheld is possible by filing a claim with the Russian tax authorities within three years following the year in which the tax was withheld.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which have to be provided by the Non-Resident Noteholder to the Russian tax authorities for the tax refund, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under an applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates. In practice a Non-Resident Noteholder when seeking a refund of Russian taxes excessively withheld at source may face similar difficulties as when trying to obtain advance tax relief under the applicable double tax treaties, as discussed above.

Obtaining a refund of Russian income taxes which were excessively withheld at source is likely to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice. The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

Taxation of Interest on the Loan

Under the Russian Tax Code interest payments made by a Russian legal entity to a non-resident legal entity made under loan agreements are generally subject to Russian withholding income tax at the rate of 20%, unless such withholding is reduced or eliminated pursuant to an applicable double tax treaty.

Calculation and withholding of the tax is performed by an entity which is paying out the income to the recipient. We believe that for the payments due from CBM under the Loan Agreement including, *inter alia*, interest payments CBM should be considered as the tax agent.

However, interest income payable by Russian organisations on debt obligations that originate from issuance of traded securities by foreign organisations (as defined by the Russian Tax Code) shall not be subject to withholding of the tax by the tax agent, if the foreign organisation that is the issuer of the securities is resident in a jurisdiction that has an effective double tax treaty with Russia.

Tradable securities mentioned above are defined in the Russian Tax Code as securities and other debt obligations listed on a recognised stock exchange and/or settled through recognised depository-clearing organisations. The list of such recognised institutions has been approved by the CBR. Debt obligations of Russian organisations shall be treated as originating from the issuance of tradable securities by the foreign issuer if a direct link to such issuance is contained in the loan agreement between the issuer and the Russian organisation and/or if such a link is contained in terms of issuance and/or in a related prospectus, or can be confirmed by actual cash flows at the time of the placement of the securities.

For the withholding tax exemption to apply, the Issuer will have to submit to CBM a confirmation of its tax residency (the “**Certificate**”) certified by a competent body of Ireland prior to making an affected payment. This Certificate should be legalised through an apostil by a competent authority and be furnished with a Russian translation.

In the absence of the proper Certificate having been submitted as outlined above, the applicable rate of withholding tax on any interest payments would be 20% under Russian tax legislation.

CBM believes that based on the above summarised provisions of the Tax Code the mentioned withholding tax exemption shall apply to the issuance of the Notes, which shall effectively exempt from withholding taxation in Russia interest income payable by CBM to the Issuer and ultimately to the Noteholders connected with the issuance of the Notes.

If payments under the Loan are subject to Russian withholding tax (as a result of which the Issuer would reduce payments made under the Notes by the amount of tax withheld), CBM will be obliged (subject to certain conditions) to increase payments under the Loan Agreement as may be necessary so that the net payments received by the Issuer and the Noteholders will be equal to the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging CBM to gross-up interest payments under the Loan will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that the interest payments made by CBM under the Loan Agreement will be reduced by the amount of the Russian income tax withheld by CBM at the rate of 20%, or such other rate as may be in force at the time of payment.

Value Added Tax

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in Russia in respect of interest and principal payments under the Loan.

Tax treatment of the Loan

Provision of loans to Russian banks is duly regulated by the Banking Law. However, irrespective of the fact that the CBR maintains a regulation for loans, Russian tax laws do not provide for specific rules for taxation of interest on the loans provided to Russian banks. As such, interest on the Loan is deducted under the general rules.

The Ministry of Finance has clarified in its recent letter that funds received from the floatation of bonds should not be included in the tax base of the Issuer, while interest on the bonds should be included in the expenses for profits tax purposes. In addition, several negative court cases exist for the taxpayer – non-banking organisations by the Supreme Courts of the Russian Federation (judgments on the cases No. A16-343/2016, A40-123542/2014, A09-2657/2016, A09-1493/2018 and A29-2527/2018),

reclassifying a long term loan into capital investment and any interest thereto, respectively, into dividends. CBM believes that this case shall not be applicable to the Loan and the Notes and the risk of capital investment treatment is residual.

Irish Taxation

The following is a summary of the principal Irish withholding tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- (a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange and which carry a right to interest; and
- (b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:
 - (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners (Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or
 - (ii) the person who is the beneficial owner of the Notes is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form.

Thus, so long as the Notes continue to be quoted on a recognised stock exchange, are held in a clearing system recognised by the Irish Revenue Commissioners (Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), interest on the Notes can be paid by any paying agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland.

Interest or other distributions paid on the Notes which are profit dependent or any part of which exceeds a reasonable commercial return could, under certain anti-avoidance provisions, be re-characterised as a non-deductible distribution and be subject to dividend withholding tax in certain circumstances. However, this should not apply on the basis of a confirmation by the Issuer that, at the time the Notes were issued, the Issuer was not in possession or aware of any information which could reasonably be taken to indicate that interest or other distributions paid on the Notes would not be subject, without reduction computed by reference to the amount of such interest or other distribution, to a tax in a relevant territory which generally applies to profits, income or gains received in that relevant territory by persons from sources outside that relevant territory, where the term “relevant territory” means a member state

of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20%) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Stamp Duty

No stamp duty or similar tax is imposed in Ireland on the issue, transfer or redemption of the Notes provided the Issuer is a qualifying company for the purposes of Section 110 of the Taxes Consolidation Act 1997 and the proceeds of the Notes are used in the course of the Issuer's business.

Certain U.S. Taxation Considerations

This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the Notes. Persons considering acquiring the Notes should seek their own advice based on their particular circumstances from an independent tax adviser.

The following is a general description of certain U.S. federal tax consequences of the ownership and disposition of the Notes to U.S. holders (as defined below). This discussion applies only to Notes that meet both of the following conditions:

- they are purchased by initial holders who purchase Notes at their "issue price", which will equal the first price to investors (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money; and
- they are held as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to holders in light of their particular circumstances or to U.S. holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers or certain traders in securities or foreign currencies;
- persons holding Notes as part of a hedge, straddle, wash sale, conversion transaction or other integrated transaction or persons entering into a constructive sale with respect to the Notes;
- U.S. holders whose functional currency is not the U.S. dollar;
- Real estate investment trusts, regulated investment companies or grantor trusts;
- tax exempt entities, or organisations, including an "individual retirement account" or "Roth IRA" as defined in Section 408 or 408A of the United States Internal Revenue Code of 1986, as amended (the "**Code**");
- persons required for U.S. federal income tax purposes to conform the timing of income accruals with respect to the Notes to their financial statements under section 451 of the Code; or

- persons subject to the alternative minimum tax.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Notes and partners therein should consult their tax advisers as to the particular U.S. federal income tax consequences of acquiring, owning and disposing of the Notes.

No authority directly addresses the U.S. federal income tax characterisation of securities like the Notes and the Issuer has not and will not seek a ruling from the U.S. Internal Revenue Service (“**IRS**”) as to their characterisation for such purposes. To the extent relevant for U.S. federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such purposes and this discussion assumes that treatment is correct. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this discussion. Alternative characterisations include treatment of the Notes as beneficial ownership of the Loan or as equity in the Issuer, which is a passive foreign investment company (or “**PFIC**”), which could have materially adverse tax consequences for a U.S. Holder. Prospective investors should seek advice from their own tax advisors as to the consequences to them of alternative characterisations of the Notes and the possibility that the Notes will be classified as equity interest in a PFIC and the consequences of owning an equity interest in a PFIC. The discussion below assumes that the Notes will be treated as debt for U.S. federal income tax purposes.

This summary is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which subsequent to the date of this Prospectus may affect the tax consequences described herein. Persons considering the purchase of Notes are urged to consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under other federal tax laws or the laws of any state, local or foreign taxing jurisdiction. This summary does not address the Medicare surtax consequences to a U.S. holder.

As used herein, the term “U.S. holder” means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organised in or under the laws of the United States, any state thereof or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Payments of Interest

It is expected, and therefore this discussion assumes, that the Notes will be issued without original issue discount (“**OID**”) for U.S. federal income tax purposes. Accordingly, interest paid on a Note (including any additional amounts paid in respect of taxes required to be deducted or withheld) will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. holder’s method of accounting for federal income tax purposes. If, however, the Notes’ principal amount exceeds the issue price by more than a de minimis amount, as determined under applicable Treasury regulations, a U.S. holder will be required to include such excess in income as OID, as it accrues, in accordance with a constant-yield method based on a compounding of interest before the receipt of cash payments attributable to this income.

Interest income with respect to a Note will constitute foreign source ordinary income for U.S. federal income tax purposes, which may be relevant in calculating a U.S. holder’s foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to two specific

classes of income. For this purpose, interest income on the Notes will generally constitute “passive category income”. The rules governing foreign tax credits are complex and U.S. holders should consult their own tax advisers regarding the availability of foreign tax credits in their particular circumstances.

Sale, Exchange or Retirement of the Notes

Upon the sale, exchange or retirement of a Note, a U.S. holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (other than any amount attributable to accrued but unpaid interest, which will be taxable as ordinary income to the extent not previously included in income) and the U.S. holder’s adjusted tax basis in a Note. A U.S. holder’s adjusted tax basis in a Note will generally equal the cost of such Note to the U.S. holder, decreased by the amount of any payments on a Note other than payments of stated interest. Gain or loss, if any, realised on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long term capital gain or loss if at the time of sale, exchange or retirement the Note has been held for more than one year. Such gain or loss will generally be U.S. source income or loss for purposes of computing a U.S. holder’s foreign tax credit limitation. The deductibility of capital losses is subject to limitations.

Substitution of the Issuer

Condition 10(C) of the Terms and Condition of the Notes provides that, in accordance with provisions of the Trust Deed and the Loan Agreement, the Issuer may substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and obligor in respect of the Notes and as obligor under the Trust Deed. Such a substitution of the Issuer of the Notes generally will not be regarded as a taxable event for U.S. holders provided that the substitution does not result in a change of payment expectations with respect to the Notes, which the Issuer believes should be the case. Nevertheless, no assurance can be provided that a substitution of the Issuer would not be treated as a taxable exchange which could result in adverse U.S. federal income tax consequences for U.S. holders. Each prospective investor should consult its own tax advisors regarding the consequences to it of an investment in the Notes and the possible consequences of a substitution of the Issuer of the Notes.

Further Issues

The Issuer may issue additional Notes as described under Condition 16 (*Further Issues*) of the Terms and Conditions of the Notes. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such case, the additional Notes may be considered to have OID which may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Tax on Net Investment Income

US Holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally are subject to a 3.8% tax on net investment income, including interest and capital gains from the sale or other taxable disposition of the Notes, subject to certain limitations and exceptions. The amount of this tax may not be reduced by a foreign tax credit otherwise available to a US Holder.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. holder may be subject to U.S. backup withholding on these payments if the U.S. holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder’s U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is timely furnished to the IRS.

Foreign Asset Reporting

Certain U.S. holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial institutions), by attaching a completed IRS Form 8938, statement of Specified Foreign Financial Assets, with their tax return for each year in which they had an interest in the Notes. U.S. holders are urged to consult their tax advisers regarding information reporting requirements relating to their ownership and disposition of the Notes.

SUBSCRIPTION AND SALE

Summary of Subscription Agreement

Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Emirates NBD Bank PJSC, ING Bank N.V., London Branch, Raiffeisen Bank International AG, Société Générale, Sova Capital Limited and UBS AG London Branch (collectively, the “**Joint Lead Managers**”), have, pursuant to the terms and conditions set forth in a subscription agreement dated 27 January 2020 (the “**Subscription Agreement**”), severally (and not jointly nor jointly and severally) agreed with the Issuer, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100% of the principal amount of the Notes in the amounts set out below:

	Purchase commitment (U.S.\$)
Joint Lead Managers	
Citigroup Global Markets Limited.....	75,000,000
Commerzbank Aktiengesellschaft	75,000,000
Emirates NBD Bank PJSC	75,000,000
ING Bank N.V., London Branch	75,000,000
Raiffeisen Bank International AG.....	75,000,000
Société Générale	75,000,000
Sova Capital Limited	75,000,000
UBS AG London Branch	75,000,000
	600,000,000

CBM has agreed to pay certain commissions, fees, costs, expenses and taxes of the Issuer in connection with the Loan and the offering of the Notes and to reimburse the Joint Lead Managers, the Issuer and the Trustee for certain of their expenses in connection with the offering of the Notes. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer. For investors in the Notes, the yield to maturity is 4.700% per annum. This calculation is based on the coupon rate, length of time to maturity and market price. It assumes that the interest paid over the life of the Notes is reinvested at the same rate.

Certain of the Joint Lead Managers have, directly or indirectly through affiliates, provided investment and commercial banking, lending, financial advisory and other services to the Issuer, the Borrower, and their affiliates from time to time, for which they have received monetary compensation. Certain of the Joint Lead Managers may from time to time also enter into swap and other derivative transactions with the Issuer, the Borrower and their affiliates. In addition, certain of the Joint Lead Managers and their respective affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transactions with the Issuer, the Borrower, or their affiliates. Mr. Roman Avdeev, who beneficially controls over 50% in the share capital of CBM, is a controlling shareholder of Sova Capital Limited, one of the Joint Lead Managers.

CBM is a party to the Subscription Agreement and has given certain representations and warranties, covenants and indemnities to the Joint Lead Managers and the Issuer therein.

Selling Restrictions

United States

The Securities have not been and will not be registered under the Securities Act, or the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act and, in each case, in circumstances that will not require the Issuer to register under the Investment Company Act.

Each Joint Lead Manager has severally (and not jointly nor jointly and severally) agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their

distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the “**Distribution Compliance Period**”), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than pursuant to Rule 144A) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States or to, or for the account or benefit of, U.S. persons by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this section have the meanings given to them by Regulation S.

Notes offered and sold outside the United States to non-U.S. persons may be sold in reliance on Regulation S. The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes only to persons whom they reasonably believe are QIBs and QPs who can represent that: (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) they are not participant-directed employee plans, such as a 401(k) plan; (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP; (e) they are not formed for the purpose of investing in the Issuer of the Notes; (f) each account for which they are purchasing will hold and transfer at least U.S.\$200,000 in principal amount of Notes at any time; (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries; and (h) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

The Issuer, CBM and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason.

Certain Joint Bookrunners are not broker-dealers registered with the SEC and, therefore, may not make sales of any Notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that such Joint Bookrunners intend to effect sales of the Notes in the United States, they will do so only through one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

PRIIPs/Prohibition of Sales to EEA Retail Investors

The Notes have not been and will not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available by any person to any retail investor in the EEA. Consequently no key information document as would be required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

United Kingdom

Each Joint Lead Manager has severally (and not jointly nor jointly and severally) represented, warranted and agreed that:

- (i) **Financial promotion:** it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each Joint Lead Manager severally (and not jointly nor jointly and severally) represents, warrants and agrees that no Russian prospectus has been registered or is intended to be registered with respect to the Notes and the Notes have not been and are not intended to be registered in the Russian Federation. Consequently, each Joint Lead Manager represents, warrants and agrees with the Issuer and CBM that it and its affiliates have not offered or sold or otherwise transferred, and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation unless and to the extent otherwise permitted under Russian law. Information provided in this Prospectus is not an offer, or invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian persons or entities unless and to the extent otherwise permitted by Russian law.

Since no Russian prospectus has been registered or is intended to be registered with the Central Bank of the Russian Federation with respect to the Notes, no person should at any time carry out any activities in breach of the restrictions set out above and applicable Russian law.

Ireland

Each Joint Lead Manager has severally (and not jointly nor joint and severally) represented, warranted and agreed that:

- (a) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Union (Markets in Financial Instruments) Regulations 2017 (as amended, the “**MiFID II Regulations**”), including, without limitation, Regulation 5 (Requirement for authorisation (and certain provisions concerning MTFs and OTFs)) thereof, or any rules or codes of conduct made under the MiFID II Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);
- (b) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Companies Act 2014 (as amended, the “**Companies Act**”), the Central Bank Acts 1942-2018 (as amended) and any codes of practice made under Section 117(1) of the Central Bank Act 1989 (as amended);
- (c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus Regulation and any rules issued by the Central Bank under Section 1363 of the Companies Act; and
- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014) (as amended) and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, this Prospectus and any other document or material in connection with the offer

or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Accordingly, each Joint Lead Manager represents, warrants and undertakes that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

1. to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
2. where no consideration is or will be given for the transfer;
3. where the transfer is by operation of law;
4. as specified in Section 276(7) of the SFA; or
5. as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Notification under Section 309B(1)(c) of the SFA – Unless otherwise stated in the Prospectus (or any supplement thereto) in respect of any Notes, all Notes issued or to be issued hereunder shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

General

Each Joint Lead Manager has severally (and not jointly nor jointly and severally) undertaken that it has, to the best of its knowledge and belief, complied and will comply in all material respects with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer, the Loan or CBM.

Certain of the Joint Lead Managers have, directly or indirectly through affiliates, provided investment and commercial banking, financial advisory and other services to the Issuer, the Borrower, and their affiliates from time to time, for which they have received monetary compensation. Certain of the Joint Lead Managers may from time to time also enter into swap and other derivative transactions with the Issuer, the Borrower and their affiliates. In addition, certain of the Joint Lead Managers and their affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transactions with the Issuer, the Borrower, or their affiliates.

CBM is a party to the Subscription Agreement and has given certain representations and warranties, covenants and indemnities to the Joint Lead Managers and the Issuer therein.

Other than the approval of the Prospectus by the Central Bank, no action has been or will be taken in any jurisdiction by the Issuer, CBM, or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by CBM, the Issuer, and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

Following receipt of the requisite regulatory approvals, including in the United Kingdom, a member of Concern Rossium group has acquired 100% interest in the share capital of Sova Capital Limited (formerly known as Otkritie Capital International Limited).

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, “**ERISA Plans**”), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labour “plan assets” regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (the “**Plan Assets Regulation**”), and on those persons who are fiduciaries with respect to ERISA Plans.

Under a “look-through rule” set forth in the Plan Assets Regulation, if an ERISA Plan or a plan that is not subject to ERISA but that is subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the “**Code**”) (collectively, “**Plans**”), invests in an “equity interest” of an entity that is neither a “publicly offered security” nor a security issued by an investment company registered under the Investment Company Act, the Plan’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets, unless an exception applies. Under one such exception to this look-through rule, the underlying assets of an entity in which a Plan makes an equity investment will not be considered “plan assets” if benefit plan investors own less than 25% of the value of each class of equity interest in the entity. For purposes of this 25% determination, the value of equity interests held by persons (other than benefit plan investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such a person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. The term “**benefit plan investor**” is defined in Section 3(42) of ERISA as: (a) an employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to part 4 of subtitle B of Title I of ERISA, (b) a plan to which Section 4975 of the Code applies, or (c) any entity whose underlying assets include “plan assets” by reason of any such plan’s investment in the entity. Where the value of an equity interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity.

Because the Notes do not represent an interest in any property of the Issuer other than the Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the Loan. Further, neither the Issuer nor the Trustee will be able to monitor the Noteholders’ possible status as benefit plan investors. Accordingly, the Notes are not permitted to be acquired by any benefit plan investor.

Governmental plans, certain church plans and certain non U.S. plans, while not subject to the prohibited transaction provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non U.S. or other laws or regulations (such as the prohibited transaction rules of Section 503 of the Code) that are substantially similar to the foregoing provisions of ERISA or the Code and/or laws or regulations that provide that the assets of the issuer could be deemed to include “plan assets” of such plan (“**Similar Laws**”). Fiduciaries of such plans should consult with their counsel before purchasing any of the Notes or any interest therein.

By its purchase and holding of the Notes or any interest therein, the purchaser thereof will be deemed to have represented and agreed that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein: (a) it is not a benefit plan investor as defined in Section 3(42) of ERISA; (b) it is not and is not using the assets of a governmental plan, church plan or non-U.S. plan subject to Similar Laws unless the purchase and holding of such Notes will not violate any such Similar Laws; and (c) it will not sell or otherwise transfer any such Notes or interest to any person unless the same foregoing representations and warranties are deemed to apply from that person.

The foregoing discussion should not be construed as legal advice. Any potential purchaser of Notes should consult its legal counsel with respect to issues arising under ERISA, Section 4975 of the Code and any Similar Laws and make its own independent decisions.

INDEPENDENT AUDITORS

The Interim Financial Statements included in this Prospectus have been reviewed by KPMG. The 2017 and 2018 Annual Financial Statements included in this Prospectus have been audited by KPMG. The address of KPMG is Naberezhnaya Tower Complex, Block C, 10 Presnenskaya Naberezhnaya, Moscow 123112, Russian Federation. KPMG is a member of the self-regulated organisation of auditors “Russian Union of auditors” (*Association*). KPMG is an independent auditor and has no material interest in CBM.

GENERAL INFORMATION

- (1) Application has been made to list the Notes on Euronext Dublin, through Arthur Cox Listing Services Limited as listing agent (“**ACLSL**”). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or to trading on regulated market of Euronext Dublin. It is expected that the listing of the Notes will be granted on or about 29 January 2020. Transactions will normally be effected for delivery on the third working day after the day of the transaction, subject only to the issue of the Global Certificates.
- (2) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The International Securities Identification Number (“**ISIN**”) of the Regulation S Global Certificate is XS2099763075 and the Common Code of the Regulation S Global Certificate is 209976307. The CUSIP number of the Rule 144A Global Certificate is 12504P AH3, the ISIN of the Rule 144A Global Certificate is US12504PAH38 and the Common Code of the Rule 144A Global Certificate is 211122757.
- (3) The CFI Code of the Regulation S Global Certificate is DAFNFR, the CFI Code of the Rule 144A Global Certificate is DBFSGR and the FISN of the Regulation S Global Certificate is CBOM FINANCE PU/ASST BKD 22001231 R.
- (4) The Issuer estimates the amount of expenses related to the admission of the Notes to trading on Euronext Dublin to be approximately EUR5,000.
- (5) No consents, approvals, authorisations or orders of any regulatory authorities in Ireland or the Russian Federation are required by the Issuer or CBM for their respective entry into, and performance of their obligations under, the Loan Agreement or for the issue and performance of the Notes.
- (6) The issue of the Notes and the execution and performance by the Issuer of the Loan Agreement and the other documents to be entered into by the Issuer in relation to the Notes have been approved and authorised by a resolution at a meeting of the Board of the Directors of the Issuer dated 24 January 2020. The Issuer has obtained all necessary consents, approvals and authorisations in Ireland in connection with the Loan and the issue and performance of the obligations under the Notes. The Loan Agreement and the other documents to be entered into by CBM in relation to the issue of the Notes have been approved and authorised by a resolution at a meeting of the Supervisory Board of CBM dated 10 January 2020. CBM has obtained all necessary consents, approvals and authorisations in Russia in connection with the Loan and the issue and performance of the obligations under the Notes.
- (7) There has been no significant change in the financial performance or financial position of CBM since 30 September 2019 and no material adverse change in the prospects of CBM since 31 December 2018.
- (8) There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which CBM is aware) which may have or have had during the 12 months prior to the date of this Prospectus a significant effect on the financial position or profitability of CBM.
- (9) Since 31 December 2018, there has been no material adverse change in the financial position or prospects of the Issuer.
- (10) In the 12 months preceding the date of the Prospectus, there have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had a significant effect on the financial position or profitability of the Issuer.

- (11) Neither CBM, nor the Issuer has entered into any material contracts outside the ordinary course of business which could result in CBM or the Issuer becoming subject to an obligation or entitlement that would be material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes or CBM's ability to meet its obligations under the Loan Agreement.
- (12) For the life of the Prospectus, copies (and certified English translations where documents at issue are not in English, unless indicated otherwise below) of the following documents may be inspected at and are available at the links referenced below or in physical form at the registered office of the Issuer and the specified offices of the Trustee and the Principal Paying Agent in London during usual business hours on any business day (Saturdays, Sundays and public holidays excepted):
- a copy of this Prospectus along with any supplement to this Prospectus;
 - the Constitution of the Issuer (also available at <https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=-1&uID=3923&FIELDSORT=docId>);
 - the charter of CBM (an English copy of which is available for information purposes only and has not been certified) (also available at <https://mkb.ru/en/investor/emitent-news/statutory-documents>);
 - the Financial Statements, including the related independent auditors' and review reports in respect thereof;
 - the audited financial statements of the Issuer as at and for the years ended 31 December 2018 and 2017, including the related independent auditors' reports in respect thereof (also available at https://www.ise.ie/debt_documents/CBOM%20Finance%20PLC%20-%20Financial%20Statements%202018%20-%20Fully%20Executed_c1b73c37-c15c-4569-bd3e-0ff22b7230d5.PDF and http://www.ise.ie/debt_documents/CBOM%20Finance%20Plc%202017%20Financial%20Statements_d09a9e00-266a-4928-8862-bdff00d01e0e.PDF, respectively);
 - the Loan Agreement;
 - the Trust Deed; and
 - the Agency Agreement.

The Prospectus will be published on the website of Euronext Dublin at <https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=-1&uID=3923&FIELDSORT=docId>.

The Loan Agreement will be filed with Euronext Dublin and published at <https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=-1&uID=3923&FIELDSORT=docId>.

The Trust Deed will be filed with Euronext Dublin and published at <https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=-1&uID=3923&FIELDSORT=docId>.

The Agency Agreement will be filed with Euronext Dublin and published at <https://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=-1&uID=3923&FIELDSORT=docId>.

- (13) The Issuer does not intend to provide any post-issuance transaction information regarding the Notes or the Loan.

- (14) Citigroup Global Markets Europe AG will act as Registrar in relation to the Notes.
- (15) The loan to value ratio is 100%. Interest and principal on the Loan will be paid into an account operated by the Principal Paying Agent for the benefit of the Issuer.
- (16) There are no potential conflicts of interest between any duties of the Supervisory Board of CBM to CBM, and their private interests and/or other duties.
- (17) The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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CREDIT BANK OF MOSCOW
(public joint-stock company)

Consolidated Interim Condensed
Financial Statements
for the nine-month period
ended 30 September 2019

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Supervisory Board

CREDIT BANK OF MOSCOW (public joint-stock company)

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of CREDIT BANK OF MOSCOW (public joint-stock company) and its subsidiaries (the Group) as at 30 September 2019, and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and nine-month periods ended 30 September 2019, and the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month period ended 30 September 2019, and notes to the consolidated interim condensed financial information (the consolidated interim condensed financial information). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Reviewed entity: CREDIT BANK OF MOSCOW (public joint-stock company)

Registration No. in the Unified State Register of Legal Entities 1027739555282

Moscow, Russian Federation

Audit firm: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Registration No. in the Unified State Register of Legal Entities 1027700125626

Member of the Self-regulated organisation of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations No. 11603053203.



CREDIT BANK OF MOSCOW (public joint-stock company)

Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information
Page 2

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 September 2019, and for the three- and nine-month periods ended 30 September 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Tatarinova E.V.

Director

JSC "KPMG"

Moscow, Russia

26 November 2019

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income
for the nine- and nine-month period ended 30 September 2019
(in millions of Russian Roubles unless otherwise stated)

	Notes	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)	Three-Month Period Ended 30 September 2019 (Unaudited)	Three-Month Period Ended 30 September 2018 (Unaudited)
Interest income calculated using the effective interest method	4	105 988	99 271	37 477	33 770
Other interest income	4	3 086	3 249	1 048	1 260
Interest expense	4	(76 945)	(65 927)	(25 433)	(22 265)
Net interest income	4	32 129	36 593	13 092	12 765
(Charge for) recovery of credit losses on debt financial assets	9,10, 12,13	(2 978)	(4 408)	2 577	(4 377)
Net interest income after credit losses on debt financial assets		29 151	32 185	15 669	8 388
Fee and commission income	5	11 176	11 403	3 715	4 141
Fee and commission expense	5	(2 712)	(2 500)	(847)	(951)
Net (loss) gain on loans to customers at FVTPL		(1 060)	(3 224)	(664)	615
Net gain (loss) on financial assets at FVTPL		784	(180)	731	(193)
Net loss from sale and redemption of Investment financial assets at FVOCI		(221)	(71)	(20)	(830)
Net realised gain (loss) on Investment financial assets at amortised cost		199	-	(101)	-
Net foreign exchange (losses) gains		(8 531)	173	(680)	1 481
Net gain on change in financial liabilities measured at fair value through profit or loss		24	-	24	-
Impairment gain (losses) on other non-financial assets, credit gain (losses) on other financial assets and credit related commitments and other provisions	7	3 626	(1 906)	223	(461)
State deposit insurance scheme contributions		(1 944)	(1 363)	(729)	(534)
Operating lease income		34	68	14	14
Net gain from disposal of subsidiaries		-	637	-	-
Other net operating (expense) income		(311)	2 024	(317)	1 739
Non-interest income		1 064	5 061	1 349	5 021
Operating income		30 215	37 246	17 018	13 409
Salaries and employment benefits	6	(10 994)	(8 620)	(3 227)	(2 517)
Administrative expenses	6	(3 357)	(3 856)	(1 339)	(1 334)
Depreciation of premises and equipment and right-of-use assets		(1 418)	(768)	(466)	(280)
Operating expense		(15 769)	(13 244)	(5 032)	(4 131)
Profit before income taxes		14 446	24 002	11 986	9 278
Income tax	8	(2 564)	(5 647)	(2 265)	(1 927)
Profit for the period		11 882	18 355	9 721	7 351

The consolidated interim condensed statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes, forming an integral part of the consolidated interim condensed financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income
for the nine- and nine-month period ended 30 September 2019
(in millions of Russian Roubles unless otherwise stated)

Notes	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)	Three-Month Period Ended 30 September 2019 (Unaudited)	Three-Month Period Ended 30 September 2018 (Unaudited)
Profit for the period	11 882	18 355	9 721	7 351
Other comprehensive income (loss)				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
<i>Movement in fair value reserve (debt instruments):</i>				
- net change in fair value	3 029	(4 067)	466	(788)
- net amount transferred to profit or loss	231	(100)	19	7
<i>Income tax related to items that are or may be reclassified subsequently to profit or loss</i>	(652)	834	(97)	156
<i>Change in fair value of financial liability attributable to changes in credit risk</i>	10	-	10	-
Other comprehensive income (loss) for the period, net of income tax	2 618	(3 333)	398	(625)
Total comprehensive income for the period	14 500	15 022	10 119	6 726
Basic and diluted earnings per share (in RUB per share)	0,35	0,59	0,33	0,24

Chairman of the Management Board

Chief Accountant



(Signature of Vladimir A. Chubar)

Vladimir A. Chubar

Svetlana V. Sass

The consolidated interim condensed statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes, forming an integral part of the consolidated interim condensed financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Interim Condensed Statement of Financial Position as at 30 September 2019
(in millions of Russian Roubles unless otherwise stated)

	Notes	30 September 2019 (Unaudited)	31 December 2018
ASSETS			
Cash and cash equivalents	9	829 613	1 162 779
Obligatory reserves with the Central bank of the Russian Federation		16 460	13 065
Due from credit and other financial institutions	10	346 349	13 183
Trading financial assets	11	13 029	15 665
- held by the Group	11	12 271	12 909
- pledged under sale and repurchase agreements	11	758	2 756
Loans to customers	12	735 468	709 045
- loans to corporate clients	12	636 371	617 911
- loans to individuals	12	99 097	91 134
Investment financial assets	13	223 415	214 481
- held by the Group		175 789	84 703
- pledged under sale and repurchase agreements		47 626	129 778
Investments in associates		2 350	2 275
Property and equipment		9 860	7 182
Deferred tax asset		71	113
Other assets		7 584	8 139
Total assets		2 184 199	2 145 927
LIABILITIES AND EQUITY			
Due to credit institutions	14	535 202	552 930
Due to customers	15	1 269 029	1 272 175
- due to corporate customers	15	809 787	897 099
- due to individuals	15	459 242	375 076
Financial liabilities measured at fair value through profit or loss	17	5 237	6 253
Debt securities issued	16	159 794	105 305
Deferred tax liability		5 505	4 248
Other liabilities		10 361	13 843
Total liabilities		1 985 128	1 954 754
Equity			
Share capital	18	27 942	27 942
Additional paid-in capital		46 247	46 247
Perpetual debt issued	18	43 084	46 691
Revaluation surplus for buildings		490	490
Fair value reserve for securities		774	(1 834)
Change in fair value of financial liability attributable to changes in the credit risk		10	-
Retained earnings		80 524	71 637
Total equity		199 071	191 173
Total liabilities and equity		2 184 199	2 145 927

Chairman of the Management Board

Chief Accountant



Vladimir A. Chubar

Svetlana V. Sass

The consolidated interim condensed statement of financial position is to be read in conjunction with the Notes, forming an integral part of the consolidated interim condensed financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Interim Condensed Statement of Cash Flows for the nine-month period ended 30 September 2019
(in millions of Russian Roubles unless otherwise stated)

Notes	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	100 581	102 426
Interest payments	(69 161)	(64 378)
Fees and commission receipts	11 807	11 172
Fees and commission payments	(2 336)	(2 285)
Net receipts from operations with securities	310	11
Net (payments) receipts from foreign exchange	(18 807)	20 198
State deposit insurance scheme contributions payments	(1 795)	(1 232)
Net other operating (expense) income (payments) receipts	(633)	2 357
Operating leases income receipts	34	68
Salaries and employment benefits paid	(10 381)	(8 224)
Administrative expenses paid	(3 202)	(3 627)
Income tax paid	(1 028)	(1 802)
Operating cash flows before changes in operating assets and liabilities	5 389	54 684
(Increase) decrease in operating assets		
Obligatory reserves with the Central bank of the Russian Federation	(3 395)	(2 613)
Due from credit and other financial institutions	(342 392)	5 647
Trading financial assets	4 461	(8 897)
Loans to customers	(70 282)	98 418
Assets held for sale	-	98
Other assets	(858)	(6 042)
Increase (decrease) in operating liabilities		
Due to credit institutions except syndicated and subordinated loans	4 802	(105 077)
Due to customers except subordinated loans	40 411	123 444
Other liabilities	(3 317)	465
Net cash (used in) from operations	(365 181)	160 127
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment financial assets	(259 993)	(232 182)
Proceeds from disposal and redemption of investment financial assets	262 213	149 791
Net disposal of subsidiary	-	847
Purchase of property and equipment and intangible assets	(1 926)	(1 123)
Sale of property and equipment and intangible assets	177	-
Sale of investment property	90	-
Net cash from (used in) investing activities	561	(82 667)

The consolidated interim condensed statement of cash flows is to be read in conjunction with the Notes, forming an integral part of the consolidated interim condensed financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Interim Condensed Statement of Cash Flows for the nine-month period ended 30 September 2019
(in millions of Russian Roubles unless otherwise stated)

	Notes	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from placement and issuance of perpetual debt		338	4 946
Repayment of perpetual debt issued		(928)	(5 053)
Interest on perpetual debt paid		(2 920)	(2 857)
Proceeds from syndicated borrowings		28 120	376
Repayments of syndicated borrowings		(19 920)	(11 452)
Proceeds from placement and issuance of subordinated bonds		623	347
Partial redemption of subordinated bonds		(618)	(7 423)
Proceeds from placement and issuance of other bonds		94 390	32 626
Repayments of other bonds		(32 549)	(36 625)
Cash outflow from lease liabilities		(520)	-
Dividends paid	18	(2 979)	-
Net cash from (used in) financing activities		63 037	(25 115)
Effect of exchange rates changes on cash and cash equivalents		(32 226)	46 736
Effect of changes in ECL on cash and cash equivalents		643	(239)
Change in cash and cash equivalents		(333 166)	98 842
Cash and cash equivalents, beginning of the period		1 162 779	933 360
Cash and cash equivalents, end of the period	9	829 613	1 032 202

Chairman of the Management Board

Chief Accountant



[Handwritten signature in blue ink]

Vladimir A. Chubar

Svetlana V. Sass

The consolidated interim condensed statement of cash flows is to be read in conjunction with the Notes, forming an integral part of the consolidated interim condensed financial statements.

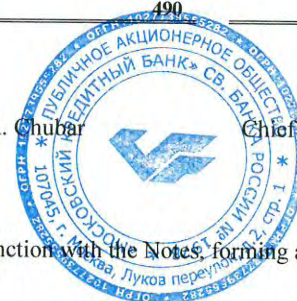
CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Interim Condensed Statement of Changes in Equity for the nine-month period ended 30 September 2019
(in millions of Russian Roubles unless otherwise stated)

	Share capital	Additional paid-in capital	Perpetual debt issued	Revaluation surplus for buildings	Fair value reserve for securities	Change in fair value of financial liability attributable to changes in the credit risk	Retained earnings	Total equity
Balance as at 1 January 2018	27 942	46 247	40 320	582	1 348	-	53 431	169 870
Total comprehensive income for the period (Unaudited)	-	-	-	-	(3 333)	-	18 355	15 022
Perpetual debt redemption (Unaudited)	-	-	(5 053)	-	-	-	-	(5 053)
Issuance of perpetual debt (Unaudited)	-	-	5 000	-	-	-	-	5 000
Interest paid on perpetual debt issued (Unaudited)	-	-	-	-	-	-	(2 857)	(2 857)
Foreign exchange translation of perpetual debt issued (Unaudited)	-	-	4 985	-	-	-	(4 985)	-
Transaction costs on perpetual debt issued (Unaudited)	-	-	-	-	-	-	(54)	(54)
Tax effect on perpetual debt issued (Unaudited)	-	-	-	-	-	-	1 580	1 580
Balance as at 30 September 2018 (Unaudited)	27 942	46 247	45 252	582	(1 985)	-	65 470	183 508
Balance as at 1 January 2019	27 942	46 247	46 691	490	(1 834)	-	71 637	191 173
Total comprehensive income for the period (Unaudited)	-	-	-	-	2 608	10	11 882	14 500
Perpetual debt redemption (Unaudited)	-	-	(928)	-	-	-	-	(928)
Interest paid on perpetual debt issued (Unaudited)	-	-	-	-	-	-	(2 920)	(2 920)
Perpetual debt issued (Unaudited)	-	-	338	-	-	-	-	338
Foreign exchange translation of perpetual debt issued (Unaudited)	-	-	(3 017)	-	-	-	3 017	-
Tax effect on perpetual debt issued (Unaudited)	-	-	-	-	-	-	(113)	(113)
Dividends paid (Unaudited)	-	-	-	-	-	-	(2 979)	(2 979)
Balance as at 30 September 2019 (Unaudited)	27 942	46 247	43 084	490	774	10	80 524	199 071

Chairman of the Management Board



Vladimir A. Chubar



Chief Accountant



Svetlana V. Sass

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the Notes, forming an integral part of consolidated interim condensed financial statements.

1 Background

Principal activities

These consolidated interim condensed financial statements include the financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganised as an open joint-stock company. On 16 May 2016 the Bank was re-registered as a public joint-stock company under the legislation of the Russian Federation. The Bank's registered legal address is 2 (bldg. 1), Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 10 largest banks in Russia by assets and conducts its business in Russia with a branch network comprising 131 branches, 1 153 ATMs and 6 827 payment terminals.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activities	Degree of control, %	
			30 September 2019	31 December 2018
"CBOM Finance p.l.c."	Ireland	Raising finance	100%	100%
JSC NCO "INKAKHRAN"	Russia	Cash handling	100%	100%
LLC "Inkakhra-Servis"	Russia	Cash handling	100%	100%
LLC "MKB-Invest"	Russia	Transactions with securities	100%	100%
LLC "Bank SKS"	Russia	Investment banking	100%	100%
CJSC "Mortgage Agent MKB"	Russia	Raising finance	100%	100%
LLC "Mortgage Agent MKB 2"	Russia	Raising finance	100%	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", LLC "MKB Invest", CJSC "Mortgage Agent MKB" and LLC "Mortgage Agent MKB 2". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. "MKB Invest" is controlled by the Group through an option agreement. CJSC "Mortgage Agent MKB" was established for the purposes of the mortgage loans securitisation program launched by the Bank in 2014. LLC "Mortgage Agent MKB 2" was established for the purposes of the mortgage loans securitisation program launched by the Bank in 2016.

Shareholders

The Bank's shareholders as at 30 September 2019 are:

- LLC «Concern Rossium» – 60,00% *
- Region FinanceResurs JSC – 9,43%
- LLC IC Algoritm – 6,34%
- Other shareholders – 24,23%.

The majority participant of LLC Concern Rossium, is Roman I. Avdeev, who is the ultimate controlling party of the Group.

Related party transactions are detailed in Note 20.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial risks in the markets of the Russian Federation, which display emerging-market characteristics.

* The ownership share of PJSC "CREDIT BANK OF MOSCOW", which includes the direct ownership share of LLC Concern Rossium for 56,07% and the ownership share of the Company's subsidiaries for 3,93%

Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities, including banks, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated interim condensed financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Seasonality of operations

The Group operates in industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

2 Basis of preparation

Statement of compliance

The accompanying consolidated interim condensed financial statements are prepared in accordance with IAS 34 *'Interim Financial Reporting'*, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2018 ("last annual financial statements"). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and through other comprehensive income are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated interim condensed financial statements.

Financial information presented in RUB is rounded to the nearest million.

Foreign currencies, particularly USD and EUR, play significant role in determination of economic parameters for many business operations conducted in the Russian Federation. The table below sets out exchange rates for USD and EUR against RUB, defined by the CBR:

	30 September 2019	31 December 2018	30 September 2018
USD	64,4156	69,4706	65,5906
EUR	70,3161	79,4605	76,2294

Use of estimates and judgments

The preparation of consolidated interim condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In preparing these consolidated interim condensed financial statements the critical judgments made by management in applying the accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

Changes in accounting policies and presentation

Except as described below, the accounting policies applied in these consolidated interim condensed financial statements are the same as those applied in the last annual financial statements. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019. The Group has initially adopted IFRS 16 'Leases' from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's Consolidated Interim Condensed financial statements.

IFRS 16 Leases

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

As a lessee

The Group leases many assets, including properties and vehicles. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment', the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

(Unaudited)	Property	Vehicles
Balance at 1 January 2019	2 999	48
Balance at 30 September 2019	2 829	32

The Group presents lease liabilities in 'other liabilities' in the consolidated interim condensed statement of financial position.

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. Transition

Previously, the Group classified property leases as operating leases under IAS 17. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a number of items of vehicles. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

As a lessor

The Group does not lease out any investment property, including right-of-use assets.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component. The Group sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. The sub-lease contracts are classified as operating leases under IFRS 16.

Impacts on financial statements

i. Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities with no impact on retained earnings. The impact on transition is summarised below.

	1 January 2019 (Unaudited)
Right-of-use assets presented in property and equipment	2 999
Lease liabilities presented in other liabilities	2 911

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8,86%.

	1 January 2019 (Unaudited)
Operating lease commitments as at 31 December 2018 as disclosed in the consolidated financial statements of the Group	3 508
Discounted using the incremental borrowing rate at 1 January 2019	2 261
Finance lease liabilities recognised as at 31 December 2018	31
Recognition exemption for leases of low-value assets, for leases with less than 12 month lease term at transition and other contracts	(131)
Extension options reasonably certain to be exercised	781
Lease liabilities recognised at 1 January 2019	2 942

ii. Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RUB 2 999 million of right-of-use assets and RUB 2 911 million of lease liabilities as at 1 January 2019. Also in relation to those leases under IFRS 16, the Group recognised depreciation and interest costs, instead of operating lease expense. During the nine-month period ended 30 September 2019, the Group recognised RUB 639 million of depreciation charges and RUB 224million of interest costs from these leases. For the impact of IFRS 16 on segment information see Note 21.

3 Significant accounting policies

The accounting policies applied in these consolidated interim condensed financial statements are the same as those applied in the last annual financial statements, except those related to the Group's adoption of IFRS 16 (Note 2), which are applicable from 1 January 2019.

4 Net interest income

	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)	Three-Month Period Ended 30 September 2019 (Unaudited)	Three-Month Period Ended 30 September 2018 (Unaudited)
Interest income calculated using the effective interest method				
Financial assets measured at amortised cost				
Loans to customers	46 209	49 824	16 123	16 357
Due from credit and other financial institutions and the CBR	49 460	42 885	17 725	14 483
Other financial assets	1 202	518	342	295
Debt financial assets measured at FVOCI	9 117	6 044	3 287	2 635
Interest income calculated using the effective interest method	105 988	99 271	37 477	33 770
Loans to customers at FVTPL	2 588	2 474	872	940
Other financial instruments at fair value through profit or loss	498	775	176	320
Other interest income	3 086	3 249	1 048	1 260
	109 074	102 520	38 525	35 030
Interest expense				
Due to customers	(49 931)	(33 840)	(17 590)	(12 346)
Due to credit institutions	(19 926)	(25 259)	(5 291)	(7 677)
Debt securities issued	(6 864)	(6 822)	(2 459)	(2 240)
Lease liabilities	(224)	(6)	(93)	(2)
	(76 945)	(65 927)	(25 433)	(22 265)
Net interest income	32 129	36 593	13 092	12 765

5 Net fee and commission income

	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)	Three-Month Period Ended 30 September 2019 (Unaudited)	Three-Month Period Ended 30 September 2018 (Unaudited)
Fee and commission income				
Other cash operations	2 222	1 792	694	679
Plastic cards	1 656	1 752	569	587
Settlements and wire transfers	1 625	1 884	402	656
Guarantees and letters of credit	1 598	1 554	635	587
Insurance contracts processing	1 564	1 673	595	623
Cash handling	1 225	1 430	308	514
Currency exchange and brokerage commission	759	682	287	222
Opening and maintenance of bank accounts	399	423	128	147
Other	128	213	97	126
	11 176	11 403	3 715	4 141
Fee and commission expense				
Plastic cards	(2 130)	(2 056)	(671)	(686)
Guarantees and other credit related facilities received	(260)	(28)	(71)	(10)
Settlements and wire transfers	(165)	(93)	(45)	(38)
Other	(157)	(323)	(60)	(217)
	(2 712)	(2 500)	(847)	(951)
Net fee and commission income	8 464	8 903	2 868	3 190

6 Salaries, employment benefits and administrative expenses

	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)	Three-Month Period Ended 30 September 2019 (Unaudited)	Three-Month Period Ended 30 September 2018 (Unaudited)
Salaries	9 049	6 876	2 681	2 023
Social security costs	1 945	1 744	546	494
Salaries and employment benefits	10 994	8 620	3 227	2 517
Advertising and business development	604	762	349	217
Operating taxes	565	416	214	160
Property maintenance	511	478	182	162
Security	422	405	128	144
Legal and consulting services	266	226	94	99
Communications	255	203	93	82
Write-off of low-value fixed assets	200	166	80	54
Computer maintenance and software expenses	150	121	67	46
Occupancy	141	857	36	288
Insurance	113	103	37	36
Transport	107	95	52	38
Other	23	24	7	8
Administrative expenses	3 357	3 856	1 339	1 334

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

7 Allowances on other non-financial assets, on other financial assets and credit related commitments and other provisions

Movements in the impairment allowance and credit loss allowance for the nine-month period ended 30 September 2019 are as follows:

(Unaudited)	Other financial assets	Non-financial assets	Provisions for financial guarantees and credit related commitments	Provisions for claims and other provisions	Total
Balance at the beginning of the period	457	55	173	5 969	6 654
Net charge (recovery)	272	301	30	(4 229)	(3 626)
Write-offs	-	(168)	-	(51)	(219)
Balance at the end of the period	729	188	203	1 689	2 809

The Group revised historical losses for non-financial guarantees and adjusted provision rate accordingly during three-month period ended 31 March 2019. The Group also obtained collateral for significant non-financial guarantee in 2019. Provisions for claims and other provisions as at nine-month period ended 30 September 2019 would be RUB 3 225 million higher without the described changes.

Movements in the impairment allowance for the nine-month period ended 30 September 2018 are as follows:

(Unaudited)	Other financial assets	Non-financial assets	Provisions for financial guarantees and credit related commitments	Provisions for claims and other provisions	Total
Balance at the beginning of the period	514	231	3 175	247	4 167
Net charge (recovery)	71	(121)	(2 979)	4 935	1 906
Write-offs	(2)	(29)	-	(56)	(87)
Disposal of subsidiary	(42)	(35)	-	-	(77)
Balance at the end of the period	541	46	196	5 126	5 909

8 Income tax

	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)
Current tax charge	2 521	2 739
Deferred taxation	43	2 908
Income tax (recovery) expense	2 564	5 647

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate is 20% in 2019 and 2018.

9 Cash and cash equivalents

	30 September 2019 (Unaudited)	31 December 2018
Cash on hand	19 979	18 655
Correspondent account with the Central bank of the Russian Federation	99 289	56 103
Nostro accounts with other banks		
rated from AA+ to AA-	3 317	7 562
rated from A+ to A-	1 004	1 467
rated from BBB+ to BBB-	5 618	3 291
rated from BB+ to BB-	184	853
rated from B+ to B-	-	109
not rated	157	983
Total nostro accounts with other banks	10 280	14 265
Deposits in credit and other financial institutions with maturity of less than 1 month		
Deposits with the Central bank of the Russian Federation	1 712	2 219
rated from AA+ to AA-	7	-
rated from A+ to A-	-	12 416
rated from BBB+ to BBB-	11 539	6 520
rated from B+ to B-	53 310	49 560
not rated	634 152	1 004 339
Total deposits in credit and other financial institutions with maturity of less than 1 month	700 720	1 075 054
Total gross cash and cash equivalents	830 268	1 164 077
Credit loss allowance	(655)	(1 298)
Total net cash and cash equivalents	829 613	1 162 779

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

The correspondent account with the Central bank of the Russian Federation represents balances held with the Central bank of the Russian Federation related to settlement activity, and was available for withdrawal at the period end.

As at 30 September 2019, not rated Cash and cash equivalents include counterparties with ratings equivalent to Low credit risk for amount of RUB 113 million, counterparties with ratings equivalent to Moderate credit risk for amount of RUB 634 196 million.

As at 30 September 2019, deposits in not rated credit and other financial institutions with maturity of less than 1 month include term deposits secured by liquid securities under agreements to resell (reverse repo) in the amount of RUB 634 152 million with rating BBB- (31 December 2018: RUB 1 004 339 million from which 99,02% have rating from B to BBB-).

As at 30 September 2019, receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 698 999 million (31 December 2018: 1 058 970 RUB million).

As at 30 September 2019, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 761 682 million (31 December 2018: RUB 1 152 996 million).

As at 30 September 2019, Cash and cash equivalents for which external benchmark information represents a significant input into measurement of ECL are RUB 172 770 million (31 December 2018: RUB 137 689 million).

Movements in cash and cash equivalents credit loss allowance for the nine-month period ended 30 September 2019 and nine-month period ended 30 September 2018 are as follows:

	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)
Balance at the beginning of the period	1 298	673
Net (recovery) charge	(643)	239
Balance at the end of the period	655	912

As at 30 September 2019 and 30 September 2018 the Group recognises expected loss allowance in the amount of 12-month expected credit losses except for distressed credit impaired assets which are recognised in the amount of lifetime expected credit losses.

10 Due from credit and other financial institutions

	30 September 2019 (Unaudited)	31 December 2018
Term deposits		
rated from AA+ to AA-	7 251	-
rated from A+ to A-	695	-
rated from BBB+ to BBB-	4 169	2 619
rated from BB+ to BB-	1 897	-
rated from B+ to B-	15	4 047
not rated	332 879	6 652
Total gross due from credit and other financial institutions	346 906	13 318
Credit loss allowance	(557)	(135)
Total net due from credit and other financial institutions	346 349	13 183

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

As at 30 September 2019, not rated Deposits in credit and other financial institutions measured at amortised cost include counterparties with ratings equivalent to Moderate credit risk for amount of RUB 332 851 million and Distressed assets for amount of RUB 28 million.

As at 30 September 2019, deposits included in not rated credit and other financial institutions are receivables in the amount of RUB 332 851 million (31 December 2018: RUB 3 679 million) secured by liquid securities under

agreements to resell (reverse repo).

As at 30 September 2019, receivables under reverse sale and repurchase agreements included in due from credit and other financial institutions are RUB 333 266 million (31 December 2018: RUB 7 762 million).

As at 30 September 2019, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 372 880 million (31 December 2018: RUB 10 417 million).

As at 30 September 2019, Deposits in credit and other financial institutions for which external benchmark information represents a significant input into measurement of ECL are RUB 13 330 million (31 December 2018: RUB 6 669 million).

Movements in due from credit and other financial institutions credit loss allowance for the nine-month period ended 30 September 2019 and nine-month period ended 30 September 2018 are as follows:

	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)
Balance at the beginning of the period	135	166
Net charge (recovery)	422	(94)
Balance at the end of the period	557	72

As at 30 September 2019 and 30 September 2018 the Group recognises expected loss allowance in the amount of 12-month expected credit losses except for distressed credit impaired assets which are recognised in the amount of lifetime expected credit losses.

11 Trading financial assets

	30 September 2019 (Unaudited)	31 December 2018
<u>Held by the Group</u>		
Government and municipal bonds		
Russian Government Federal bonds	-	1 418
Russian Government Eurobonds	511	470
Regional authorities and municipal bonds	-	65
Corporate bonds		
rated from A+ to A-	65	-
rated from BBB+ to BBB-	1 558	3 109
rated from BB+ to BB-	1 969	2 955
rated from B+ to B-	56	127
not rated	1 592	129
Derivative financial instruments	6 520	4 636
Total held by the Group	12 271	12 909
<u>Pledged under sale and repurchase agreements</u>		
Corporate bonds		
rated from BBB+ to BBB-	758	2 606
rated from BB+ to BB-	-	150
Total pledged under sale and repurchase agreements	758	2 756
Total trading financial assets	13 029	15 665

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

As at 30 September 2019, trading financial assets in the amount of RUB 2 442 million (31 December 2018: RUB 5 639 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

12 Loans to customers

	30 September 2019 (Unaudited)	31 December 2018
Loans to customers at amortised cost		
Loans to corporate clients	610 390	580 146
Credit loss allowance	(31 402)	(25 618)
Total loans to corporate clients at amortised cost, net	578 988	554 528
Loans to individuals		
Cash loans	77 694	72 219
Mortgage loans	23 367	20 679
Credit card loans	3 729	3 585
Auto loans	49	119
Credit loss allowance	(5 742)	(5 468)
Total loans to individuals, net	99 097	91 134
Total gross loans to customers at amortised cost	715 229	676 748
Credit loss allowance	(37 144)	(31 086)
Total net loans to customers at amortised cost	678 085	645 662
Loans to customers at FVTPL		
Loans to corporate clients	57 383	63 383
Total loans to customers at amortised cost and FVTPL	735 468	709 045

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 30 September 2019 and 31 December 2018:

	30 September 2019 (Unaudited)	31 December 2018
Loans to customers		
- Not past due	740 108	705 067
- Overdue less than 31 days	1 463	18 257
- Overdue 31-60 days	578	3 614
- Overdue 61-90 days	1 968	1 239
- Overdue 91-180 days	3 109	2 793
- Overdue 181-360 days	16 190	4 803
- Overdue more than 360 days	9 196	4 358
Total gross loans to customers	772 612	740 131
Credit loss allowance	(37 144)	(31 086)
Total net loans to customers	735 468	709 045

As at 30 September 2019, the gross amount of overdue loans with payments that are overdue at least for one day totals RUB 32 504 million, which represents 4,2% of the gross loan portfolio (31 December 2018: RUB 35 064 million and 4,7%, respectively).

As at 30 September 2019, non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 28 495 million or 3,7% of the gross loan portfolio (31 December 2018: RUB 11 954 million and 1,6%, respectively).

As at 30 September 2019, the ratio of total credit loss allowance to overdue loans equals 114,3 %, the ratio of total credit loss allowance to NPLs equals 130,4% (31 December 2018: 88,7%, 260,0%, respectively).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 30 September 2019 and 31 December 2018:

	30 September 2019 (Unaudited)	31 December 2018
Loans to corporate clients		
- Not past due	641 634	614 542
- Overdue less than 31 days	-	17 149
- Overdue 31-60 days	-	3 131
- Overdue 61-90 days	1 532	901
- Overdue 91-180 days	1 993	1 811
- Overdue 181-360 days	14 410	2 912
- Overdue more than 360 days	8 204	3 083
Total gross loans to corporate clients	667 773	643 529
Credit loss allowance	(31 402)	(25 618)
Total net loans to corporate clients	636 371	617 911

Credit quality analysis

	30 September 2019 (Unaudited)				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Originated credit- impaired	Total
<u>Loans to corporate clients at amortised cost</u>					
Low credit risk	185 500	-	-	-	185 500
Moderate credit risk	320 565	-	-	-	320 565
High credit risk	59 427	14 831	-	-	74 258
Distressed assets	-	-	25 005	5 062	30 067
Total	565 492	14 831	25 005	5 062	610 390
Credit loss allowance	(11 125)	(4 893)	(15 385)	-	(31 402)
Carrying amount	554 368	9 939	9 620	5 062	578 988
<u>Loan commitments</u>	8 785	46	-	-	8 831
Credit loss allowance	(14)	-	-	-	(14)
Carrying amount	(14)	-	-	-	(14)
<u>Financial guarantee contracts</u>	16 474	-	4 980	-	21 454
Credit loss allowance	(189)	-	-	-	(189)
Carrying amount	(288)	-	(42)	-	(330)

	31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Originated credit- impaired	Total
<u>Loans to corporate clients at amortised cost</u>					
Low credit risk	141 051	-	-	-	141 051
Moderate credit risk	347 017	25 732	-	5 348	378 097
High credit risk	28 040	13 835	-	7 343	49 218
Distressed assets	-	-	11 780	-	11 780
Total	516 108	39 567	11 780	12 691	580 146
Credit loss allowance	(10 289)	(5 937)	(9 392)	-	(25 618)
Carrying amount	505 819	33 630	2 388	12 691	554 528
<u>Loan commitments</u>	59 544	15	-	-	59 559
Credit loss allowance	(46)	-	-	-	(46)

	31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Originated credit- impaired	Total
Carrying amount	(46)	-	-	-	(46)
<i>Financial guarantee contracts</i>	3 787	500	15	-	4 302
Credit loss allowance	(85)	(40)	(2)	-	(127)
Carrying amount	(109)	(40)	(2)	-	(151)

As at 30 September 2019, Loans to customers for which external benchmark information represents a significant input into measurement of ECL are RUB 37 123 million (31 December 2018: RUB 36 763 million).

Analysis of movements in the credit loss allowance

Movements in the credit loss allowance for loans to corporate clients by three ECL stages* for the nine-month period ended 30 September 2019 and 30 September 2018 are as follows:

	Nine-month period ended 30 September 2019 (Unaudited)				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Originated credit- impaired	Total
<i>Loans to corporate clients</i>					
Balance at the beginning of the period	10 289	5 937	9 392	-	25 618
Transfer to 12-month ECL	39	(39)	-	-	-
Transfer to lifetime ECL not credit-impaired	(68)	68	-	-	-
Transfer to lifetime ECL credit-impaired	(94)	(3 307)	3 401	-	-
Net remeasurement of loss allowance	(776)	2 496	2 665	(7 633)	(3 248)
New financial assets originated or purchased	7 082	1 053	2	-	8 137
Financial assets that have been fully repaid	(3 666)	(639)	(19)	-	(4 324)
Financial assets that have been derecognised due to modification	(1 218)	-	-	-	(1 218)
Write-offs	(187)	(677)	(960)	-	(1 824)
Recoveries of amounts previously written-off	-	-	463	-	463
Unwinding of discount	-	-	779	-	779
Foreign exchange and other movements	(276)	-	(338)	-	(614)
Repayment of originated credit-impaired assets in the amount exceeding expected cash flows including ECL at origination	-	-	-	7 633	7 633
Balance at the end of the period	11 125	4 892	15 385	-	31 402

During the nine-month period ended 30 September 2019 the Group recognised loss on initial recognition of purchased or originated credit impaired loans in the amount of RUB 313 million.

During the nine-month period ended 30 September 2019 the Group recognized loss on significant modification in amount of RUB 2 210 million and gain on significant modification in amount of RUB 2 504 million.

ECL recovery on repayment of purchased or originated credit impaired loans is RUB 7 633 million.

* The estimated amount of ECL allowance includes ECL on loan commitments for certain corporate clients.

Nine-month period ended 30 September 2018				
(Unaudited)				
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	
<i>Loans to corporate clients</i>				
Balance at the beginning of the period	7 796	1 285	35 318	44 399
Transfer to 12-month ECL	207	(207)	-	-
Transfer to lifetime ECL not credit-	(9)	9	-	-
Transfer to lifetime ECL credit-impaired	(96)	(5)	101	-
Net remeasurement of loss allowance	73	482	4 250	4 805
New financial assets originated or purchased	4 516	763	1 321	6 600
Financial assets that have been derecognised (full repayment)	(3 297)	(235)	(4 783)	(8 315)
Transfer to assets held for sale	-	-	(7 700)	(7 700)
Write-offs	-	-	(4 115)	(4 115)
Recoveries of amounts previously written- off	-	-	294	294
Unwinding of discount	-	-	593	593
Disposal of subsidiary	(93)	(103)	(572)	(768)
Foreign exchange and other movements	362	-	41	403
Balance at the end of the period	9 459	1 989	24 748	36 196

Significant changes in the gross carrying amount of loans to corporate clients during the year that contributed to changes in loss allowance were as follows:

Repayment of loans to corporate clients in the amount of RUB 245 481 million during nine-month period ended 30 September 2019 (30 September 2018: RUB 308 117 million) resulted in decrease of ECL in the amount of RUB 4 323 million (30 September 2018: RUB 8 315 million).

Write-offs and sale of loans to corporate clients in the amount of RUB 10 221 million during nine-month period ended 30 September 2019 (30 September 2018: RUB 69 220 million) resulted in decrease of ECL in the amount of RUB 1 824 million (30 September 2018: RUB 11 815 million).

Transfers from 12-month ECL to lifetime ECL not credit-impaired and to lifetime ECL credit-impaired in the amount of RUB 6 315 million during nine-month period ended 30 September 2019 (30 September 2018: RUB 2 427 million) resulted in increase of ECL in the amount of RUB 3 103 million (30 September 2018: RUB 1 667 million).

Transfers from lifetime ECL not credit-impaired to lifetime ECL credit-impaired in the amount of RUB 11 077 million during nine-month period ended 30 September 2019 (30 September 2018: no such amounts) resulted in increase of ECL in the amount of RUB 777 million (30 September 2018: no such amounts).

Issuance of corporate loans in the amount of RUB 345 576 million during nine-month period ended 30 September 2019 (30 September 2018: RUB 272 478 million) during the year resulted in increase of ECL in the amount of RUB 8 137 million (30 September 2018: RUB 6 600 million).

Credit quality of loans to individuals

The following tables provide information on the credit quality of loans to individuals as at 30 September 2019:

30 September 2019 (Unaudited)					
	Cash loans	Mortgage loans	Credit card loans	Auto loans	Total
Loans to individuals					
- Not past due	72 352	22 630	3 450	42	98 474
- Overdue less than 31 days	1 277	143	43	-	1 463
- Overdue 31-60 days	508	70	-	-	578
- Overdue 61-90 days	373	31	31	1	436
- Overdue 91-180 days	958	94	62	2	1 116
- Overdue 181-360 days	1 557	124	98	1	1 780
- Overdue more than 360 days	669	275	45	3	992
Gross loans to individuals	77 694	23 367	3 729	49	104 839
Credit loss allowance	(5 225)	(205)	(308)	(4)	(5 742)
Net loans to individuals	72 469	23 162	3 421	45	99 097

30 September 2019 (Unaudited)				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
<u>Loans to individual clients at amortised cost</u>				
- Not past due	95 291	3 054	130	98 475
- Overdue less than 31 days	159	1 291	13	1 463
- Overdue 31-60 days	-	576	2	578
- Overdue 61-90 days	-	405	31	436
- Overdue 91-180 days	-	-	1 115	1 115
- Overdue 181-360 days	-	-	1 780	1 780
- Overdue more than 360 days	-	-	992	992
Total	95 450	5 326	4 063	104 839
Credit loss allowance	(1 101)	(1 384)	(3 257)	(5 742)
Carrying amount	94 349	3 942	806	99 097

The following tables provide information on the credit quality of loans to individuals as at 31 December 2018:

31 December 2018					
	Cash loans	Mortgage loans	Credit card loans	Auto loans	Total
Loans to individuals					
- Not past due	67 455	19 605	3 356	109	90 525
- Overdue less than 31 days	883	222	-	3	1 108
- Overdue 31-60 days	400	54	28	1	483
- Overdue 61-90 days	295	18	25	-	338
- Overdue 91-180 days	722	208	49	3	982
- Overdue 181-360 days	1 646	160	83	2	1 891
- Overdue more than 360 days	818	412	44	1	1 275
Gross loans to individuals	72 219	20 679	3 585	119	96 602
Credit loss allowance	(4 927)	(294)	(243)	(4)	(5 468)
Net loans to individuals	67 292	20 385	3 342	115	91 134

31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
<u>Loans to individual clients at amortised cost</u>				
- Not past due	87 898	2 454	172	90 524
- Overdue less than 31 days	181	890	37	1 108
- Overdue 31-60 days	-	465	18	483
- Overdue 61-90 days	-	307	31	338
- Overdue 91-180 days	-	-	981	981
- Overdue 181-360 days	-	-	1 891	1 891
- Overdue more than 360 days	-	-	1 277	1 277
Total	88 079	4 116	4 407	96 602
Credit loss allowance	(1 102)	(950)	(3 416)	(5 468)
Carrying amount	86 977	3 166	991	91 134

Analysis of movements in the credit loss allowance

Movements in the credit loss allowance by classes of loans to individuals and by three ECL stages for the nine-month period ended 30 September 2019 are as follows:

Nine-month period ended 30 September 2019 (Unaudited)				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
<u>Cash loans</u>				
Balance at the beginning of the period	1 010	884	3 032	4 926
Transfer to 12-month ECL	202	(136)	(64)	2
Transfer to lifetime ECL not credit-impaired	(81)	118	(37)	-
Transfer to lifetime ECL credit-impaired	(74)	(383)	457	-
Net remeasurement of loss allowance	(269)	601	2 143	2 475
New financial assets originated or purchased	341	253	140	734
Financial assets that have been fully repaid	(132)	(62)	(318)	(512)
Write-offs	-	-	(3 510)	(3 510)
Recoveries of amounts previously written-	14	5	804	823
Unwinding of discount	-	-	289	289
Foreign exchange and other movements	(2)	-	-	(2)
Balance at the end of the period	1 009	1 280	2 936	5 225
<u>Mortgage loans</u>				
Balance at the beginning of the period	51	15	228	294
Transfer to 12-month ECL	25	(3)	(22)	-
Transfer to lifetime ECL not credit-impaired	(2)	2	-	-
Transfer to lifetime ECL credit-impaired	-	(6)	6	-
Net remeasurement of loss allowance	(37)	(17)	(31)	(85)
New financial assets originated or purchased	11	6	15	32
Financial assets that have been fully repaid	(5)	(2)	(34)	(41)
Write-offs	-	-	(224)	(224)
Recoveries of amounts previously written-	-	30	192	222
Unwinding of discount	-	-	9	9
Foreign exchange and other movements	(1)	-	(1)	(2)
Balance at the end of the period	42	25	138	205

Nine-month period ended 30 September 2019 (Unaudited)				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
Credit card loans				
Balance at the beginning of the period	40	50	154	244
Transfer to 12-month ECL	8	(9)	-	(1)
Transfer to lifetime ECL not credit-impaired	(5)	5	-	-
Transfer to lifetime ECL credit-impaired	(2)	(19)	19	(2)
Net remeasurement of loss allowance	7	60	111	178
New financial assets originated or purchased	9	8	5	22
Financial assets that have been fully repaid	(7)	(15)	(16)	(38)
Write-offs	-	-	(160)	(160)
Recoveries of amounts previously written-off	-	-	43	43
Unwinding of discount	-	-	23	23
Foreign exchange and other movements	-	(1)	-	(1)
Balance at the end of the period	50	79	179	308
Auto loans				
Balance at the beginning of the period	-	1	3	4
Net remeasurement of loss allowance	-	-	(12)	(12)
Financial assets that have been fully repaid	-	-	-	-
Write-offs	-	-	(5)	(5)
Recoveries of amounts previously written-off	-	-	17	17
Balance at the end of the period	-	1	3	4

Movements in the credit loss allowance by classes of loans to individuals and by three ECL stages for the nine-month period ended 30 September 2018 are as follows:

Nine-month period ended 30 September 2018 (Unaudited)				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
Cash loans				
Balance at the beginning of the period	1 294	933	3 880	6 107
Transfer to 12-month ECL	517	(180)	(337)	-
Transfer to lifetime ECL not credit-impaired	(94)	191	(97)	-
Transfer to lifetime ECL credit-impaired	(119)	(509)	628	-
Net remeasurement of loss allowance	(643)	593	1 184	1 134
New financial assets originated or purchased	411	179	120	710
Financial assets that have been derecognised (full repayment)	(211)	(117)	(169)	(497)
Write-offs	-	-	(2 556)	(2 556)
Recoveries of amounts previously written-off	-	-	189	189
Unwinding of discount	-	-	438	438
Foreign exchange and other movements	5	1	1	7
Balance at the end of the period	1 160	1 091	3 281	5 532
Mortgage loans				
Balance at the beginning of the period	79	39	565	683
Transfer to 12-month ECL	25	(9)	(16)	-
Transfer to lifetime ECL not credit-impaired	(2)	8	(6)	-
Transfer to lifetime ECL credit-impaired	(1)	(15)	16	-
Net remeasurement of loss allowance	(52)	20	(39)	(71)
New financial assets originated or purchased	20	15	21	56

Nine-month period ended 30 September 2018
(Unaudited)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
Financial assets that have been derecognised (full repayment)	(8)	(13)	(49)	(70)
Write-offs	-	-	(272)	(272)
Recoveries of amounts previously written-off	-	-	245	245
Unwinding of discount	-	-	18	18
Foreign exchange and other movements	3	-	43	46
Balance at the end of the period	64	45	526	635

Nine-month period ended 30 September 2018
(Unaudited)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
<i>Credit card loans</i>				
Balance at the beginning of the period	51	82	177	310
Transfer to 12-month ECL	18	(18)	-	-
Transfer to lifetime ECL not credit-impaired	(4)	4	-	-
Transfer to lifetime ECL credit-impaired	(2)	(21)	23	-
Net remeasurement of loss allowance	(17)	66	52	101
New financial assets originated or purchased	10	16	6	32
Financial assets that have been derecognised (full repayment)	(10)	(31)	(14)	(55)
Write-offs	-	-	(124)	(124)
Recoveries of amounts previously written-off	-	-	14	14
Unwinding of discount	-	-	28	28
Balance at the end of the period	46	98	162	306
<i>Auto loans</i>				
Balance at the beginning of the period	2	1	19	22
Net remeasurement of loss allowance	-	(1)	(5)	(6)
Financial assets that have been derecognised	(1)	-	(4)	(5)
Write-offs	-	-	(17)	(17)
Recoveries of amounts previously written-off	-	-	15	15
Balance at the end of the period	1	-	8	9

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	30 September 2019 (Unaudited)	31 December 2018
Loans to individuals	104 839	96 602
Crude oil production and trading	211 693	175 881
Petroleum refining / production and trading	111 422	140 819
Property rental	64 575	50 961
Automotive, motorcycles and spare parts	53 604	51 457
Residential and commercial construction and development	59 819	55 230
Equipment leasing	35 392	33 360
Industrial chemicals	22 793	30 558
Metallurgical	21 623	24 783
Food and farm products	15 527	18 567
Financial companies	25 359	17 920
Services	16 482	13 739
Consumer electronics, appliances and computers	6 109	8 424
Industrial equipment and machinery	7 085	7 023
Clothing, shoes, textiles and sporting goods	5 494	5 268
Telecommunications	264	69
Consumer chemicals, perfumes and hygiene products	3 568	3 485
Transport infrastructure contractors	2 377	1 968
Industrial and infrastructure construction	2 272	1 271
Construction and decorative materials, furniture	1 372	1 492
Paper, stationery and packaging products	914	915
Government and municipal bodies	-	90
Books, video, print and copy	11	32
Pharmaceutical and medical products	-	35
Products for home, gifts, jewelry and business accessories	-	57
Other	19	124
Total gross loans to customers	772 613	740 130
Credit loss allowance	(37 144)	(31 086)
Net loans to customers	735 469	709 044

13 Investment financial assets

	30 September 2019 (Unaudited)	31 December 2018
Investment financial assets measured at fair value through other comprehensive income – debt instruments, including pledged under repurchase agreements	171 524	174 960
Investment financial assets measured at amortized cost, including pledged under repurchase agreements	35 648	39 401
Investment financial assets at fair value through profit or loss	16 243	120
Total investment financial assets	223 415	214 481

As at 30 September 2019, Investment financial assets in the amount of RUB 170 456 million are qualified to be pledged against borrowings from the Central bank of the Russian Federation (31 December 2018: Investment financial assets in the amount of RUB 166 447 million are qualified to be pledged against borrowings from the Central bank of the Russian Federation).

Investment financial assets measured at fair value through other comprehensive income - debt instruments

	30 September 2019 (Unaudited)	31 December 2018
<u>Held by the Group</u>		
Russian Government Federal bonds (OFZ)	20 839	18 891
Russian Government eurobonds	18 614	7 671
Regional authorities and municipal bonds	-	1 367
Central Bank of the Russian Federation bonds	76 451	-
Corporate bonds	27 239	41 825
Corporate eurobonds	1 457	2 525
Total held by the Group	144 600	72 279
<u>Pledged under sale and repurchase agreements</u>		
Russian Government Federal bonds (OFZ)	3 391	5 374
Russian Government eurobonds	-	61 112
Corporate bonds	20 666	27 103
Corporate eurobonds	2 867	9 092
Total pledged under sale and repurchase agreements	26 924	102 681
Total investment financial assets measured at fair value through other comprehensive income – debt instruments	171 524	174 960

Investment financial assets measured at amortised cost

	30 September 2019 (Unaudited)	31 December 2018
<u>Held by the Group</u>		
Corporate eurobonds	14 190	7 885
Corporate bonds	826	4 337
Promissory notes	450	450
Total held by the Group	15 466	12 672
<u>Pledged under sale and repurchase agreements</u>		
Corporate eurobonds	14 875	24 086
Corporate bonds	5 891	3 088
Total pledged under sale and repurchase agreements	20 766	27 174
Credit loss allowance	(584)	(445)
Investment financial assets measured at amortized cost	35 648	39 401

Investment financial assets designated as at fair value through profit or loss

	30 September 2019 (Unaudited)	31 December 2018
Equity investments	16 243	120
Total investment financial assets designated as at fair value through profit or loss	16 243	120

During 9 months ended 30 September 2019 the acquisition of shares designated at FVTPL in the amount of RUB 15 875 million was a non-monetary transaction.

Movements in the credit loss allowance of investment financial assets measured at fair value through other comprehensive income by three ECL stages for the nine-month period ended 30 September 2019 and 30 September 2018 are as follows:

Nine-Month Period Ended 30 September 2019				
	(Unaudited)			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
		not credit-	credit-	
		impaired	impaired	
Investment financial assets measured at fair value through other comprehensive income - debt instruments				
Balance at the beginning of the period	618	-	-	618
Net recovery	(277)	-	-	(277)
Balance at the end of the period	341	-	-	341

Nine-Month Period Ended 30 September 2018 (Unaudited)				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total
Investment financial assets measured at fair value through other comprehensive income - debt instruments				
Balance at the beginning of the period	805	-	-	805
Net recovery	(277)	-	-	(277)
Balance at the end of the period	528	-	-	528

Movements in the credit loss allowance of investment financial assets measured at amortised cost by three ECL stages for the nine-month period ended 30 September 2019 and 30 September 2018 are as follows:

	Nine-Month Period Ended 30 September 2019 (Unaudited)			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total
Investment financial assets measured at amortized cost				
Balance at the beginning of the period	175	-	270	445
Net recovery	(41)	-	180	139
Balance at the end of the period	134	-	450	584

	Nine-Month Period Ended 30 September 2018 (Unaudited)			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total
Investment financial assets measured at amortized cost				
Balance at the beginning of the period	21	7	270	298
Net charge (recovery)	128	(7)	-	121
Balance at the end of the period	149	-	270	419

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments as at 30 September 2019.

30 September 2019 (Unaudited)				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit- impaired	Total
<u>Debt investment securities at amortised cost</u>				
rated from BBB+ to BBB-	25 503	-	-	25 503
rated from BB+ to BB-	10 180	-	-	10 180
rated from B+ to B-	83	-	-	83
not rated	16	-	450	466
Total	35 782	-	450	36 232
Credit loss allowance	(134)	-	(450)	(584)
Carrying amount	35 648	-	-	35 648
<u>Debt investment securities at FVOCI</u>				
rated from BBB+ to BBB-	144 121	-	-	144 121
rated from BB+ to BB-	13 860	-	-	13 860
rated from B+ to B-	2 016	-	-	2 016
not rated	11 527	-	-	11 527
Total	171 524	-	-	171 524
Credit loss allowance	(341)	-	-	(341)
Gross carrying amount	170 898	-	-	170 898
Carrying amount – fair value	171 524	-	-	171 524

31 December 2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit- impaired	Total
<u>Debt investment securities at amortised cost</u>				
rated from BBB+ to BBB-	30 435	-	-	30 435
rated from BB+ to BB-	2 525	-	-	2 525
rated from B+ to B-	165	-	-	165
not rated	6 271	-	450	6 721
Total	39 396	-	450	39 846
Credit loss allowance	(175)	-	(270)	(445)
Carrying amount	39 221	-	180	39 401
<u>Debt investment securities at FVOCI</u>				
rated from A+ to A-	123	-	-	123
rated from BBB+ to BBB-	133 775	-	-	133 775
rated from BB+ to BB-	16 170	-	-	16 170
rated from B+ to B-	8 241	-	-	8 241
from CCC+ to CCC-	258	-	-	258
not rated	16 393	-	-	16 393
Total	174 960	-	-	174 960
Credit loss allowance	(618)	-	-	(618)
Gross carrying amount	177 870	-	-	177 870
Carrying amount – fair value	174 960	-	-	174 960

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

As at 30 September 2019 included in not rated Debt investment securities at amortised cost are counterparties with credit ratings equivalent to Moderate credit risk category in the amount of RUB 15 million (31 December 2018: Moderate credit risk category RUB 3 516 million, Low credit risk category RUB 2 755 million).

As at 30 September 2019 included in not rated Debt investment securities at FVOCI are counterparties with credit ratings equivalent to Low credit risk category in the amount of RUB 3 788 million (31 December 2018: RUB 2 058 million), to Moderate credit risk category RUB 7 739 million (31 December 2018: RUB 14 335 million).

As at 30 September 2019 Investment financial assets balances for ECL calculation for which external benchmark information represents a significant input into measurement of ECL are RUB 126 259 million (31 December 2018: RUB 96 429 million).

14 Due to credit institutions

	30 September 2019 (Unaudited)	31 December 2018
Payables under repurchase agreements	472 380	487 959
Term deposits	8 487	15 827
Syndicated debt	27 729	21 799
Current accounts	26 606	27 345
Total due to credit institutions	535 202	552 930

As at 30 September 2019, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 529 390 million (31 December 2018: RUB 551 204 million).

As at 30 September 2019, the fair value of securities received as collateral under reverse repo deals being pledged for direct repo deals is RUB 480 838 million (31 December 2018: RUB 429 174 million).

15 Due to customers

	30 September 2019 (Unaudited)	31 December 2018
Corporate customers		
Term and demand deposits	694 125	789 711
Current accounts	73 321	33 086
Subordinated debt	41 799	43 571
Payables under repurchase agreements	-	30 065
Term notes	542	666
Total corporate customers	809 787	897 099
Individuals		
Term and demand deposits	406 949	355 277
Current accounts	52 293	19 799
Total individuals	459 242	375 076
Total due to customers	1 269 029	1 272 175

As at 30 September 2019, there are no sale and repurchase agreements (31 December 2018: the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 33 838 million).

As at 30 September 2019, there are no securities received as collateral under reverse repo deals being pledged for direct repo deals (31 December 2018: RUB 23 334 million).

16 Debt securities issued

	30 September 2019 (Unaudited)	31 December 2018
Bonds	117 646	61 134
Subordinated bonds	42 148	44 171
Total debt securities issued	159 794	105 305

17 Financial liabilities measured at fair value through profit or loss

	30 September 2019 (Unaudited)	31 December 2018
Structured bonds issued	1 223	-
Other financial liabilities	4 014	6 253
Total financial liabilities measured at fair value through profit or loss	5 237	6 253

18 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital at 30 September 2019 comprises 27 079 709 866 shares (31 December 2018: 27 079 709 866 shares) with par value of 1 RUB per share. In addition, at 30 September 2019 the Bank has 9 196 448 142 authorised but unissued ordinary shares with an aggregate nominal value of RUB 9 196 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 862 million.

In July 2018 the Bank issued domestic perpetual subordinated bonds in the total amount of RUB 5 billion and a coupon rate of 12.00% per annum during the 1-11 coupon periods. The bonds are callable after 5.5 years of the placement date and then every 5 years. The coupon is paid on semi-year basis and the coupon rate is fixed. Coupon rate is reset every 10 coupon periods. The coupon payment is not cumulative and may be cancelled at the discretion of the Group.

In October 2018 the Group optimised its capital structure with a partial redemption of USD 700 million 8.875% per annum subordinated perpetual Eurobonds at par. Upon the partial redemption of this subordinated perpetual Eurobonds and cancellation of equivalent amounts USD 670 million of the subordinated perpetual Eurobonds remained outstanding.

As the Group has discretion in relation to coupon and principal repayment, the Group classified subordinated perpetual Eurobonds and bonds as equity instruments in the consolidated statement of financial position. The CBR approved the inclusion of the perpetual subordinated Eurobonds and bonds in the calculation of statutory capital adequacy ratio. The Eurobonds and bonds are Basel-III compliant and eligible for inclusion into the Group's Additional Tier 1 capital upon receiving approval from the CBR (Note 20).

The USD denominated subordinated perpetual Eurobonds are translated to its RUB equivalent at the period-end exchange rate with exchange differences recorded in retained earnings when incurred. Issuance costs are also recorded in retained earnings when incurred.

19 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

20 Related party transactions

The outstanding balances with related parties and related average interest rates as at 30 September 2019 and 31 December 2018 are as follows:

	30 September 2019 (Unaudited)		31 December 2018	
	Amount	Average effective interest rate	Amount	Average effective interest rate
Cash and cash equivalents				
Associated company	28		-	
Total cash and cash equivalents	28		-	
Due from credit and other financial institutions				
Under control of principal beneficiary	-		814	0,1%
Total due from credit and other financial institutions	-		814	
Trading financial assets				
Under control of principal beneficiary	344		23	
Total trading financial assets	344		23	
Loans to customers				
Under control of principal beneficiary	24 314	11,3%	24 314	12,2%
Associated company	748	10,6%	-	
Management	724	8,1%	686	8,5%
Total loans to customers	25 786		25 000	
Due to credit institutions				
Under control of principal beneficiary	1 210	0,9%	-	
Total due to credit institutions	1 210		-	
Due to customers				
Term deposits by customers				
Under control of majority shareholder	20 359	6,8%	9 277	7,3%
Parent company	653	6,3%	388	5,4%
Majority shareholder	537	2,0%	1 122	2,9%
Management	262	3,4%	9 999	6,7%
Total term deposits by customers	21 811		20 786	
Current accounts by customers				
Parent company	2 918		26	
Under control of principal beneficiary	600		1 840	
Management	156		42	
Associated company	14		-	
Principal beneficiary	1		4	
Total current accounts by customers	3 689		1 912	
Total due to customers	25 500		22 698	
Financial liabilities measured at fair value through profit or loss				
Under control of principal beneficiary	78		802	
Total financial liabilities measured at fair value through profit or loss	78		802	
Debt securities issued				
Under control of principal beneficiary	2 085	10,1%	5 712	9,5%
Parent company	1 887	13,2%	-	
Total debts securities issued	3 972		5 712	
Guarantees issued				
Under control of principal beneficiary	193		90	
Associated company	55		-	
Total guarantees issued	248		90	

As at 30 September 2019, the company under control of principal beneficiary has an investment in perpetual debt issued in the amount of RUB 1 661 million (31 December 2018: RUB 4 458 million). During the nine-month period ended 30 September 2019 the company under control of principal beneficiary received coupon payments on perpetual debt issued from the Group in the amount of RUB 126 million (nine-month period ended 30 September 2018: 323 million).

As at 30 September 2019, the undrawn loan commitments under credit line agreements for principal beneficiary and for management are RUB 72 million (31 December 2018: RUB 111 million).

Amounts included in profit or loss and other comprehensive income for the nine-month period ended 30 September 2019 and 30 September 2018 in relation to transactions with related parties are as follows:

	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)
Interest income		
Under control of principal beneficiary	2 650	2 220
Associated company	55	-
Management	38	20
Parent company	-	41
Principal beneficiary	-	2
Total interest income	2 743	2 283
Interest expense		
Under control of principal beneficiary	(1 598)	(1 375)
Parent company	(285)	(37)
Principal beneficiary	(22)	(121)
Management	(16)	(13)
Total interest expense	(1 921)	(1 546)
Commission income		
Under control of principal beneficiary	157	249
Parent company	34	21
Associated company	24	-
Total commission income	215	270
Net foreign exchange gain (loss)		
Under control of principal beneficiary	4 997	(7 278)
Parent company	(68)	-
Total net foreign exchange gain (loss)	4 929	(7 278)

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the six-month periods ended 30 September 2019 and 30 September 2018 (refer to Note 6) is as follows:

	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)
Board Members of the Management Board	(669)	(472)
Members of the Supervisory Board	(74)	(64)
	(743)	(536)

21 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for banking groups. Since 1 January 2016 the Group calculated amount of capital in accordance with Provision of the CBR dated 3 December 2016 No. 509-P 'On Calculation of Amount of Own Funds (Capital), Economic Ratios and Amounts (Limits) of Open Currency Positions of Banking Groups'. As at 30 September 2019 and 31 December 2018, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 4,5%, 6,0% and 8,0%, accordingly.

Starting from 1 January 2016 the Group should comply with capital mark-ups: capital conservation mark-up, countercycle mark-up and mark-up for systematical importance. Management believes that the Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR office that supervises the Bank with information on mandatory ratios in accordance with regulatory requirements. The Accounting Department controls on a daily basis compliance with capital adequacy ratios.

In case capital adequacy ratios become close to limits set by the CBR and the Group's internal limits this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 30 September 2019 and 31 December 2018.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the IFRS financial statements as at 30 September 2019 and 31 December 2018 is as follows:

	30 September 2019 (Unaudited)	31 December 2018
Tier 1 capital		
Share capital and additional paid-in capital	74 189	74 189
Retained earnings	80 526	71 637
Intangible assets	(630)	(417)
Core tier 1 capital	154 085	145 409
Additional capital		
Perpetual debt issued	43 084	46 691
Total tier 1 capital	197 169	192 100
Tier 2 capital		
Revaluation surplus for buildings	490	490
Fair value reserve for securities	774	(1 834)
Subordinated debt		
Subordinated loans	61 154	63 072
Subordinated bonds	40 695	43 563
Total tier 2 capital	103 113	105 291
Total capital	300 282	297 391
Risk-weighted assets		
Banking book	961 877	922 193
Trading book	411 638	322 582
Operational risk	113 602	113 602
Total risk weighted assets	1 487 117	1 358 377
Total core tier 1 capital expressed as a percentage of risk-weighted assets (core tier 1 capital ratio) (%)	10,4	10,7
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	13,3	14,1
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	20,2	21,9

In June 2015 the State Corporation “Deposit Insurance Agency” provided a subordinated loan of RUB 20 231 million to the Bank in a form of federal loan bonds (OFZ). The Bank has an obligation to return securities received back to the lender at the maturity of the agreement. The Bank pays charges equal to coupons on the bonds transferred plus a fixed margin. The contract also includes certain restrictions on ability of the Bank to sell or pledge securities received. The arrangement is a securities lending transaction.

The Group does not recognise securities received and a subordinated obligation to return them to the lender in the consolidated statement of financial position of the Group. The obligation to return securities received to the State Corporation “Deposit Insurance Agency” is subordinated to other ordinary obligations of the Group and the terms of the loan satisfy the criteria for inclusion of the loan into the regulatory capital of the Bank in accordance with Russian banking legislation. As such, the Bank includes the amount of the subordinated loan described above into its tier 2 capital for the purpose of statutory regulatory capital and capital calculated for capital management purposes in accordance with Basel III.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees.

22 Analysis by segment

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate business comprises corporate lending, overdraft lending, factoring, financial and operating leasing, letters of credit, guarantees, corporate deposit services, settlements and money transfers
- Retail banking comprises retail demand and term deposit services; retail lending, including cashloans, car loans and mortgages, money transfers and private banking services; banking card products, settlements and money transfers
- Treasury comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- Cash operations comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on consolidated financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm’s length basis.

In 2019 the Group revised its approach to allocation of assets, liabilities and financial results between reportable segments. Comparative information was revised accordingly.

The segment breakdown of assets and liabilities is set out below:

	30 September 2019 (Unaudited)	31 December 2018
ASSETS		
Corporate banking	655 346	635 368
Retail banking	110 733	100 208
Treasury	1 392 744	1 386 574
Cash operations	25 376	23 777
Total assets	2 184 199	2 145 927
LIABILITIES		
Corporate banking	818 184	909 275
Retail banking	464 399	377 747
Treasury	697 231	661 347
Cash operations	5 314	6 385
Total liabilities	1 985 128	1 954 754

Segment information for the main reportable segments for the nine-month period ended 30 September 2019 is set below:

(Unaudited)	Corporate banking	Retail banking	Treasury	Cash operations	Total
External interest income	37 507	11 301	60 175	91	109 074
Fee and commission income	3 357	3 995	293	3 531	11 176
Net loss from sale and redemption of Investment financial assets at FVOCI	-	-	(221)	-	(221)
Net gain on financial assets at FVTPL	-	-	784	-	784
Net realised gain on Investment financial assets at amortised cost	-	-	199	-	199
Net foreign exchange losses	(2 238)	-	(6 293)	-	(8 531)
Net gain on change in financial liabilities measured at fair value through profit or loss	-	-	24	-	24
Other operating (expenses) income, net	(34)	195	(323)	(115)	(277)
Revenue (expenses) from other segments	3 791	19 204	(23 332)	337	-
Revenue	42 383	34 695	31 306	3 844	112 228
(Charge for) recovery of credit losses on debt financial assets	(537)	(2 752)	312	(1)	(2 978)
Interest expense	(29 850)	(20 349)	(26 726)	(20)	(76 945)
Fee and commission expense	(4)	(2 183)	(500)	(25)	(2 712)
Net loss on loans to customers at FVTPL	(1 060)	-	-	-	(1 060)
Impairment recoveries (losses) on other non- financial assets, credit recoveries (losses) on other financial assets and credit related commitments and other provisions	3 851	(221)	29	(33)	3 626
General administrative and other expenses	(3 969)	(7 580)	(2 360)	(3 804)	(17 713)
Expense	(31 569)	(33 085)	(29 245)	(3 883)	(97 782)
Segment result	10 814	1 610	2 061	(39)	14 446

Segment information for the main reportable segments for the 31 December 2018 is set below:

(Unaudited)	Corporate banking	Retail banking	Treasury	Cash operations	Total
External interest income	42 126	10 200	50 128	66	102 520
Fee and commission income	3 140	4 590	426	3 247	11 403
Net loss on other financial instruments at fair value through profit or loss	-	-	(180)	-	(180)
Net loss from sale and redemption of financial assets at FVOCI	-	-	(71)	-	(71)
Net foreign exchange gains (losses)	709	-	(536)	-	173
Other operating income (expenses), net	983	(13)	1 789	(30)	2 729
(Expenses) revenue from other segments	(5 749)	11 553	(6 264)	460	-
Revenue	41 209	26 330	45 292	3 743	116 574
Reversal of (charge for) credit loss on debt financial assets	(3 089)	(1 329)	8	2	(4 408)
Interest expense	(18 556)	(15 558)	(31 812)	(1)	(65 927)
Fee and commission expense	(2)	(2 113)	(371)	(14)	(2 500)
Net loss on loans to customers at fair value through profit or loss	(3 224)	-	-	-	(3 224)
Impairment (losses) recoveries on other non-financial assets, credit (losses) recoveries on other financial assets and credit related commitments and other provisions	(1 710)	(8)	(119)	(69)	(1 906)
General administrative and other expenses	(3 133)	(7 118)	(1 062)	(3 294)	(14 607)
Expense	(29 714)	(26 126)	(33 356)	(3 376)	(92 572)
Segment result	11 495	204	11 936	367	24 002

Impact IFRS 16

The impact of the first application of IFRS 16 as at 30 September 2019 and during the nine-month period ended 30 September 2019:

(Unaudited)	Corporate business	Retail banking	Treasury	Cash operations	Total
ASSETS and LIABILITIES					
Right-of-use assets	540	2 309	60	90	2 999
Lease liabilities presented in other liabilities	524	2 242	58	87	2 911
Statement of profit or loss and other comprehensive income					
Depreciation charges	(118)	(504)	(13)	(20)	(655)
Interest expenses	(40)	(173)	(4)	(7)	(224)
Profit before income taxes	(158)	(677)	(17)	(27)	(879)

23 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 30 September 2019:

(Unaudited)	FVTPL	Amortised cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	-	829 613	-	829 613	829 613
Obligatory reserves with the CBR	-	16 460	-	16 460	16 460
Due from credit and other financial institutions	-	346 349	-	346 349	346 349
Trading financial assets	13 029	-	-	13 029	13 029
Loans to customers	57 383	678 085	-	735 468	740 814
Investment financial assets	16 243	35 648	171 524	223 415	225 463
Other financial assets	-	3 146	-	3 146	3 146
	86 655	1 909 301	171 524	2 167 480	2 174 874
Due to credit institutions	-	535 202	-	535 202	535 202
Due to customers	-	1 269 029	-	1 269 029	1 280 092
Debt securities issued	-	159 794	-	159 794	160 315
Financial liabilities measured at fair value through profit or loss	5 237	-	-	5 237	5 237
Other financial liabilities	-	5 874	-	5 874	5 874
	5 237	1 969 899	-	1 975 136	1 986 720

The main assumptions used by management to estimate the fair values of financial instruments as at 30 September 2019 are:

- discount rates from 8,6% to 12,0% (roubles) and from 2,4% to 8,2% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 9,9% to 25,6% (roubles) and from 5,8% to 9,9% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 6,4% to 7,5% (roubles) and from 1,4% to 2,3% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 5,1% to 7,0% (roubles) and from 1,0% to 1,8% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

	FVTPL	Amortised cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	-	1 162 779	-	1 162 779	1 162 779
Obligatory reserves with the CBR	-	13 065	-	13 065	13 065
Due from credit and other financial institutions	-	13 183	-	13 183	13 183
Trading financial assets	15 665	-	-	15 665	15 665
Loans to customers	63 383	645 662	-	709 045	717 280
Investment financial assets	120	39 401	174 960	214 481	213 148
Assets for sale	-	609	-	609	609
Other financial assets	-	2 883	-	2 883	2 883
	79 168	1 877 582	174 960	2 131 710	2 138 612
Due to credit institutions	-	552 930	-	552 930	552 930
Due to customers	-	1 272 175	-	1 272 175	1 281 946
Debt securities issued	-	105 305	-	105 305	95 046
Financial liabilities measured at fair value through profit or loss	6 329	-	-	6 329	6 329
Other financial liabilities	-	5 589	-	5 589	5 589
	6 329	1 935 999	-	1 942 328	1 941 840

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2018 are:

- discount rates from 9,9% to 12,8% (roubles) and from 4,0% to 8,2% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 9,8% to 26,2% (roubles) and from 6,5% to 9,9% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 6,0% to 7,3% (roubles) and from 1,7% to 3,3% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 5,8% to 6,1% (roubles) and from 1,5% to 2,8% (foreign currency) are used for discounting future cash flows from retail deposits.

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist, Monte Carlo and polynomial-option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

Fair value hierarchy

The Group measures fair values for financial instruments recorded in the consolidated interim condensed statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following tables show an analysis of financial instruments recorded at fair value and financial instruments recorded at amortised cost for which fair value does not approximate their carrying amount as at 30 September 2019 and 31 December 2018:

30 September 2019 (Unaudited)	Level 1	Level 2	Level 3	Total
Trading financial assets	6 509	6 520	-	13 029
Loans to customers	-	-	740 814	740 814
Investment financial assets	209 220	16 243	-	225 463
Due to customers	-	1 280 092	-	1 280 092
Financial liabilities measured at	-	5 237	-	5 237
Debt securities issued	160 315	-	-	160 315

31 December 2018	Level 1	Level 2	Level 3	Total
Trading financial assets	11 029	4 636	-	15 665
Loans to customers	-	-	717 280	717 280
Investment financial assets	212 848	120	180	213 148
Due to customers	-	1 281 946	-	1 281 946
Financial liabilities measured at	-	6 239	-	6 239

During the nine-month period ended 30 September 2019 there was no transfer of assets between Level 1 and Level 3 (31 December 2018: RUB 180 million).

A reconciliation of movements in fair value of loans to customers at FVTPL for the nine-month period ended 30 September 2019 and 30 September 2018 is as follows:

	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)
Fair value as at 1 January	63 383	32 714
Loan issues	2 257	39 701
Loan repayments	(4 163)	(10 765)
Interest income recognised	2 587	2 474
Changes in fair value measurement	(1 060)	(3 224)
Write-offs	(291)	(1 909)
Net foreign exchange (loss) gain	(5 329)	4 583
Fair value as at 30 September	57 383	63 574

The table below sets out information about significant unobservable inputs used in the measuring of financial instruments categorised as Level 3 in the fair value hierarchy as at 30 September 2019:

Type of instrument (Unaudited)	Fair values	Valuation technique	Significant unobservable input	Unobservable inputs used
Loans to customers at FVTPL	57 383	Discounted cash flow from operating activities	Risk-adjusted discount rate	RUB: 7.0% - 30.1% USD: 3.8% - 7.1% EUR: 4.8%

The table below sets out information about significant unobservable inputs used in the measuring of financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2018:

Type of instrument	Fair values	Valuation technique	Significant unobservable input	Unobservable inputs used
Loans to customers at FVTPL	63 383	Discounted cash flow from operating activities	Risk-adjusted discount rate	RUB: 8.43% - 33.8% USD: 5.2% - 7.1% EUR: 3.7%

If discount rates differ by plus/minus one percent, fair values of these instruments would be RUB 56 342 million and RUB 58 179 million respectively (31 December 2018: RUB 61 531 million – RUB 64 358 million).

24 Earnings per share

Basic earnings per share are calculated by dividing (loss) profit for the nine-month period ended 30 September 2019 by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share are calculated as follows:

	Nine-Month Period Ended 30 September 2019 (Unaudited)	Nine-Month Period Ended 30 September 2018 (Unaudited)	Three-Month Period Ended 30 September 2019 (Unaudited)	Three-Month Period Ended 30 September 2018 (Unaudited)
Profit for the period	11 882	18 355	9 721	7 351
Interest paid on perpetual debt issue, net of tax	(2 336)	(2 286)	(775)	(790)
Total profit for the period	9 546	16 069	8 948	6 561
Weighted average number of ordinary shares in issue	27 079 709 866	27 079 709 866	27 079 709 866	27 079 709 866
Basic and diluted earnings per share (in RUB per share)	0,35	0,59	0,33	0,24

25 Events subsequent to the reporting date

In October 2019 Sergey N. Sudarikov, the controlling shareholder of REGION Group, was appointed CEO (General Director) of LLC Concern Rossium.

In October 2019 the Bank paid out the coupon in the amount of USD 20.9 million on 10.5-year 7.5% subordinated Eurobonds due 2027 with the nominal value of USD 600 million.

In October 2019, CBM placed in full bond issue series 001P-01 worth RUB5 billion. The bonds were placed by public subscription and have six semi-annual coupons, each paying 8.35% per annum. The nominal value of one bond is RUB 1,000.

In October 2019, CBM placed in full bond issue series BSO-P05 worth RUB350 million. The bonds were placed by public subscription and have three annual coupons, each paying 3.25% per annum. The nominal value of one bond is RUB 1,000.

In October 2019 Rating-Agentur Expert RA GmbH assigned a “BBB” ESG rating to the Bank.

In November 2019 the Group placed an additional share issue on Moscow Exchange. A total volume of the offering comprised 2.75 billion shares and the offer price was set at RUB 5.35 per share. Proceeds from the Offering in the amount of RUB 14.7 billion will be included to the Group’s core tier 1 capital.

In November 2019 the Group paid out the coupon in the amount of USD 14.7 million on the senior 5-year 5.875% Eurobonds due 2021 with the nominal value of USD 500 million.

In November 2019 the Group paid out the coupon in the amount of USD 14.9 million on perpetual subordinated Loan Participation Notes with the nominal value of USD 700 million.

In November 2019 the Bank optimized its capital structure with a partial redemption of USD 600 million 7,500% p. a. Subordinated Loan Participation Notes due 2027 and USD 700 million 8,875% p. a. perpetual callable Loan Participation Notes. As a result of the partial redemption of the Loan Participation Notes and cancellation of equivalent amounts of the Loan Participation Notes, USD 440 million of the CBOM’27 bonds and USD 540 million of the perpetual bonds remained outstanding.

In November 2019 China Lianhe Credit Rating Co., Ltd assigned “AA+” credit rating on Chinese national scale to the Bank.

In November 2019 the Group paid out the coupon in the amount of RUB 412.5 million on 10.5-year 16.5% subordinated Eurobonds due 2025 with the nominal value of RUB 5 billion.

CREDIT BANK OF MOSCOW
(public joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2018

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Independent Auditors' Report

To the Shareholders and Supervisory Board of CREDIT BANK OF MOSCOW (public joint-stock company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the 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 the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements

Audited entity: CREDIT BANK OF MOSCOW (public joint-stock company).

Registration No. in the Unified State Register of Legal Entities 1027739555282.

Moscow, Russian Federation.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organizations: No. 11603053203.

as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses ('ECL') for loans to customers

Please refer to Notes 4 and 14 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Loans to customers represent 33% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used.</p> <p>From 1 January 2018 the Group has implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to timely identification of significant increase in credit risk and default events related to loans to customers, assessment of probability of default (PD) and loss given default (LGD), assessment of forward-looking information adjustment, expected cash flows forecast for Stage 3 loans.</p> <p>Due to the significant volume of loans to customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.</p>	<p>We analyzed the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9, including involvement of our own specialists in financial risks management.</p> <p>To analyze adequacy of professional judgement and assumptions made by the management in relation to allowance for ECL estimate, we performed the following procedures:</p> <ul style="list-style-type: none"> • For loans to corporate clients we assessed and tested the design and operating effectiveness of the controls over allocation of loans into Stages. • For a sample of loans to corporate clients, we tested whether Stages are correctly assigned by the Group by analyzing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. • For a sample of loans to corporate clients, we tested the correctness of data inputs for PD calculation. • For a sample of Stage 3 loans to corporate clients, where ECL are assessed individually we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realizable collateral and their expected disposal terms based on our understanding and publicly available market information. • For loans to individuals we tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into Stages. We agreed input data to supporting documents on a sample basis. • We assessed predictive capability of the Group's methodology by analyzing models validation results. <p>We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.</p>

Adoption of IFRS 9 'Financial instruments'

Please refer to Notes 3 and 5 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The use of financial instruments is a core business of the Group and financial assets constitute a majority of Group's assets.</p> <p>From 1 January 2018 the Group has adopted a new accounting standard for financial instruments, IFRS 9, which provides significant changes to classification and measurement of financial assets.</p> <p>Due to adoption of new requirements, which provide significant changes to the accounting principles of financial instruments, and due to a significant impact of the new standard on the opening balances as at 1 January 2018 and financial position and performance of the Group, this area is a key audit matter.</p>	<p>We analysed the criteria used to determine the business models for managing financial assets by making inquiries to responsible employees, reviewing the Group's internal documentation and analyzing internal business processes on selected significant financial instruments portfolios.</p> <p>We checked that the Group has performed proper assessment of whether contractual cash flows are solely payments of principal and interest by analyzing underlying documents for a sample of financial assets.</p> <p>We also checked whether the Group has correctly identified and accounted for modifications of terms of loans to customers, by means of general analysis of core procedures related to modification of loans' terms applied by the Group and analysis of underlying documents on a sample of loans to customers.</p> <p>We also assessed whether the consolidated financial statements provide an appropriate disclosure of key classification and measurement principles for financial instruments as well as the effects of the Group adoption of IFRS 9.</p>

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report for the year ended 31 December 2018 but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as



management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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.
- 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial

statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

Report of findings from procedures performed in accordance with the requirements of Federal Law No. 395-1, dated 2 December 1990, *On Banks and Banking Activity*

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No. 395-1, dated 2 December 1990 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2019 established by the Bank of Russia; and
- whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment, and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios, as at 1 January 2019, were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31

December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

- Based on our procedures with respect to whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia, we found that:
- as at 31 December 2018, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;
 - the Bank's internal documentation, effective on 31 December 2018, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;
 - as at 31 December 2018, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
 - the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2018, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
 - as at 31 December 2018, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2018, the Supervisory Board and Executive Management of the Bank periodically discussed the reports prepared by the risk management and internal audit functions, and considered the proposed corrective actions.

Procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:

Lukashova N.V.
JSC "KPMG"
Moscow, Russian Federation
6 March 2019



CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018
(in millions of Russian Roubles unless otherwise stated)

	Notes	2018	2017
Interest income calculated using the effective interest method	6	133 287	122 358
Other interest income	6	4 646	4 601
Interest expense	6	(89 518)	(81 679)
Net interest income	6	48 415	45 280
Charge for credit losses on debt financial assets	11,12, 14,15	(2 221)	(18 597)
Net interest income after credit losses on debt financial assets		46 194	26 683
Fee and commission income	7	15 829	15 510
Fee and commission expense	7	(3 483)	(3 002)
Net loss on loans to customers at FVTPL		(5 611)	-
Net (loss) gain on other financial instruments at FVTPL		(189)	773
Net loss from sale and redemption of financial assets at FVOCI		(251)	-
Net realised gain on available-for-sale assets		-	341
Net foreign exchange gains		2 723	2 701
Impairment (losses) recoveries on other non-financial assets, credit (losses) recoveries on other financial assets and credit related commitments and other provisions	9	(2 895)	(264)
State deposit insurance scheme contributions		(1 906)	(1 286)
Operating lease income		81	1 634
Net income from disposal of subsidiaries	34	637	1 076
Other net operating income (expense)		3 366	(593)
Non-interest income		8 301	16 890
Operating income		54 495	43 573
Salaries and employment benefits	8	(12 290)	(9 516)
Administrative expenses	8	(6 085)	(5 377)
Depreciation of property and equipment		(1 051)	(1 863)
Operating expense		(19 426)	(16 756)
Profit before income taxes		35 069	26 817
Income tax	10	(7 845)	(6 114)
Profit for the year		27 224	20 703

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018
(in millions of Russian Roubles unless otherwise stated)

	Notes	2018	2017
Profit for the year		27 224	20 703
Other comprehensive loss			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
- revaluation of buildings		(115)	(132)
- income tax for revaluation of buildings		23	26
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
<i>Movement in fair value reserve (debt instruments):</i>			
- net change in fair value		(3 818)	474
- net amount transferred to profit or loss		(160)	(545)
<i>Exchange differences on translation:</i>			
- exchange differences on translation		-	6
- exchange differences transferred to profit or loss on disposal of subsidiary		-	(51)
<i>Income tax related to items that are or may be reclassified subsequently to profit or loss</i>		796	20
Other comprehensive loss for the year, net of income tax		(3 274)	(202)
Total comprehensive income for the year		23 950	20 501
Basic and diluted earnings per share (in RUB per share)	33	0.89	0.79

Acting Chairman of the Management Board

Mikhail V. Polunin

Chief Accountant

Svetlana V. Sass



The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Financial Position
as at 31 December 2018
(in millions of Russian Roubles unless otherwise stated)

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	11	1 162 779	934 033
Obligatory reserves with the Central bank of the Russian Federation		13 065	8 884
Due from credit and other financial institutions	12	13 183	16 369
Trading financial assets	13	15 665	117 282
- held by the Group	13	12 909	95 519
- pledged under sale and repurchase agreements	13	2 756	21 763
Loans to customers	14	709 045	768 676
- loans to corporate clients	14	617 911	685 937
- loans to individuals	14	91 134	82 739
Investment financial assets	15	214 481	25 066
- held by the Group		84 703	23 273
- pledged under sale and repurchase agreements		129 778	1 793
Investments in associates		2 275	-
Property and equipment	16	7 182	7 866
Deferred tax asset		113	281
Other assets	17	8 139	9 734
Total assets		2 145 927	1 888 191
LIABILITIES AND EQUITY			
Due to credit institutions	18	552 930	639 861
Due to customers	19	1 272 175	941 724
- due to corporate customers	19	897 099	650 507
- due to individuals	19	375 076	291 217
Debt securities issued	20	105 305	116 280
Deferred tax liability		4 248	3 779
Other liabilities	21	20 096	8 958
Total liabilities		1 954 754	1 710 602
Equity			
Share capital	22	27 942	27 942
Additional paid-in capital		46 247	46 247
Perpetual debt issued	22	46 691	40 320
Revaluation surplus for buildings		490	582
Fair value reserve for securities		(1 834)	394
Retained earnings		71 637	62 104
Total equity		191 173	177 589
Total liabilities and equity		2 145 927	1 888 191

Commitments and Contingencies

23, 25

Acting Chairman of the Management Board

Mikhail V. Polunin

Chief Accountant

Svetlana V. Sass



The consolidated statement of financial position is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2018
(in millions of Russian Roubles unless otherwise stated)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		140 326	129 680
Interest payments		(84 526)	(77 607)
Fees and commission receipts		15 568	15 606
Fees and commission payments		(3 272)	(2 989)
Net (payments) receipts from operations with securities		(217)	1 103
Net receipts from foreign exchange		22 428	13 495
State deposit insurance scheme contributions payments		(1 742)	(1 223)
Net other operating income receipts (payments)		3 099	(782)
Operating leases income receipts		81	1 633
Salaries and employment benefits paid		(11 446)	(9 312)
Administrative expenses paid		(5 063)	(5 081)
Income tax paid		(2 021)	(4 592)
Operating cash flows before changes in operating assets and liabilities		73 215	59 931
(Increase) decrease in operating assets			
Obligatory reserves with the Central bank of the Russian Federation		(4 181)	(1 597)
Due from credit and other financial institutions		3 928	366 282
Trading financial assets		(9 608)	5 644
Loans to customers		71 306	(161 646)
Other assets		2 561	(1 168)
Increase (decrease) in operating liabilities			
Due to the Central bank of the Russian Federation		-	(237 786)
Due to credit institutions except syndicated and subordinated loans		(119 684)	247 939
Due to customers except subordinated loans		278 038	191 557
Promissory notes issued		-	(1 113)
Other liabilities		2 217	1 137
Net cash from operations		297 792	469 180
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment financial assets		(294 562)	(89 718)
Proceeds from disposal and redemption of investment financial assets		191 279	108 347
Net cash inflow (outflow) on disposal of subsidiary		847	(265)
Purchase of property and equipment and intangible assets		(1 345)	(1 980)
Sale of property and equipment and intangible assets		557	3
Purchase of associates		(2 275)	-
Net cash (used in) from investing activities		(105 499)	16 387

The consolidated statement of cash flows is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2018
(in millions of Russian Roubles unless otherwise stated)

	Notes	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital		-	14 400
Proceeds from placement and issuance of perpetual debt		4 996	40 818
Repayment of perpetual debt issued		(6 144)	-
Interest on perpetual debt paid		(3 872)	(1 852)
Proceeds from syndicated borrowings		376	28 006
Repayment of syndicated borrowings		(11 452)	-
Proceeds from subordinated deposits		-	22 000
Repayment of subordinated deposits		-	(582)
Proceeds from placement and issuance of subordinated bonds		356	33 933
Partial redemption of subordinated bonds		(13 718)	(23 481)
Proceeds from placement and issuance of other bonds		42 421	13 229
Repayments of other bonds		(53 726)	(38 486)
Net cash (used in) from financing activities		(40 763)	87 985
Effect of exchange rates changes on cash and cash equivalents		78 514	(12 846)
Effect of changes in ECL on cash and cash equivalents		(626)	-
Change in cash and cash equivalents		229 418	560 706
Cash and cash equivalents, beginning of the year		933 361	373 327
Cash and cash equivalents, end of the year	11	1 162 779	934 033

Acting Chairman of the Management Board

Mikhail V. Polunin

Chief Accountant

Svetlana V. Sass



The consolidated statement of cash flows is to be read in conjunction with the Notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2018
(in millions of Russian Roubles unless otherwise stated)

	Share capital	Additional paid-in capital	Perpetual debt issued	Revaluation surplus for buildings	Fair value reserve for securities	Currency translation reserve	Retained earnings	Total equity
Balance as at 1 January 2017	24 742	35 047	-	688	451	39	42 434	103 401
Total comprehensive income for the year	-	-	-	(106)	(57)	(39)	20 703	20 501
Issue of share capital	3 200	11 200	-	-	-	-	-	14 400
Interest paid on perpetual debt issued	-	-	-	-	-	-	(1 852)	(1 852)
Perpetual debt issued (Note 22)	-	-	40 977	-	-	-	-	40 977
Foreign exchange translation of perpetual debt issued	-	-	(657)	-	-	-	657	-
Transaction costs on perpetual debt issued	-	-	-	-	-	-	(159)	(159)
Tax effect on perpetual debt issued	-	-	-	-	-	-	270	270
Disposal of subsidiary	-	-	-	-	-	-	51	51
31 December 2017	27 942	46 247	40 320	582	394	-	62 104	177 589
Balance as at 31 December 2017	27 942	46 247	40 320	582	394	-	62 104	177 589
Impact of adopting IFRS 9 as at 1 January 2018 (Note 5)	-	-	-	-	954	-	(8 673)	(7 719)
Restated balance as at 1 January 2018	27 942	46 247	40 320	582	1 348	-	53 431	169 870
Total comprehensive income for the year	-	-	-	(92)	(3 182)	-	27 224	23 950
Perpetual debt redemption	-	-	(5 897)	-	-	-	-	(5 897)
Interest paid on perpetual debt issued	-	-	-	-	-	-	(3 872)	(3 872)
Perpetual debt issued (Note 22)	-	-	5 049	-	-	-	-	5 049
Foreign exchange translation of perpetual debt issued	-	-	7 219	-	-	-	(7 465)	(246)
Transaction costs on perpetual debt issued	-	-	-	-	-	-	(54)	(54)
Tax effect on perpetual debt issued	-	-	-	-	-	-	2 373	2 373
31 December 2018	27 942	46 247	46 691	490	(1 834)	-	71 637	191 173

Acting Chairman of the Management Board

Mikhail V. Polunin

Chief Accountant

Svetlana V. Sass



The consolidated statement of changes in equity is to be read in conjunction with the Notes, forming an integral part of consolidated financial statements.

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganised as an open joint-stock company. On 16 May 2016 the Bank was re-registered as a public joint-stock company under the legislation of the Russian Federation. The Bank's registered legal address is 2 (bldg. 1), Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 10 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 132 branches, 1 204 ATMs and 7 023 payment terminals.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activities	Degree of control, %	
			31 December 2018	31 December 2017
"CBOM Finance p.l.c."	Ireland	Raising finance	100%	100%
"INKAKHRAN" Group	Russia	Cash handling	100%	100%
LLC "MKB-Invest"	Russia	Transactions with securities	100%	100%
LLC "Bank SKS"	Russia	Investment banking	100%	100%
CJSC "Mortgage Agent MKB"	Russia	Raising finance	100%	100%
LLC "Mortgage Agent MKB 2"	Russia	Raising finance	100%	100%
"MKB-Leasing" Group	Russia	Finance leasing	-	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", LLC "MKB Invest", CJSC "Mortgage Agent MKB" and LLC "Mortgage Agent MKB 2". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. "MKB Invest" is controlled by the Group through an option agreement. CJSC "Mortgage Agent MKB" was established for the purposes of the mortgage loans securitisation program launched by the Bank in 2014. LLC "Mortgage Agent MKB 2" was established for the purposes of the mortgage loans securitisation program launched by the Bank in 2016. In June 2018, the Group sold 100% share in its subsidiary "MKB-Leasing" Group – Note 34.

Shareholders

The Bank's shareholders as at 31 December 2018 are:

- LLC Concern Rossium – 56.07%
- RegionFinanceResurs JSC – 9.43%
- LLC IC Algoritm – 6.34%
- Other shareholders – 28.16%.

The majority participant of LLC Concern Rossium, is Roman I. Avdeev, who is an ultimate controlling party of the Group.

Related party transactions are detailed in Note 27.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial risks in the markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities, including banks, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Group's annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and through other comprehensive income are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest million.

Foreign currencies, particularly USD and EUR, play significant role in determination of economic parameters for many business operations conducted in the Russian Federation. The table below sets out exchange rates for USD and EUR against RUB, defined by the CBR:

	31 December 2018	31 December 2017
USD	69.4706	57.6002
EUR	79.4605	68.8668

Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgement, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The significant judgements made by management in applying the Group's accounting policies are the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017, except for the areas described below.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following Note:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3.
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following Note:

Applicable to 2018 only:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information in the measurement of ECL – Note 4.

Applicable to 2018 and 2017:

- impairment of financial instruments – Note 15.
- estimates of fair values of financial assets and liabilities – Note 32.
- building revaluation estimates – Note 16.

Changes in accounting policies and presentation

The Group has adopted IFRS 9 and IFRS 15 from 1 January 2018. Also, the Group early adopted 'Prepayment Features with Negative Compensation' (Amendments to IFRS 9), issued in October 2017.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

Due to the transition methods chosen by the Group in applying IFRS 9, comparative information throughout these consolidated financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 5);
- additional disclosures related to IFRS 9 (see Notes 4 and 5).

IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 '*Financial Instruments: Recognition and Measurement*'. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 '*Presentation of Financial Statements*', which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Group disclosed this amount in notes to the consolidated financial statements.

Additionally, the Group has adopted consequential amendments to IFRS 7 '*Financial Instruments: Disclosures*' that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 3.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 3.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

The Group used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present ‘interest income calculated using the effective interest rate’ as a separate line item in the consolidated statement of profit or loss and other comprehensive income, the Group has reclassified comparative interest income on non-derivative debt financial assets measured at FVTPL to ‘other interest income’ and changed the description of the line item from ‘interest income’ reported in 2017 to ‘interest income calculated using the effective interest method’.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts and related interpretations’.

The Group initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group’s fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

A contract with a customer that results in a recognised financial instrument in the consolidated financial statements of the Group may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

The Group earns other fee and commission income at a point in time or over the time with consideration to how performance obligation is satisfied by providing services to the customers.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements, except as explained in Note 2, which addresses changes in accounting policies.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows:

(i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Interest

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the consolidated statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

Interest expense presented in the consolidated statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost.

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

Interest expense presented in the statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost;

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Bank's contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognised in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer's decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss, however, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income:

- an investment in equity securities designated as at FVOCI (2017: available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss)).

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group includes cash and the correspondent account with the Central bank of the Russian Federation, nostro accounts with other banks and deposits in credit and other financial institutions with initial maturity of less than one month in cash and cash equivalents. The obligatory reserves with the Central bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets and non-compliant with SPPI-criteria debt financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it

would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;

- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Financial assets – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
 - held for trading;
 - derivative hedging instruments; or
 - designated as at FVTPL.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group has fixed rate bank loans for which the banks have the option to revise the interest rate following the change of key rate set by the CBR. The Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group considers these loans as in essence floating rate loans.

Modification of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and;
- other fees are included in profit or loss as part of the gain or loss on derecognition.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

As part of credit risk management activities, the Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’). If the Group plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Group concludes that modification of financial assets modified as part of the Group’s forbearance policy is not substantial, the Group performs qualitative evaluation of whether the modification is substantial.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Reclassification

Policy applicable from 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The Group should reclassify financial assets if the Group changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. Accordingly, a change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced

neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by the Central bank of the Russian Federation and deposits by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognised in the profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within cash and cash equivalents and deposits in credit and other financial institutions. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards related to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards related to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards related to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

Loans to customers

Policy applicable from 1 January 2018

‘Loans to customers’ caption in the consolidated statement of financial position include:

- loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans to customers mandatorily measured at FVTPL due to non-compliance with the SPPI-criterion; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

Policy applicable before 1 January 2018

Loans to customers were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Group did not intend to sell immediately or in the near term.

Loans to customers included:

- those classified as loans and receivables; and
- finance lease receivables.

Loans to customers were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loans to customers also included finance lease receivables in which the Group was the lessor.

Investment securities

Policy applicable from 1 January 2018

The 'investment financial assets' caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

Fair value through profit or loss

- *Trading assets* were those assets that the Group acquired or incurred principally for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together for short-term profit or position taking. Trading assets were initially recognised and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value were recognised in profit or loss.
- *Designated assets*. The Group designated some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

Available-for-sale

Available-for-sale investments were non-derivative investments that were designated as available-for-sale or were not classified as another category of financial assets. Available-for-sale investments comprise

equity securities and debt securities. Unquoted equity securities whose fair value could not be measured reliably were carried at cost. All other available-for-sale investments were measured at fair value after initial recognition.

Interest income was recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the Group became entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss. Impairment losses were recognised in profit or loss.

Other fair value changes, other than impairment losses, were recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment was sold, the gain or loss accumulated in equity was reclassified to profit or loss.

A non-derivative financial asset might be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at FVTPL.

Leases

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of an arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's consolidated statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised as other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	10-50
Furniture and other property	1-20
Computers and office equipment	1-5
Vehicles	3-7
Aircrafts	20-30

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group has adopted a component based depreciation accounting model for certain groups of its assets (such as aircrafts). Under this approach, depreciation of certain parts of the relevant assets with a cost that is significant in relation to the total cost of such assets is calculated separately. Useful life of these parts may differ from the overall useful life of the relevant assets. The Group estimates depreciation of certain components based on their actual utilisation (not useful life) whenever this depreciation method allows for a more accurate estimate of the pattern of consumption of the future economic benefits embodied in such components. The Group reviews its assumptions on useful life and/or utilisation on a regular basis.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalisation.

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, typically between 1 and 5 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal groups, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI;
- financial guarantee contracts issued; and
- loan commitments issued.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 4).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

– the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group’s contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group’s exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts

subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost.

Financial assets measured at amortised cost	The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.
	In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.
	An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.
Available-for-sale financial assets	Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security was recognised in other comprehensive income.

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- *from 1 January 2018*: at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- *before 1 January 2018*: at the higher the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- *from 1 January 2018*: the Group recognises a loss allowance;

- *before 1 January 2018*: the Group recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Perpetual instruments

Perpetual non-redeemable debt instruments issued by the Group which carry no mandatory interest payments are classified as equity.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment, and assess its performance, and for which discrete financial information is available.

Comparative information

As a result of adoption of IFRS 9 the Group changed presentation of certain captions in the primary forms of consolidated financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the consolidated statement of financial position is disclosed in Note 5.

The effect of main changes in presentation of the consolidated statement of financial position is as follows:

- 'Financial instruments at fair value through profit or loss' were presented within 'Trading financial assets' line item;
- 'Available-for-sale financial assets' were presented within 'Investment financial assets' line item.

The effect of main changes in presentation of the consolidated statement of profit or loss and other comprehensive income is as follows:

- The presentation of interest income was amended to present interest on non-derivative financial assets measured at FVTPL separately under 'Other interest income' line item.

The effect of main changes in presentation of the consolidated statement of cash flows is as follows:

- 'Financial instruments at fair value through profit or loss' were presented within 'Trading financial assets' line item;
- 'Purchase of available-for-sale securities' was presented within 'Purchase of investment financial assets' line item;
- 'Proceeds from disposal and redemption of available-for-sale securities' were presented within 'Proceeds from disposal and redemption of investment financial assets' line item.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is not expected to have a material impact on the Group's financial statements in the period of initial application.

IFRS 16 Leases

The Group is required to adopt IFRS 16 *Leases* from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Group has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating lease. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to RUB 3 508 million, on an undiscounted basis, which the Group estimates it will recognise as additional lease liabilities.

No significant impact is expected for the Group's finance leases.

Leases in which the Group is a lessor

No significant impact is expected for leases in which the Group is a lessor.

Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Other standards and interpretations

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards
- *Amendments to References to Conceptual Framework in IFRS Standards*.

4 Financial risk review

This Note presents information about the Group's exposure to financial risks.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and

analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposure	All exposures (corporate and retail exposures)
<ul style="list-style-type: none"> • Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities 	<ul style="list-style-type: none"> • Payment record – this includes overdue status as well as a range of variables about payment ratios • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth.

The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined taking into account grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3)/in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporating of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information.

The Group has identified and documented key drivers of credit risk and credit losses, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is GDP forecasts.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV

ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- date of initial recognition;
- remaining term to maturity.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Exposure as at 31 December 2018	Benchmarks used PD
Cash and cash equivalents	137 689	Moody's default study/ Internal PD-model
Due from credit and other financial institutions	6 669	
Investment financial assets	96 429	

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments, loan commitments and financial guarantee contracts as at 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: 12-month ECL, lifetime ECL, credit-impaired and purchased or originated credit impaired are included in Note 3.

Credit quality in the tables below is based on the following scale developed internally by the Group:

- "Low credit risk" – assets with counterparties with low probability of default with high ability to fulfil financial obligations in time.

- “Moderate credit risk” – assets with counterparties with average probability of default and with moderate ability to fulfil financial obligations in time; more detailed consideration is required during monitoring.
- “High credit risk” – assets with higher probability of default; specific attention is required during monitoring.
- “Distressed assets” – assets that are qualified as defaulted considering all available signs of impairment.

31 December 2018

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Purchased or originated credit impaired	Total
<u>Cash equivalents</u>					
rated from AA+ to AA-	7 562	-	-	-	7 562
rated from A+ to A-	13 883	-	-	-	13 883
rated from BBB+ to BBB-	68 133	-	-	-	68 133
rated from BB+ to BB-	853	-	-	-	853
rated from B+ to B-	49 669	-	-	-	49 669
not rated	1 005 322	-	-	-	1 005 322
Total	1 145 422	-	-	-	1 145 422
Credit loss allowance	(1 298)	-	-	-	(1 298)
Carrying amount	1 144 124	-	-	-	1 144 124
<u>Due from credit and other financial institutions at amortised cost</u>					
rated from BBB+ to BBB-	2 619	-	-	-	2 619
rated from B+ to B-	4 047	-	-	-	4 047
not rated	6 652	-	-	-	6 652
Total	13 318	-	-	-	13 318
Credit loss allowance	(135)	-	-	-	(135)
Carrying amount	13 183	-	-	-	13 183
<u>Loans to corporate clients at amortised cost</u>					
Low credit risk	141 051	-	-	-	141 051
Moderate credit risk	347 017	25 732	-	5 348	378 097
High credit risk	28 040	13 835	-	7 343	49 218
Distressed assets	-	-	11 780	-	11 780
Total	516 108	39 567	11 780	12 691	580 146
Credit loss allowance	(10 289)	(5 937)	(9 392)	-	(25 618)
Carrying amount	505 819	33 630	2 388	12 691	554 528

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	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Purchased or originated credit impaired	Total
<u>Loans to individual clients at amortised cost</u>					
not past due	87 898	2 454	173	-	90 525
overdue less than 31 days	181	890	37	-	1 108
overdue 31-60 days	-	465	18	-	483
overdue 61-90 days	-	307	31	-	338
overdue 91-180 days	-	-	982	-	982
overdue 181-360 days	-	-	1 891	-	1 891
overdue more than 360 days	-	-	1 275	-	1 275
Total	88 079	4 116	4 407	-	96 602
Credit loss allowance	(1 102)	(950)	(3 416)	-	(5 468)
Carrying amount	86 977	3 166	991	-	91 134
<u>Debt investment securities at amortised cost</u>					
rated from BBB+ to BBB-	30 435	-	-	-	30 435
rated from BB+ to BB-	2 525	-	-	-	2 525
rated from B+ to B-	165	-	-	-	165
not rated	6 271	-	450	-	6 721
Total	39 396	-	450	-	39 846
Credit loss allowance	(175)	-	(270)	-	(445)
Carrying amount	39 221	-	180	-	39 401
<u>Debt investment securities at FVOCI</u>					
rated from A+ to A-	123	-	-	-	123
rated from BBB+ to BBB-	133 775	-	-	-	133 775
rated from BB+ to BB-	16 170	-	-	-	16 170
rated from B+ to B-	8 241	-	-	-	8 241
from CCC+ to CCC-	258	-	-	-	258
not rated	16 393	-	-	-	16 393
Total	174 960	-	-	-	174 960
Credit loss allowance	(618)	-	-	-	(618)
Gross carrying amount	177 870	-	-	-	177 870
Carrying amount – fair value	174 960	-	-	-	174 960
<u>Loan commitments</u>					
	59 544	15	-	-	59 559
Credit loss allowance	(46)	-	-	-	(46)
Carrying amount (provision)	(46)	-	-	-	(46)
<u>Financial guarantee contracts</u>					
	3 787	500	15	-	4 302
Credit loss allowance	(85)	(40)	(2)	-	(127)
Carrying amount (provision)	(109)	(40)	(2)	-	(151)

As at 31 December 2018 included in not rated Cash equivalents are counterparties with credit ratings equivalent to Low credit risk category RUB 876 million, Moderate credit risk category RUB 1 004 446 million.

As at 31 December 2018 included in not rated Due from credit and other financial institutions at amortised cost are counterparties with credit ratings equivalent to Moderate credit risk category RUB 6 632 million and Distressed assets in the amount of RUB 20 million.

As at 31 December 2018 included in not rated Debt investment securities at amortised cost are counterparties with credit ratings equivalent to Low credit risk category RUB 2 755 million, Moderate credit risk category RUB 3 516 million.

As at 31 December 2018 included in not rated Debt investment securities at FVOCI are counterparties with credit ratings equivalent to Low credit risk category in the amount of RUB 2 058 million, to Moderate credit risk category RUB 14 335 million.

5 Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassi- fication	Remeasure- ment	New carrying amount under IFRS 9
Financial assets							
Cash and cash equivalents	11	Loans and receivables	Amortised cost	934 033	-	(673)	933 360
Trading financial assets	13	FVTPL	(mandatory)	72 986	(71 133)	-	1 853
Derivative financial assets	13	FVTPL	(mandatory)	44 296	-	-	44 296
Due from credit and other financial institutions	12	Loans and receivables	Amortised cost	16 369	-	(166)	16 203
Loans to customers	14	Loans and receivables	Amortised cost	768 676	(32 981)	(6 572)	729 123
Loans to customers ^(a)	14	Loans and receivables	FVTPL (mandatory)	-	32 981	(267)	32 714
Investment financial assets – debt ^(c)	15	Available for sale	FVOCI	24 946	(511)	-	24 435
Investment financial assets – debt ^(d)	15	FVTPL	FVOCI	-	68 070	-	68 070
Investment financial assets – debt ^(b)	15	Available for sale	Amortised cost	-	511	(60)	451
Investment financial assets – debt ^(b)	15	FVTPL	Amortised cost	-	3 063	(119)	2 944
Investment financial assets – equity	15	Available for sale	-	120	(120)	-	-
Investment securities – equity	15	Available for sale	FVTPL (mandatory)	-	120	-	120
Other financial assets	17	Loans and receivables	Amortised cost	1 500	-	(131)	1 369
Total financial assets				1 862 926	-	(7 988)	1 854 938

As a result of the adoption of IFRS 9 there were no reclassification or remeasurement of financial liabilities.

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3. The application of these policies resulted in the reclassifications set out in the table above and explained below.

- a. Certain loans to customers held by the Group's investment banking business are classified under IFRS 9 as mandatorily measured at FVTPL due to non-compliance with the SPPI criterion.
- b. Certain debt securities are held by the Group Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.
- c. Certain debt securities are held by the Group Treasury in separate portfolios to meet everyday liquidity needs. The Group Treasury seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- d. Before the adoption of IFRS 9, certain debt securities were classified as FVTPL at initial recognition. Due to changes in intentions and managing these securities within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets by the Group Treasury, those securities are classified as measured at FVOCI category on the adoption of IFRS 9.

The following table shows the effects of the reclassification of financial assets and financial liabilities from IAS 39 categories into the amortised cost category under IFRS 9.

From financial instruments at fair value through profit or loss under IAS 39

Fair value at 31 December 2018	2 752
Fair value loss that would have been recognised during the year ended 31 December 2018 in profit and loss if the financial assets had not been reclassified	(623)

From available-for-sale securities under IAS 39

Fair value at 31 December 2018	171
Fair value gain that would have been recognised during the year ended 31 December 2018 in other comprehensive income if the financial assets had not been reclassified	7

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to the fair value reserve and retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 at 1 January 2018
Fair value reserve – FVOCI debt (31 December 2017 – Fair value reserve – Available-for-sale)	
Closing balance under IAS 39 (31 December 2017)	394
Reclassification from financial instruments at fair value through profit or loss to debt investment securities at fair value through other comprehensive income	356

	Impact of adopting IFRS 9 at 1 January 2018
<u>Fair value reserve – FVOCI debt (31 December 2017 – Fair value reserve – Available-for-sale)</u>	
Reclassification of debt investment securities from available-for-sale to amortised cost	(10)
Reclassification of debt investment securities from available-for-sale to fair value through profit or loss	(36)
Recognition of expected credit losses under IFRS 9 for debt investment securities at fair value through other comprehensive income	644
Opening balance under IFRS 9 (1 January 2018)	1 348
<u>Retained earnings</u>	
Closing balance under IAS 39 (31 December 2017)	62 104
Reclassifications under IFRS 9	(610)
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	(8 063)
Opening balance under IFRS 9 (1 January 2018)	53 431

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017 to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

	Impairment allowance and provisions		
	31 December 2017 (IAS 39/IAS 37)	Reclassifica- tion	Remeasure- ment
			1 January 2018 (IFRS 9)
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, due from credit and other financial institutions and loans to customers)	44 949	-	7 411
Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9	-	225	73
Loans and receivables under IAS 39 reclassified to financial assets at FVTPL under IFRS 9 (includes loans to customers)	5 191	(5 191)	-
Total measured at amortised cost	50 140	(4 966)	52 658

	Impairment allowance and provisions			
	31 December 2017 (IAS 39/IAS 37)	Reclassifica- tion	Remeasure- ment	1 January 2018 (IFRS 9)
Available-for-sale debt investment securities under IAS 39 reclassified to amortised cost under IFRS 9	225	(225)	-	-
Available-for-sale debt investment securities under IAS 39/debt investment securities at FVOCI under IFRS 9	-	-	805	805
Total measured at FVOCI	225	(225)	805	805
Loans and receivables under IAS 39 reclassified to financial assets at FVTPL under IFRS 9 (includes loans to customers)	-	5 191	(5 191)	-
Total measured at FVTPL	-	5 191	(5 191)	-
Loan commitments and financial guarantee contracts issued	1 516	-	1 659	3 175

6 Net interest income

	2018	2017
Interest income calculated using the effective interest method		
Financial assets measured at amortised cost		
Loans to customers	65 515	82 324
Due from credit and other financial institutions and the CBR	58 086	35 794
Other financial assets	1 010	4 240*
Debt financial assets measured at FVOCI	8 676	-
Interest income calculated using the effective interest method	133 287	122 358
Loans to customers at FVTPL	3 397	-
Other financial instruments at fair value through profit or loss	1 249	4 601
Other interest income	4 646	4 601
	137 933	126 959
Interest expense		
Due to customers	(48 636)	(42 710)
Due to credit institutions and the CBR	(32 071)	(27 757)
Debt securities issued	(8 811)	(11 212)
	(89 518)	(81 679)
Net interest income	48 415	45 280

Included interest income on Available-for sale securities.

7 Net fee and commission income

	2018	2017
Fee and commission income		
Settlements and wire transfers	2 642	2 298
Other cash operations	2 556	2 060
Plastic cards	2 414	2 661
Insurance contracts processing	2 324	1 952
Guarantees and letters of credit	2 177	2 246
Cash handling	1 954	2 031
Currency exchange and brokerage commission	976	1 340
Opening and maintenance of bank accounts	573	537
Other	213	385
	15 829	15 510
Fee and commission expense		
Plastic cards	(2 819)	(2 372)
- Commissions to payment systems and other similar commissions	(2 420)	(2 246)
- Expenses under loyalty programs	(399)	(126)
Settlements, wire transfers	(226)	(178)
Other	(438)	(452)
	(3 483)	(3 002)
Net fee and commission income	12 346	12 508

Depending on the type of the service commission income when not an integral part of the effective interest rate on a financial asset or liability is recognized either at a point of time or over time according to the pattern the Group fulfills a performance obligation under the contract:

- commission fee for settlement transactions and wire transfers, cash operations, plastic cards, insurance contracts processing, cash handling, currency exchange and brokerage commission, opening and maintenance of bank accounts commission are charged for the execution of payment order in accordance with tariffs depending on the type of the transaction and recognised as income at the moment of the transaction execution;
- commission fee on guarantees and letters of credit issued is paid in advance and is recognized as income over the time of the relevant guarantee or letter of credit.

8 Salaries, employment benefits and administrative expenses

	2018	2017
Salaries	9 873	7 642
Social security costs	2 417	1 874
Salaries and employment benefits	12 290	9 516
Occupancy	1 185	1 035
Advertising and business development	1 335	1 155
Property maintenance	749	707
Operating taxes	589	666
Security	557	577
Legal and consulting services	313	222
Communications	298	200
Loss on revaluation of buildings	279	82
Write-off of low-value fixed assets	265	190
Computer maintenance and software expenses	187	179
Transport	151	175
Insurance	141	144
Other	36	45
Administrative expenses	6 085	5 377

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

9 Impairment (losses) recoveries on other non-financial assets, credit (losses) recoveries on other financial assets and credit related commitments and other provisions

Movements in the impairment allowance and credit loss allowance for the year ended 31 December 2018 are as follows:

	Other financial assets	Non-financial assets	Provisions for financial guarantees and credit related commitments	Provisions for claims and other provisions	Total
Balance at the beginning of the year	514	231	3 175	247	4 167
Net charge (recovery)	214	(100)	(3 002)	5 783	2 895
Write-offs	(229)	(41)	-	(61)	(331)
Disposal of subsidiary	(42)	(35)	-	-	(77)
Balance at the end of the year	457	55	173	5 969	6 654

Movements in the impairment allowance for year ended 31 December 2017 are as follows:

	Other financial assets	Non-financial assets	Provisions for financial guarantees and credit related commitments	Provisions for claims and other provisions	Total
Balance at the beginning of the year	438	61	1 510	144	2 153
Net (recovery) charge	(35)	162	6	131	264
Write-offs	(20)	10	-	(29)	(39)
Balance at the end of the year	383	233	1 516	246	2 378

10 Income tax

	2018	2017
Current tax charge	3 025	2 891
Deferred taxation	4 820	3 223
Income tax expense	7 845	6 114

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2018 and 2017.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

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	2018	%	2017	%
Income before tax	35 069		26 817	
Income tax using the applicable tax rate	7 014	20.0%	5 363	20.0%
Income taxed at lower rates	(431)	(1.2%)	(99)	(0.4%)
Net non-deductible costs	1 262	3.6%	850	3.2%
Income tax expense	7 845	22.4%	6 114	22.8%

Movements in temporary differences during the years ended 31 December 2018 and 2017 are presented as follows.

	Balance 31 December 2017	Impact of adopting IFRS 9	Balance 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income and equity	Recognised directly in equity	Disposal of subsidiaries	Balance 31 December 2018
Cash and cash equivalents	-	(134)	(134)	(131)	-	-	-	(265)
Due from credit and other financial institutions	12	(33)	(21)	-	-	-	-	(21)
Trading financial assets	8 708	244	8 952	(8 076)	-	-	-	876
Loans to customers	3 774	(1 368)	2 406	1 293	-	-	(36)	3 663
Investment financial assets	(959)	(278)	(1 237)	4 637	(796)	-	-	2 604
Property and equipment	257	-	257	15	(23)	-	-	249
Other assets	(393)	(26)	(419)	(160)	-	-	10	(569)
Due to customers	(7 286)	-	(7 286)	7 358	-	-	-	72
Debt securities issued	364	-	364	1 317	-	(1 443)	-	238
Other liabilities	(979)	(332)	(1 311)	(1 433)	-	-	32	(2 712)
Total net deferred tax liabilities (assets)	3 498	(1 927)	1 571	4 820	(819)	(1 443)	6	4 135

	Balance 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income and equity	Recognised directly in equity	Balance 31 December 2017
Due from credit and other financial institutions	-	12	-	-	12
Financial instruments at fair value through profit or loss	207	8 501	-	-	8 708
Available-for-sale securities	(1 655)	710	(14)	-	(959)
Loans to customers	2 678	1 096	-	-	3 774
Property and equipment	233	50	(26)	-	257
Other assets	(445)	52	-	-	(393)
Due to credit institutions	-	-	-	-	-
Due to customers	48	(7 334)	-	-	(7 286)
Debt securities issued	25	208	-	131	364
Currency translation reserve	6	-	(6)	-	-
Other liabilities	(907)	(72)	-	-	(979)
Total net deferred tax liabilities (assets)	190	3 223	(46)	131	3 498

Income tax recognised in other comprehensive loss

The tax effects relating to components of other comprehensive loss comprise the following:

	2018			2017		
	Amount before tax	Tax benefit / (expense)	Amount net-of-tax	Amount before tax	Tax benefit / (expense)	Amount net-of-tax
Revaluation surplus for buildings	(115)	23	(92)	(132)	26	(106)
Fair value reserve for securities	(3 978)	796	(3 182)	(71)	14	(57)
Currency translation reserve	-	-	-	(45)	6	(39)
Other comprehensive loss	(4 093)	819	(3 274)	(248)	46	(202)

11 Cash and cash equivalents

	31 December 2018	31 December 2017
Cash on hand	18 655	19 732
Correspondent account with the Central bank of the Russian Federation	56 103	71 300
Nostro accounts with other banks		
rated from AA+ to AA-	7 562	3 305
rated from A+ to A-	1 467	5 789
rated from BBB+ to BBB-	3 291	3 236
rated from BB+ to BB-	853	1 241
rated from B+ to B-	109	11
not rated	983	740
Total nostro accounts with other banks	14 265	14 322
Deposits in credit and other financial institutions with maturity of less than 1 month		
Deposits with the Central bank of the Russian Federation	2 219	22 008
rated from AA+ to AA-	-	57
rated from A+ to A-	12 416	11 741
rated from BBB+ to BBB-	6 520	4 224
rated from BB+ to BB-	-	5 104
rated from B+ to B-	49 560	56 434
not rated	1 004 339	729 111
Total deposits in credit and other financial institutions with maturity of less than 1 month	1 075 054	828 679
Total gross cash and cash equivalents	1 164 077	934 033
Credit loss allowance	(1 298)	-
Total net cash and cash equivalents	1 162 779	934 033

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

No cash and cash equivalents are past due.

The correspondent account with the Central bank of the Russian Federation represents balances held with the Central bank of the Russian Federation related to settlement activity, and was available for withdrawal at the year end.

As at 31 December 2018, receivables under reverse sale and repurchase agreements included in cash and

cash equivalents are RUB 1 058 970 million (31 December 2017: RUB 793 501 million).

As at 31 December 2018, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 1 152 996 million (31 December 2017: RUB 907 864 million).

As at 31 December 2018, deposits in not rated credit and other financial institutions with maturity of less than 1 month include term deposits secured by liquid securities under agreements to resell (reverse repo) in the amount of RUB 1 004 339 million (31 December 2017: RUB 729 111 million).

As of 31 December 2018, the total gross amount of cash and cash equivalents to the top twenty counterparties (or groups of related counterparties) was RUB 1 143 863 million (2017: RUB 929 928 million) or 98,3% (2017: 99,6%) of the Group's total gross amount of cash and cash equivalents.

Movements in cash and cash equivalents credit loss allowance by three ECL stages for the year ended 31 December 2018 are as follows:

	2018			2017	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total	Total
Balance at the beginning of the year	673	-	-	673	-
Net charge	626	-	-	626	-
Write-offs	(1)	-	-	(1)	-
Balance at the end of the year	1 298	-	-	1 298	-

Comparative amounts for the year ended 31 December 2017 represent impairment allowance and reflect measurement basis under IAS 39.

Information about the currency and maturity and effective interest rates of cash and cash equivalents is presented in Note 30.

12 Due from credit and other financial institutions

	31 December 2018	31 December 2017
Term deposits		
rated from BBB+ to BBB-	2 619	-
rated from BB+ to BB-	-	5 556
rated from B+ to B-	4 047	1 044
not rated	6 652	9 769
Total gross due from credit and other financial institutions	13 318	16 369
Credit loss allowance	(135)	-
Total net due from credit and other financial institutions	13 183	16 369

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

No due from credit and other financial institutions are past due.

As at 31 December 2018, receivables under reverse sale and repurchase agreements included in due from credit and other financial institutions are RUB 7 762 million (31 December 2017: RUB 8 423 million).

As at 31 December 2018, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 10 417 million (31 December 2017: RUB 10 488 million).

As at 31 December 2018, deposits included in not rated credit and other financial institutions are receivables in the amount of RUB 3 679 million (31 December 2017: RUB 6 319 million) secured by liquid securities under agreements to resell (reverse repo).

As of 31 December 2018, the total amount of due from credit and other financial institutions was attributable to seven counterparties (31 December 2017: eight counterparties) or groups of related counterparties.

Movements in due from credit and other financial institutions credit loss allowance by three ECL stages for the year ended ended 31 December 2018 are as follows:

	2018			2017	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total	Total
Balance at the beginning of the year	166	-	-	166	-
Net recovery	(31)	-	-	(31)	-
Balance at the end of the year	135	-	-	135	-

Comparative amounts for the year ended 31 December 2017 represent impairment allowance and reflect measurement basis under IAS 39.

Information about the currency and maturity and effective interest rates on deposits in credit and other financial institutions is presented in Note 30.

13 Trading financial assets

	31 December 2018	31 December 2017
<u>Held by the Group</u>		
Government and municipal bonds		
Russian Government Federal bonds	1 418	16 506
Russian Government Eurobonds	470	8 049
Regional authorities and municipal bonds	65	1 576
Corporate bonds		
rated from BBB+ to BBB-	3 109	17 226
rated from BB+ to BB-	2 955	5 507
rated from B+ to B-	127	1 641
not rated	129	718
Derivative financial instruments	4 636	44 296
Total held by the Group	12 909	95 519
<u>Pledged under sale and repurchase agreements</u>		
Government and municipal bonds		
Russian Government Federal bonds	-	840
Russian Government Eurobonds	-	16 850
Corporate bonds		
rated from BBB+ to BBB-	2 606	2 138
rated from BB+ to BB-	150	1 935
Total pledged under sale and repurchase agreements	2 756	21 763
Total trading financial assets	15 665	117 282

Ratings are based on Fitch, Moody's and Standard & Poor's rating system.

No trading financial assets are past due.

As at 31 December 2018, trading financial assets in the amount of RUB 5 639 million (31 December 2017: RUB 65 352 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

14 Loans to customers

	31 December 2018	31 December 2017
Loans to customers at amortised cost		
Loans to corporate clients	580 146	731 105
Credit loss allowance	(25 618)	(45 168)
Total loans to corporate clients at amortised cost, net	554 528	685 937
Loans to individuals		
Cash loans	72 219	63 256
Mortgage loans	20 679	20 319
Credit card loans	3 585	3 713
Auto loans	119	423
Credit loss allowance	(5 468)	(4 972)
Total loans to individuals, net	91 134	82 739
Total gross loans to customers at amortised cost	676 748	818 816
Credit loss allowance	(31 086)	(50 140)
Total net loans to customers at amortised cost	645 662	768 676
Loans to customers at FVTPL		
Loans to corporate clients	63 383	-
Total loans to customers at amortised cost and FVTPL	709 045	768 676

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Loans to customers		
- Not past due	705 067	789 661
- Overdue less than 31 days	18 257	4 805
- Overdue 31-60 days	3 614	3 255
- Overdue 61-90 days	1 239	1 334
- Overdue 91-180 days	2 793	8 905
- Overdue 181-360 days	4 803	5 334
- Overdue more than 360 days	4 358	5 522
Total gross loans to customers	740 131	818 816
Credit loss allowance	(31 086)	(50 140)
Total net loans to customers	709 045	768 676

As at 31 December 2018, the gross amount of overdue loans with payments that are overdue at least for one day totals RUB 35 064 million, which represents 4.7% of the gross loan portfolio (31 December 2017: RUB 29 155 million and 3.6%, respectively).

As at 31 December 2018, non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 11 954 million or 1.6% of the gross loan portfolio (31 December 2017: RUB 19 761 million and 2.4%, respectively).

As at 31 December 2018, the ratio of total credit loss allowance to overdue loans equals 88.7%, the ratio of total credit loss allowance to NPLs equals 260.0% (31 December 2017: 172.0%, 253.7%, respectively).

As at 31 December 2018, the Group has no modified loans to customers.

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Loans to corporate clients		
- Not past due	614 542	709 092
- Overdue less than 31 days	17 149	3 699
- Overdue 31-60 days	3 131	2 603
- Overdue 61-90 days	901	863
- Overdue 91-180 days	1 811	7 898
- Overdue 181-360 days	2 912	3 095
- Overdue more than 360 days	3 083	3 855
Total gross loans to corporate clients	643 529	731 105
Credit loss allowance	(25 618)	(45 168)
Total net loans to corporate clients	617 911	685 937

As at 31 December 2017, loans included in not past due category in the amount of RUB 74 992 million are not past due but impaired.

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate and other property, equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Real estate and other property	129 339	115 225
Claims for contract receivables	56 403	7 086
Securities	35 022	94 073
Equipment and motor vehicles	12 297	30 217
Goods in turnover	7 013	10 132
Guaranteed deposits	89	68 896
Bank's own debt securities	13	160
Corporate guarantees and no collateral	377 735	360 148
	617 911	685 937

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

As at 31 December 2018, there were no loans for which no ECL was recognised because of collateral.

As at 31 December 2018, there were no loans written-off for which collection procedures were still in process.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Collateral obtained

During the year ended 31 December 2018, the Group did not obtain assets by taking possession of collateral for loans to corporate customers (during the year ended 31 December 2017: RUB 82 million). The Group's policy is to sell such assets as soon as it is practicable.

Analysis of movements in the credit loss allowance

Movements in the credit loss allowance for loans to corporate clients by three ECL stages for the year ended 31 December 2018 are as follows:

CREDIT BANK OF MOSCOW (public joint-stock company)
Notes to, and forming part of, the Consolidated Financial Statements
for the year ended 31 December 2018
(in millions of Russian Roubles unless otherwise stated)

	2018 [*]			2017	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total	Total
Loans to corporate clients					
Balance at the beginning of the year	7 796	1 285	35 318	44 399	32 698
Transfer to 12-month ECL	207	(207)	-	-	-
Transfer to lifetime ECL not credit-impaired	(300)	300	-	-	-
Transfer to lifetime ECL credit-impaired	(106)	(5)	111	-	-
Net remeasurement of loss allowance	(1 155)	1 304	(1 775)	(1 626)	14 847
New financial assets originated or purchased	7 316	3 707	286	11 309	-
Financial assets that have been fully repaid	(3 683)	(465)	(5 137)	(9 285)	-
Transfer to assets held for sale	-	-	(7 700)	(7 700)	-
Write-offs	-	-	(12 492)	(12 492)	(2 377)
Recoveries of amounts previously written-off	-	-	294	294	-
Unwinding of discount	-	-	1 029	1 029	-
Disposal of subsidiary	(93)	(103)	(572)	(768)	-
Foreign exchange and other movements	307	121	30	458	-
Balance at the end of the year	10 289	5 937	9 392	25 618	45 168

Comparative amounts for the year ended 31 December 2017 represent impairment allowance and reflect measurement basis under IAS 39.

The total amount of undiscounted ECL on initial recognition on purchased credit-impaired financial assets that were initially recognised during the year was RUB 8 380 million.

Significant changes in the gross carrying amount of loans to corporate clients during the year that contributed to changes in loss allowance were as follows:

Repayment of loans to corporate clients in the amount of RUB 354 630 million during the year resulted in decrease of ECL in amount of RUB 9 285 million.

Write-offs of loans to corporate clients in the amount of RUB 112 486 million during the year resulted in decrease of ECL in the amount of RUB 20 192 million.

Transfers from 12-month ECL to lifetime ECL not credit impaired and to lifetime ECL credit impaired in the amount of RUB 5 062 million during the year resulted in increase of ECL in the amount of RUB 3 003 million.

^{*} The loss allowance in these tables includes ECL on loan commitments for certain corporate products.

Issuance of corporate loans in the amount of RUB 411 872 million during the year resulted in increase of ECL in the amount of RUB 11 309 million.

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2018:

	Cash loans	Mortgage loans	Credit card loans	Auto loans	Total
Loans to individuals					
- Not past due	67 455	19 605	3 356	109	90 525
- Overdue less than 31 days	883	222	-	3	1 108
- Overdue 31-60 days	400	54	28	1	483
- Overdue 61-90 days	295	18	25	-	338
- Overdue 91-180 days	722	208	49	3	982
- Overdue 181-360 days	1 646	160	83	2	1 891
- Overdue more than 360 days	818	412	44	1	1 275
Gross loans to individuals	72 219	20 679	3 585	119	96 602
Credit loss allowance	(4 927)	(294)	(243)	(4)	(5 468)
Net loans to individuals	67 292	20 385	3 342	115	91 134

The following table provides information on the credit quality of loans to individuals as at 31 December 2017:

	Cash loans	Mortgage loans	Credit card loans	Auto Loans	Total
Loans to individuals					
- Not past due	57 997	18 705	3 479	388	80 569
- Overdue less than 31 days	919	185	-	2	1 106
- Overdue 31-60 days	542	75	33	2	652
- Overdue 61-90 days	371	81	18	1	471
- Overdue 91-180 days	818	128	52	9	1 007
- Overdue 181-360 days	1 751	383	93	12	2 239
- Overdue more than 360 days	858	762	38	9	1 667
Gross loans to individuals	63 256	20 319	3 713	423	87 711
Credit loss allowance	(4 083)	(661)	(202)	(26)	(4 972)
Net loans to individuals	59 173	19 658	3 511	397	82 739

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience.

As at 31 December 2018, impaired mortgage loans in the gross amount of RUB 834 million are secured by collateral with a fair value of RUB 653 million (31 December 2017: RUB 1 614 million and RUB 1 148 million, respectively).

Analysis of movements in the credit loss allowance

Movements in the credit loss allowance by classes of loans to individuals and by three ECL stages for the year ended 31 December 2018 are as follows:

	2018*			2017	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total	Total
Cash loans					
Balance at the beginning of the year	1 294	933	3 880	6 107	6 085
Transfer to 12-month ECL	477	(178)	(299)	-	-
Transfer to lifetime ECL not credit-impaired	(117)	229	(112)	-	-
Transfer to lifetime ECL credit-impaired	(138)	(505)	643	-	-
Net remeasurement of loss allowance	(734)	335	1 433	1 034	3 773
New financial assets originated or purchased	506	210	268	984	-
Financial assets that have been fully repaid	(304)	(145)	(273)	(722)	-
Write-offs	-	-	(3 529)	(3 529)	(5 775)
Recoveries of amounts previously written-off	27	5	475	507	-
Unwinding of discount	-	-	546	546	-
Balance at the end of the year	1 011	884	3 032	4 927	4 083
Mortgage loans					
Balance at the beginning of the year	79	39	565	683	1 127
Transfer to 12-month ECL	23	(9)	(14)	-	-
Transfer to lifetime ECL not credit-impaired	(1)	3	(2)	-	-
Transfer to lifetime ECL credit-impaired	(2)	(16)	18	-	-
Net remeasurement of loss allowance	(64)	12	26	(26)	(178)
New financial assets originated or purchased	29	-	48	77	-
Financial assets that have been fully repaid	(15)	(14)	(82)	(111)	-
Write-offs	-	-	(631)	(631)	(288)
Recoveries of amounts previously written-off	-	-	269	269	-
Unwinding of discount	-	-	27	27	-
Foreign exchange and other movements	2	-	4	6	-
Balance at the end of the year	51	15	228	294	661

* The loss allowance in these tables includes ECL on loan commitments for certain retail products such as credit cards and overdrafts.

	2018			2017	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total	Total
<i>Credit card loans</i>					
Balance at the beginning of the year	51	82	177	310	239
Transfer to 12-month ECL	17	(17)	-	-	-
Transfer to lifetime ECL not credit-impaired	(3)	3	-	-	-
Transfer to lifetime ECL credit-impaired	(2)	(22)	24	-	-
Net remeasurement of loss allowance	(20)	31	48	59	155
New financial assets originated or purchased	11	10	36	57	-
Financial assets that have been fully repaid	(14)	(37)	(20)	(71)	-
Write-offs	-	-	(183)	(183)	(192)
Recoveries of amounts previously written-off	-	-	36	36	-
Unwinding of discount	-	-	35	35	-
Balance at the end of the year	40	50	153	243	202
<i>Auto loans</i>					
Balance at the beginning of the year	2	1	19	22	54
Net remeasurement of loss allowance	(1)	-	(7)	(8)	-
Financial assets that have been fully repaid	(1)	-	(4)	(5)	-
Write-offs	-	-	(24)	(24)	(28)
Recoveries of amounts previously written-off	-	-	19	19	-
Balance at the end of the year	-	1	3	4	26

Comparative amounts for the year ended 31 December 2017 represent impairment allowance and reflect measurement basis under IAS 39.

As at 31 December 2018, the total gross amount of loans to the top ten borrowers (or groups of related borrowers) was RUB 335 850 million (2017: RUB 365 965 million) or 45,4% (2017: 44,7%) of the Group's total gross amount of loans to customers.

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2018	31 December 2017
Loans to individuals	96 602	87 711
Crude oil production and trading	175 881	182 716
Petroleum refining / production and trading	140 819	132 982
Residential and commercial construction and development	55 230	55 611
Automotive, motorcycles and spare parts	51 457	53 294
Property rental	50 961	47 187
Equipment leasing	33 360	5 147
Industrial chemicals	30 558	27 949
Metallurgical	24 783	35 726
Food and farm products	18 567	40 947
Financial companies	17 920	8 350
Services	13 739	32 229
Consumer electronics, appliances and computers	8 424	8 349
Industrial equipment and machinery	7 023	25 649
Clothing, shoes, textiles and sporting goods	5 268	6 467
Consumer chemicals, perfumes and hygiene products	3 485	2 299
Transport infrastructure contractors	1 968	1 092
Construction and decorative materials, furniture	1 492	13 697
Industrial and infrastructure construction	1 271	15 977
Paper, stationery and packaging products	915	1 718
Government and municipal bodies	90	320
Telecommunications	69	24
Products for home, gifts, jewelry and business accessories	57	93
Pharmaceutical and medical products	35	32 526
Books, video, print and copy	32	171
Electric utility	-	66
Other	125	519
Total gross loans to customers	740 131	818 816
Credit loss allowance	(31 086)	(50 140)
Net loans to customers	709 045	768 676

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2018	31 December 2017
Gross investment in finance lease	-	9 522
Unearned interest income	-	(1 972)
Net investment in finance lease before allowance	-	7 550
Impairment allowance	-	(207)
Net investment in finance lease	-	7 343

The contractual maturity of the net investment in leases is as follows:

	31 December 2018	31 December 2017
Less than 1 year	-	3 567
Between 1 and 5 years	-	3 676
More than 5 years	-	17
Overdue	-	83
	<u>-</u>	<u>7 343</u>

Loan maturities

Information about the currency and maturity and effective interest rates of loans to customers is presented in Note 30.

15 Investment financial assets

	31 December 2018	31 December 2017
Investment financial assets measured at fair value through other comprehensive income – debt instruments, including pledged under repurchase agreements	174 960	-
Investment financial assets measured at amortised cost, including pledged under repurchase agreements	39 401	-
Investment financial assets at fair value through profit or loss	120	-
Available-for-sale securities, including pledged under repurchase agreements	<u>-</u>	<u>25 066</u>
Total investment financial assets	<u>214 481</u>	<u>25 066</u>

As at 31 December 2018, debt instruments at fair value through other comprehensive income in the amount of RUB 166 447 million are qualified to be pledged against borrowings from the Central bank of the Russian Federation (31 December 2017: debt instruments available-for-sale in the amount of RUB 7 201 million are qualified to be pledged against borrowings from the Central bank of the Russian Federation).

Investment financial assets measured at fair value through other comprehensive income - debt instruments

	31 December 2018
<u>Held by the Group</u>	
Russian Government Federal bonds (OFZ)	18 891
Russian Government eurobonds	7 671
Regional authorities and municipal bonds	1 367
Corporate bonds	41 825
Corporate eurobonds	<u>2 525</u>
Total held by the Group	<u>72 279</u>

	31 December 2018
<u>Pledged under sale and repurchase agreements</u>	
Russian Government Federal bonds (OFZ)	5 374
Russian Government eurobonds	61 112
Corporate bonds	27 103
Corporate eurobonds	9 092
Total pledged under sale and repurchase agreements	102 681
Total investment financial assets measured at fair value through other comprehensive income – debt instruments	174 960

Investment financial assets measured at amortised cost

	31 December 2018
<u>Held by the Group</u>	
Corporate eurobonds	7 885
Corporate bonds	4 337
Promissory notes	450
Total held by the Group	12 672
<u>Pledged under sale and repurchase agreements</u>	
Corporate eurobonds	24 086
Corporate bonds	3 088
Total pledged under sale and repurchase agreements	27 174
Credit loss allowance	(445)
Investment financial assets measured at amortised cost	39 401

Investment financial assets designated as at fair value through profit or loss

	31 December 2018
Equity investments	120
Total investment financial assets designated as at fair value through profit or loss	120

Available-for-sale securities

	31 December 2017
<u>Held by the Group</u>	
Corporate bonds	
from BBB+ to BBB-	68
from BB+ to BB-	6 555
from B+ to B-	7 810
not rated	8 495
Promissory notes	
not rated	225
Equity investments	120
Total held by the Group	23 273
<u>Pledged under sale and repurchase agreements</u>	
Corporate bonds	
from BBB+ to BBB-	858
from BB+ to BB-	935
Total pledged under sale and repurchase agreements	1 793
Total available-for-sale securities	25 066

Movements in the credit loss allowance of investment financial assets measured at fair value through other comprehensive income by three ECL stages for the year ended 31 December 2018 are as follows:

	2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit-impaired	Total
Investment financial assets measured at fair value through other comprehensive income - debt instruments				
Balance at the beginning of the year	805	-	-	805
Net recovery	(187)	-	-	(187)
Balance at the end of the year	618	-	-	618

Movements in the credit loss allowance of investment financial assets measured at amortised cost by three ECL stages for the year ended 31 December 2018 are as follows:

	2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
Investment financial assets measured at amortised cost				
Balance at the beginning of the year	21	7	270	298
Net charge (recovery)	154	(7)	-	147
Balance at the end of the year	175	-	270	445

16 Property and equipment

The movement in property and equipment for the year ended 31 December 2018 is presented in the table below:

	Aircrafts	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount							
At 1 January 2018	-	5 524	1 101	1 138	2 981	64	10 808
Additions	-	4	400	547	321	49	1 321
Reclassification	-	(3)	(21)	-	-	-	(24)
Disposals	-	(544)	(23)	(3)	(58)	-	(628)
Disposal of subsidiary	-	-	(15)	(1)	(8)	-	(24)
Transfers	-	-	6	23	31	(60)	-
Revaluation	-	(392)	-	-	-	-	(392)
Impairment	-	-	(1)	-	(1)	-	(2)
Elimination of accumulated depreciation on revalued buildings	-	(118)	-	-	-	-	(118)
At 31 December 2018	-	4 471	1 447	1 704	3 266	53	10 941
Accumulated depreciation							
At 1 January 2017	-	-	594	524	1 824	-	2 942
Depreciation charge	-	126	185	385	354	-	1 050
Disposals	-	(8)	(24)	(3)	(54)	-	(89)
Disposal of subsidiary	-	-	(2)	(1)	(2)	-	(5)
Transfers	-	-	(21)	-	-	-	(21)
Elimination of accumulated depreciation on revalued buildings	-	(118)	-	-	-	-	(118)
At 31 December 2018	-	-	732	905	2 122	-	3 759
Carrying value							
At 31 December 2018	-	4 471	715	799	1 144	53	7 182

The movement in property and equipment for the year ended 31 December 2017 is presented in the table below:

	Aircrafts	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount							
At 1 January 2017	14 978	5 007	880	706	2 626	63	24 260
Additions	-	851	310	433	378	3	1 975
Property received as a result of termination of lease agreements	-	-	1	-	-	-	1
Reclassification	-	-	-	2	-	(2)	-
Disposals	-	-	(26)	(1)	(23)	-	(50)
Disposal of subsidiary	(14 460)	-	-	-	-	-	(14 460)
Transfers	-	-	(62)	(2)	-	-	(64)
Revaluation	-	(219)	-	-	-	-	(219)
Impairment	-	-	(2)	-	-	-	(2)
Elimination of accumulated depreciation on revalued buildings	-	(115)	-	-	-	-	(115)
Currency exchange differences on translation	(518)	-	-	-	-	-	(518)
At 31 December 2017	-	5 524	1 101	1 138	2 981	64	10 808
Accumulated depreciation							
At 1 January 2017	707	-	485	306	1 484	-	2 982
Depreciation charge	994	115	179	219	357	-	1 864
Disposals	-	-	(11)	(1)	(17)	-	(29)
Disposal of subsidiary	(1 683)	-	-	-	-	-	(1 683)
Elimination of accumulated depreciation on revalued buildings	-	(115)	-	-	-	-	(115)
Transfers	-	-	(59)	-	-	-	(59)
Currency exchange differences on translation	(18)	-	-	-	-	-	(18)
At 31 December 2017	-	-	594	524	1 824	-	2 942
Carrying value							
At 31 December 2017	-	5 524	507	614	1 157	64	7 866

Revalued assets

The buildings were independently valued at 31 December 2018. The valuation was carried out by an independent firm of appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the income capitalisation and comparative sales and/or offer approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales and/or offers of similar buildings. Final fair value was calculated based on integrated analysis of both approaches. Thus, these buildings were classified to Level 3 of the fair value hierarchy.

The following key assumptions are used in applying the income capitalisation approach:

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses;
- vacancy losses as a percentage of potential gross rent income are estimated in the range of 11.3% to 13.3%;
- buildings maintenance and general administrative expenses are estimated in the range from 15.3% to 18.6% of effective gross rent income;
- capitalisation rate in the range from 11% to 12.3% is applied to capitalise net income for the base year.

For the comparative sales and/or offers approach the most significant assumption made is a negotiation discount in the range from 10.5% to 14.0% implicit in advertised market prices.

Changes in these estimates could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2018 would be RUB 447 million (31 December 2017: RUB 552 million) higher/lower.

The carrying value of buildings as of 31 December 2018, if the buildings would not have been revalued, would be RUB 3 963 million (31 December 2017: RUB 4 784 million).

17 Other assets

	31 December 2018	31 December 2017
Receivables and settlements with counterparties	2 140	664
Receivables for commissions	672	702
Receivables under cession agreements	528	517
Impairment allowance	(457)	(383)
Total other financial assets	2 883	1 500
Current tax assets	2 314	2 198
Reposessed collateral	735	679
Assets held for sale	609	2 435
Investment property	428	815
Intangible assets	417	484
Advances issued	258	720
Deferred expenses	59	168
Other	491	544
Property held for further leasing	-	424
Impairment allowance	(55)	(233)
Total other non-financial assets	5 256	8 234
Total other assets	8 139	9 734

Included in assets held for sale is real estate in Moscow and Moscow region, obtained by taking control over collateral for impaired loans.

18 Due to credit institutions

	31 December 2018	31 December 2017
Payables under repurchase agreements	487 959	534 452
Term deposits	15 827	57 252
Syndicated debt	21 799	29 487
Current accounts	27 345	18 670
Total due to credit institutions	552 930	639 861

As at 31 December 2018, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 551 204 million (31 December 2017: RUB 630 957 million).

As at 31 December 2018, the fair value of securities received as collateral under reverse repo deals being pledged for direct repo deals is RUB 429 174 million (31 December 2017: RUB 612 596 million).

As of 31 December 2018, the total gross amount of due to credit institutions to the top twenty counterparties (or groups of related counterparties) was RUB 539 015 million (2017: RUB 631 777 million) or 97,5 % (2017: 98,7%) of the Group's total gross amount of due to credit institutions.

Information about the currency and maturity and effective interest rates on due to credit institutions is presented in Note 30.

19 Due to customers

	31 December 2018	31 December 2017
Corporate customers		
Term and demand deposits and payables under derivative contracts	789 711	482 374
Current accounts	33 086	101 744
Subordinated debt	43 571	39 842
Payables under repurchase agreements	30 065	26 100
Term notes	666	447
Total corporate customers	897 099	650 507
Individuals		
Term and demand deposits	355 277	276 292
Current accounts	19 799	14 925
Total individuals	375 076	291 217
Total due to customers	1 272 175	941 724

As at 31 December 2018, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 33 838 million (31 December 2017: RUB 28 549 million).

As at 31 December 2018, the fair value of securities received as collateral under reverse repo deals being pledged for direct repo deals is RUB 23 334 million (31 December 2017: RUB 23 354 million).

As of 31 December 2018, the total gross amount of due to customers to the top ten counterparties (or groups of related counterparties) was RUB 769 258 million (2017: RUB 524 486 million) or 60,5% (2017: 55,7%) of the Group's total gross amount of due to customers.

Information about the currency and maturity and effective interest rates on due to customers is presented in Note 30.

20 Debt securities issued

	31 December 2018	31 December 2017
Bonds	61 134	66 649
Subordinated bonds	44 171	49 631
Total debt securities issued	105 305	116 280

The table below provides a summary of bonds issued as at 31 December 2018 and 31 December 2017:

	Nominal amount of the initial issue RUB'mln / USD'mln	Amount of the issue outstanding		Issue date	Maturity date	Coupon rate
		31 December 2018	31 December 2017			
USD denominated subordinated Eurobonds issue	600	39 109	35 017	05.04.2017	05.10.2027	7.50%
USD denominated Eurobonds issue	500	26 352	-	14.02.2018	14.02.2023	5.55%
USD denominated Eurobonds issue	500	25 757	24 603	07.11.2016	07.11.2021	5.88%
RUB denominated subordinated Eurobonds issue	5 000	5 062	5 059	26.11.2014	26.05.2025	16.50%
RUB denominated bonds issue BO-11	15 000	4 933	4 815	10.07.2014	10.07.2019	9.15%
RUB denominated bonds issue BO-09	3 000	2 882	2 880	25.03.2015	25.03.2020	10.25%
Mortgage-backed bonds RUB denominated bonds issue BO-10	3 328	1 153	2 387	02.12.2016	07.12.2043	10.15%
USD denominated Eurobonds issue	500	57	4 105	10.07.2014	10.07.2019	11.00%
USD denominated subordinated Eurobonds issue	500	-	20 035	01.02.2013	01.02.2018	7.70%
RUB denominated bonds issue BO-06	500	-	4 442	13.05.2013	13.11.2018	8.70%
RUB denominated bonds issue BO-06	5 000	-	3 592	24.10.2013	24.10.2018	10.15%
RUB denominated subordinated bonds issue 11	3 000	-	3 026	11.12.2012	05.06.2018	12.25%
RUB denominated bonds issue BO-07	7 000	-	2 159	30.10.2013	30.10.2018	10.30%
RUB denominated subordinated bonds issue 12	2 000	-	2 087	27.02.2013	22.08.2018	12.25%
RUB denominated bonds issue 01	3 000	-	1 236	27.10.2016	21.10.2021	12.50%
Mortgage-backed bonds	3 702	-	837	16.06.2014	07.06.2039	10.65%
		105 305	116 280			

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

Coupon payments are made semi-annually or quarterly, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in Note 30.

21 Other liabilities

	31 December 2018	31 December 2017
Derivative financial instruments	6 329	1 551
Advances received under cession agreements	1 514	15
Cash collection payables	601	468
Payables to suppliers and other creditors	438	640
Payable to employees	1 413	580
Other liabilities	1 623	868
Total other financial liabilities	11 918	4 122
Allowance for credit related commitments	4 758	1 665
Allowance for other commitments	1 385	96
Taxes payable	686	439
Deferred income	601	2 068
Payables to Deposit Insurance Agency	487	321
Current tax liabilities	208	16
Other liabilities	53	231
Total other non-financial liabilities	8 178	4 836
Total other liabilities	20 096	8 958

22 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital at 31 December 2018 comprises 27 079 709 866 shares (31 December 2017: 27 079 709 866 shares) with par value of 1 RUB per share. In addition, at 31 December 2018 the Bank has 9 196 448 142 authorised but unissued ordinary shares with an aggregate nominal value of RUB 9 196 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 862 million.

In May 2017 the Group issued subordinated perpetual Eurobonds in the amount of USD 700 million at par with a coupon rate of 8.875% per annum. The Group has the right to call the Eurobonds in November 2022 or on any subsequent coupon payment date thereafter at the option of the Group. The coupon is paid on a quarterly basis and the coupon rate is fixed until the first call date after which it is reset every 5 years. The coupon payment is not cumulative and may be cancelled at the discretion of the Group.

In July 2018 the Bank issued domestic perpetual subordinated bonds in the total amount of RUB 5 billion and a coupon rate of 12.00% per annum during the 1-11 coupon periods. The bonds are callable after 5.5 years of the placement date and then every 5 years. The coupon is paid on semi-year basis and the coupon rate is fixed. Coupon rate is reset every 10 coupon periods. The coupon payment is not cumulative and may be cancelled at the discretion of the Group.

In October 2018 the Group optimised its capital structure with a partial redemption of USD 700 million 8.875% per annum subordinated perpetual Eurobonds at par. Upon the partial redemption of this subordinated perpetual Eurobonds and cancellation of equivalent amounts USD 670 million of the

subordinated perpetual Eurobonds remained outstanding.

As the Group has discretion in relation to coupon and principal repayment, the Group classified subordinated perpetual Eurobonds and bonds as equity instruments in the consolidated statement of financial position. The CBR approved the inclusion of the perpetual subordinated Eurobonds and bonds in the calculation of statutory capital adequacy ratio. The Eurobonds and bonds are Basel-III compliant and eligible for inclusion into the Group's Additional Tier 1 capital upon receiving approval from the CBR (Note 28).

The USD denominated subordinated perpetual Eurobonds are translated to its RUB equivalent at the period-end exchange rate with exchange differences recorded in retained earnings when incurred. Issuance costs are also recorded in retained earnings when incurred.

23 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	31 December 2018	31 December 2017
Guarantees and letters of credit	152 507	89 475
Undrawn loan commitments	34 027	25 436
Other contingent liabilities	4 886	17
	191 420	114 928

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

24 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2018	31 December 2017
Less than 1 year	1 097	992
Between 1 and 5 years	2 170	2 108
More than 5 years	241	76
	3 508	3 176

During the year ended 31 December 2018 RUB 1 185 million was recognised as an expense in profit or loss in respect of operating leases (31 December 2017: RUB 1 035 million).

25 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

26 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

27 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018		31 December 2017	
	Amount	Average effective interest rate	Amount	Average effective interest rate
Cash and cash equivalents				
Under control of principal beneficiary	-	-	4 114	6.2%
Total cash and cash equivalents	-		4 114	
Due from credit and other financial institutions				
Under control of principal beneficiary	814	0.1%	-	-
Total due from credit and other financial institutions	814		-	
Trading financial assets				
Under control of principal beneficiary	23		1 451	
Total trading financial assets	23		1 451	
Loans to customers				
Under control of principal beneficiary	24 314	12.2%	22 600	12.7%
Management	686	8.5%	134	14.5%
Total loans to customers	25 000		22 734	
Due to customers				
Term deposits by customers				
Parent company	9 999	6.7%	-	-
Under control of principal beneficiary	9 277	7.3%	2 067	7.3%
Principal beneficiary	1 122	2.9%	174	7.4%
Management	388	5.4%	187	5.8%
Total term deposits by customers	20 786		2 428	
Current accounts by customers				
Under control of principal beneficiary	1 840		3 595	
Management	42		23	
Parent company	26		1 321	
Principal beneficiary	4		2	
Total current accounts by customers	1 912		4 941	
Total due to customers	22 698		7 369	
Debt securities issued				
Under control of principal beneficiary	5 712	9.5%	7 942	10.9%
Total debts securities issued	5 712		7 942	
Other liabilities				
Under control of principal beneficiary	802		-	
Total other liabilities	802		-	
Guarantees issued				
Under control of principal beneficiary	90		201	
Total guarantees issued	90		201	

As at 31 December 2018, the company under control of principal beneficiary has an investment in perpetual debt issued in amount of RUB 4 458 million (31 December 2017: RUB 2 221 million). During the period ended 31 December 2018 the company under control of principal beneficiary received coupon payments on perpetual debt issued from the Group in the amount of RUB 339 million.

As at 31 December 2018, the undrawn loan commitments under credit line agreements for principal beneficiary and for management are RUB 111 million (31 December 2017: RUB 890 million).

Amounts included in profit or loss and other comprehensive income for the years ended 31 December 2018 and 31 December 2017 in relation to transactions with related parties are as follows:

	2018	2017
Interest income		
Under control of principal beneficiary	3 177	3 590
Parent company	41	277
Management	34	14
Principal beneficiary	2	-
Total interest income	3 254	3 881
Interest expense		
Under control of principal beneficiary	(1 639)	(1 008)
Parent company	(140)	(44)
Principal beneficiary	(47)	(42)
Management	(19)	(15)
Total interest expense	(1 845)	(1 109)
Commission income		
Under control of principal beneficiary	364	273
Parent company	45	39
Management	1	-
Total commission income	410	312
Net foreign exchange loss		
Under control of principal beneficiary	(8 389)	608
Management	(1)	-
Total net foreign exchange loss	(8 390)	608

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the years ended 31 December 2018 and 31 December 2017 (refer to Note 8) is as follows:

	2018	2017
Board Members of the Management Board	(543)	(453)
Members of the Supervisory Board	(90)	(76)
	(633)	(529)

28 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for banking groups. Since 1 January 2016 the Group calculated amount of capital in accordance with Provision of the CBR dated 3 December 2016 No. 509-P 'On Calculation of Amount of Own Funds (Capital), Economic Ratios and Amounts (Limits) of Open Currency Positions of Banking Groups'. As at 31 December 2018 and 31 December 2017, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 4.5%, 6.0% and 8.0%, accordingly.

Starting from 1 January 2016 the Group should comply with capital mark-ups: capital conservation mark-up, countercycle mark-up and mark-up for systematical importance. Management believes that the Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR office that supervises the Bank with information on mandatory ratios in accordance with regulatory requirements. The Accounting Department controls on a daily basis compliance with capital adequacy ratios.

In case capital adequacy ratios become close to limits set by the CBR and the Group's internal limits this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 31 December 2018 and 31 December 2017.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the IFRS financial statements as at 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018	31 December 2017
Tier 1 capital		
Share capital and additional paid-in capital	74 189	74 189
Retained earnings	71 637	62 104
Intangible assets	(417)	(484)
Core tier 1 capital	145 409	135 809
Additional capital		
Perpetual debt issued	46 691	40 320
Total tier 1 capital	192 100	176 129
Tier 2 capital		
Revaluation surplus for buildings	490	582
Fair value reserve for securities	(1 834)	394
Subordinated debt		
Subordinated loans	63 072	56 055
Subordinated bonds	43 563	41 257
Total tier 2 capital	105 291	98 288
Total capital	297 391	274 417
Risk-weighted assets		
Banking book	922 193	943 174
Trading book	322 582	133 987
Operational risk	113 602	97 409
Total risk weighted assets	1 358 377	1 174 570
Total core tier 1 capital expressed as a percentage of risk-weighted assets (core tier 1 capital ratio) (%)	10.7	11.6
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	14.1	15.0
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	21.9	23.4

In June 2015 the State Corporation “Deposit Insurance Agency” provided a subordinated loan of RUB 20 231 million to the Bank in a form of federal loan bonds (OFZ). The Bank has an obligation to return securities received back to the lender at the maturity of the agreement. The Bank pays charges equal to coupons on the bonds transferred plus a fixed margin. The contract also includes certain restrictions on ability of the Bank to sell or pledge securities received. The arrangement is a securities lending transaction.

The Group does not recognise securities received and a subordinated obligation to return them to the lender in the consolidated statement of financial position of the Group. The obligation to return securities received to the State Corporation “Deposit Insurance Agency” is subordinated to other ordinary obligations of the Group and the terms of the loan satisfy the criteria for inclusion of the loan into the regulatory capital of the Bank in accordance with Russian banking legislation. As such, the Bank includes the amount of the subordinated loan described above into its tier 2 capital for the purpose of statutory regulatory capital and capital calculated for capital management purposes in accordance with Basel III.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees.

29 Analysis by segment

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate business comprises corporate lending, overdraft lending, factoring, financial and operating leasing, letters of credit, guarantees, corporate deposit services, settlements and money transfers
- Retail banking comprises retail demand and term deposit services; retail lending, including cashloans, car loans and mortgages, money transfers and private banking services; banking card products, settlements and money transfers
- Treasury comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- Cash operations comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on consolidated financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm’s length basis.

The segment breakdown of assets and liabilities is set out below:

	31 December 2018	31 December 2017
ASSETS		
Corporate banking	632 583	695 723
Retail banking	94 830	86 294
Treasury	1 387 225	1 071 712
Cash operations	23 088	24 863
Unallocated assets	8 201	9 599
Total assets	2 145 927	1 888 191
LIABILITIES		
Corporate banking	903 244	653 110
Retail banking	376 710	294 736
Treasury	658 619	748 892
Cash operations	6 161	5 525
Unallocated liabilities	10 020	8 339
Total liabilities	1 954 754	1 710 602

Segment information for the main reportable segments for the year ended 31 December 2018 is set below:

	Corporate banking	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	55 132	13 814	68 901	86	-	137 933
Fee and commission income	4 344	6 302	635	4 548	-	15 829
Net loss on other financial instruments at fair value through profit or loss	-	-	(189)	-	-	(189)
Net loss from sale and redemption of financial assets at FVOCI	-	-	(251)	-	-	(251)
Net foreign exchange gains	709	-	2 014	-	-	2 723
Other operating income (expenses), net	2 092	257	1 794	(59)	-	4 084
(Expenses) revenue from other segments	(5 719)	15 922	(11 170)	967	-	-
Revenue	56 558	36 295	61 734	5 542	-	160 129
Charge for credit loss on debt financial assets	(366)	(1 265)	(590)	-	-	(2 221)
Interest expense	(28 016)	(20 934)	(40 565)	(3)	-	(89 518)
Fee and commission expense	(3)	(2 963)	(502)	(15)	-	(3 483)
Net loss on loans to customers at fair value through profit or loss	(5 611)	-	-	-	-	(5 611)
Impairment (losses) recoveries on other non- financial assets, credit (losses) recoveries on other financial assets and credit related commitments and other provisions	(2 591)	(86)	(132)	(86)	-	(2 895)
General administrative and other expenses	(2 865)	(8 854)	(1 127)	(5 312)	(3 174)	(21 332)
Expense	(39 452)	(34 102)	(42 916)	(5 416)	(3 174)	(125 060)
Segment result	17 106	2 193	18 818	126	(3 174)	35 069

Segment information for the main reportable segments for the year ended 31 December 2017 is set below:

	Corporate business	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	66 283	16 095	44 523	58	-	126 959
Fee and commission income	4 288	6 067	1 027	4 128	-	15 510
Net gain on securities	-	-	1 114	-	-	1 114
Net foreign exchange gains	-	-	2 701	-	-	2 701
Other operating income (expenses), net	3 449	88	(1 382)	(38)	-	2 117
(Expenses) revenue from other segments	(10 779)	11 482	(1 499)	796	-	-
Revenue	63 241	33 732	46 484	4 944	-	148 401
Impairment losses on Loans	(14 847)	(3 750)	-	-	-	(18 597)
Interest expense	(23 491)	(19 842)	(38 346)	-	-	(81 679)
Fee and commission expense	(13)	(2 508)	(459)	(22)	-	(3 002)
General administrative and other expenses	(2 784)	(5 596)	(432)	(4 404)	(5 090)	(18 306)
Expense	(41 135)	(31 696)	(39 237)	(4 426)	(5 090)	(121 584)
Segment result	22 106	2 036	7 247	518	(5 090)	26 817

Information about geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. There are no external customers (groups of related customers) with individual income from operations which exceed 10% of total income from operations. The majority of non-current assets are located in the Russian Federation.

30 Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an public joint-stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2018, the Supervisory Board includes:

- William F. Owens – Chairman

Members:

- Roman I. Avdeev
- Andrew S. Gazitua
- Thomas G. Grasse
- Vladimir A. Chubar

- Sergey Y. Menzhinskiy
- Alexey A. Stepanenko
- Lord Peter H. Dursbery
- Andreas Klengen
- Ilkka S. Salonen.

During 2018, there were no changes in the Supervisory Board.

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2018, the Management Board includes:

- Vladimir A. Chubar – Chairman of the Management Board
- Pavel B. Shevchuk – First Deputy Chairman of the Management Board
- Mikhail V. Polunin – First Deputy Chairman of the Management Board
- Kamil R. Yusupov – Deputy Chairman of the Management Board
- Alexey V. Kosyakov – Deputy Chairman of the Management Board
- Alexey A. Stepanenko – Deputy Chairman of the Management Board
- Svetlana V. Sass – Chief Accountant, Member of the Management Board
- Elena V. Shved – Director of the Finance Department, Member of the Management Board
- Anton O. Viritchev – Head of the Risk Management, Member of the Management Board
- Oleg A. Borunov – Deputy Chairman of the Management Board
- Alexander N. Kaznacheev – Deputy Chairman of the Management Board

During the year ended 31 December 2018 the following changes occurred in the composition of the Management Board:

- Mikhail V. Polunin – new member
- Pavel B. Shevchuk – new member
- Kamil R. Yusupov – new member
- Andrey A. Kryukov – resigned
- Dmitry A. Eremin – resigned
- Yury A. Ubeev – resigned

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;

- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documenting of controls and procedures
- requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards, and
- risk mitigation, including insurance where this is effective.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Provision of the Central bank of Russian Federation dated 16 December 2003 No. 242-P *‘On the Organisation of Internal Control in Credit Organisations and Banking Groups’* sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

The main functions of the Internal Audit Service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping of the Bank’s property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of the internal control service and the risk management service.

The Internal Control Service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of the Internal Control (Compliance) Service include the following:

- identification of compliance risks and regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation in design of measures to decrease regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients' complaints
- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organised organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the Internal Audit Service. The Internal Audit Service is independent from management and reports directly to the Supervisory Board. The results of the Internal Audit Service reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 '*On Banks and Banking Activity*', Direction of the CBR dated 1 April 2014 No. 3223-U '*On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation*', establish the professional qualifications, business reputation and other requirements for members of the Supervisory Board, Management Board, Heads of the Internal Audit Service, Internal Control Service and Risk Management Service and other key management personnel. All members of the Bank's Risks Division meet these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the Internal Audit and Control function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures for the management of credit exposures (both for recognised and unrecognised exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of credit applications

- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

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

The maximum exposure to credit risk in relation to assets recognised at 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018	31 December 2017
ASSETS		
Cash and cash equivalents excluding cash on hand	1 144 124	914 301
Obligatory reserves with the Central bank of the Russian Federation	13 065	8 884
Due from credit and other financial institutions	13 183	16 369
Trading financial assets	15 665	117 282
Available-for-sale securities	-	24 946
Investment financial assets	214 481	-
Loans to customers	709 045	768 676
Other financial assets	2 883	1 500
Total maximum exposure to credit risk on statement of financial position	2 112 446	1 851 958

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 14.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in Note 23.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates the Bank's credit risk in respect of a borrower or group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2018 and 31 December 2017, the maximum level of

N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank was in compliance with limits set by the CBR as at 31 December 2018 and 31 December 2017.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds (capital).

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds (capital).

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Provision of the CBR dated 3 December 2016 No. 509-P 'Calculation of Own Funds (Capital), Mandatory Ratios and Open Currency Position Limits for Banking Groups' and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2018 and 31 December 2017.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

These ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

Types of financial assets/liabilities	Gross amount of recognised financial assets/liabilities	Gross amount of recognised financial liabilities/assets offset in the consolidated statement of financial position	Gross amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts subject to offset under specific conditions		
				Financial instruments	Cash collateral received	Net amount
Reverse sale and repurchase	1 066 732	-	1 066 732	1 066 732	-	-
Total financial assets	1 066 732	-	1 066 732	1 066 732	-	-
Sale and repurchase	518 024	-	518 024	518 024	-	-
Total financial liabilities	518 024	-	518 024	518 024	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial liabilities/assets offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts subject to offset under specific conditions		
				Financial instruments	Cash collateral received	Net amount
Reverse sale and repurchase	801 924	-	801 924	801 924	-	-
Total financial assets	801 924	-	801 924	801 924	-	-
Sale and repurchase	560 552	-	560 552	560 552	-	-
Total financial liabilities	560 552	-	560 552	560 552	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2018.

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Line item in the consolidated statement of financial position	Gross amount in the consolidated statement of financial position	Financial assets/liabilities not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	1 058 970	Cash and cash equivalents	1 164 077	105 107	11
	7 762	Deposits in credit and other financial institutions	13 318	5 556	12
Sale and repurchase agreements	487 959	Due to credit institutions	552 930	64 971	18
	30 065	Due to customers	1 272 175	1 242 110	19

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2017.

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Line item in the consolidated statement of financial position	Gross amount in the consolidated statement of financial position	Financial assets/liabilities not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	793 501	Cash and cash equivalents	934 033	140 532	11
	8 423	Deposits in credit and other financial institutions	16 369	7 946	12
Sale and repurchase agreements	534 452	Due to credit institutions	639 861	105 409	18
	26 100	Due to customers	941 724	915 624	19

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group is exposed to several types of operational risk, including unauthorised transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that the Group will be used for money laundering and financing of terrorist activities.

The Group’s Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognised principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organizational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

The Group established an Operational Risk Unit as a part of the Internal Control Division. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Operational Risk Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of the Internal Control Service on important developments and issues. The Head of the Internal Control Service reports directly to the Chairman of the Management Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios are:

- i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Group was in compliance with these ratios as at 31 December 2018 and 31 December 2017.

The following tables as at 31 December 2018 and 31 December 2017 show the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. Debt securities issued are shown in accordance with their early redemption dates. These expected cash flows can vary significantly from the actual future cash flows. Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2018	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Due to credit institutions	424 158	129 290	732	1 523	555 703	552 930
Due to customers	375 757	436 478	238 859	373 880	1 424 974	1 272 175
Debt securities issued	221	2 858	7 868	115 101	126 048	105 305
Other financial liabilities	8 132	2 029	1 581	176	11 918	11 918
Total contractual future payments for financial obligations	808 268	570 655	249 040	490 680	2 118 643	1 942 328
Guarantees and letters of credit	152 507				152 507	
Credit related commitments	34 027				34 027	

31 December 2017	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Due to credit institutions	472 414	151 178	17 896	2 096	643 584	639 861
Due to customers	221 775	444 686	104 270	295 386	1 066 117	941 724
Debt securities issued	4 333	26 068	15 297	92 060	137 758	116 280
Other financial liabilities	2 127	754	443	798	4 122	4 122
Total contractual future payments for financial obligations	700 649	622 686	137 906	390 340	1 851 581	1 701 987
Guarantees and letters of credit	89 475				89 475	
Credit related commitments	25 436				25 436	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	31 December 2018	31 December 2017
Demand and less than 1 month	35 703	28 981
From 1 to 6 months	171 484	155 342
From 6 to 12 months	115 711	88 719
More than 1 year	32 379	3 250
	355 277	276 292

In accordance with terms of issuance of bonds the holders are entitled to demand early redemption of bonds at their nominal value at certain dates. Management believes based on the past experience that it can manage amounts that are claimed for early redemption by changing coupon rates on bonds, thus classifying bonds in accordance with their stated final maturity dates. Maturity based on early redemption dates as at 31 December 2018 and 31 December 2017 is shown in the tables below:

31 December 2018	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Debt securities issued	-	-	4 991	33 701	66 613	-	105 305

31 December 2017	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Debt securities issued	4 105	23 060	12 280	12 753	60 856	3 226	116 280

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position.

Securities included in trading financial assets and investment financial assets that qualify as collateral for borrowing from the Central bank of the Russian Federation are shown in the category “Less than 1 month” as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs, if necessary. Liquid securities included in the Lombard list of the Central bank of the Russian Federation pledged as collateral are presented in accordance with maturity of related repo transactions.

As at 31 December 2018 and 31 December 2017 the contractual maturities of all instruments included in trading financial assets and investment financial assets were as follows:

CREDIT BANK OF MOSCOW (public joint-stock company)
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31 December 2018	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Total
Trading financial assets	1 468	3 009	729	1 275	3 443	5 741	-	15 665
Investment financial assets	602	10 814	2 718	25 827	39 969	134 431	120	214 481
31 December 2017	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Total
Financial instrument at fair value through profit or loss	4 589	5 738	10 632	4 051	53 672	38 600	-	117 282
Available-for-sale securities	2 354	6 927	1 510	4 195	9 408	552	120	25 066

CREDIT BANK OF MOSCOW (public joint-stock company)
Notes to, and forming part of, the Consolidated Financial Statements
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(in millions of Russian Roubles unless otherwise stated)

31 December 2018	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	1 162 779	-	-	-	-	-	-	-	-	-	-	1 162 779
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	13 065	-	13 065
Due from credit and other financial institutions	3 433	3 679	-	4 030	2 041	-	-	-	-	-	-	13 183
Trading financial assets	7 091	13	2 823	728	-	230	784	2 407	1 589	-	-	15 665
Loans to customers	47 420	44 272	121 229	75 420	40 032	124 186	56 901	99 371	92 838	-	7 376	709 045
Investment financial assets	166 848	524	491	330	1 860	1 715	11 273	20 463	10 857	120	-	214 481
Investments in associates	-	-	-	-	-	-	-	-	-	2 275	-	2 275
Property and equipment	-	-	-	-	-	-	-	-	-	7 182	-	7 182
Deferred tax assets	-	-	-	-	-	-	-	-	-	113	-	113
Other assets	581	523	827	725	726	6	2 319	240	-	2 192	-	8 139
	1 388 152	49 011	125 370	81 233	44 659	126 137	71 277	122 481	105 284	24 947	7 376	2 145 927
LIABILITIES												
Due to credit institutions	423 502	89 632	38 068	-	704	114	646	264	-	-	-	552 930
Due to customers	374 578	329 450	102 403	143 027	87 037	38 785	39 078	114 246	43 571	-	-	1 272 175
Debt securities issued	-	-	-	4 991	-	2 882	25 757	26 352	45 323	-	-	105 305
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	4 248	-	4 248
Other liabilities	9 013	1 099	3 310	2 216	1 715	2 401	251	88	3	-	-	20 096
	807 093	420 181	143 781	150 234	89 456	44 182	65 732	140 950	88 897	4 248	-	1 954 754
Net position	581 059	(371 170)	(18 411)	(69 001)	(44 797)	81 955	5 545	(18 469)	16 387	20 699	7 376	191 173
Cumulative position	581 059	209 889	191 478	122 477	77 680	159 635	165 180	146 711	163 098	183 797	191 173	

Management of the Group in its liquidity forecasts estimates that the liquidity gaps in the table above will be sufficiently covered by planned prolongations and planned funding raised from usual sources of financing and by ability to sell quickly or pledge into a repo transaction securities received under reverse repurchase agreements, which are liquid assets, as well as by the undrawn credit line facilities from the CBR and other financial institutions.

CREDIT BANK OF MOSCOW (public joint-stock company)
Notes to, and forming part of, the Consolidated Financial Statements
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31 December 2017	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	934 033	-	-	-	-	-	-	-	-	-	-	934 033
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	8 884	-	8 884
Due from credit and other financial institutions	4	4 450	6 340	2 125	-	3 450	-	-	-	-	-	16 369
Financial instruments at fair value through profit or loss	77 040	1 772	2 044	-	-	-	-	36 426	-	-	-	117 282
Available-for-sale securities	7 546	20	5 388	-	914	1 911	284	8 331	552	120	-	25 066
Loans to customers	123 170	80 102	51 699	53 163	34 946	66 640	102 236	203 359	42 167	-	11 194	768 676
Property and equipment	-	-	-	-	-	-	-	-	-	7 866	-	7 866
Deferred tax assets	-	-	-	-	-	-	-	-	-	281	-	281
Other assets	350	1 124	850	524	320	235	2 201	282	-	3 848	-	9 734
	1 142 143	87 468	66 321	55 812	36 180	72 236	104 721	248 398	42 719	20 999	11 194	1 888 191
LIABILITIES												
Due to credit institutions	471 111	111 281	38 298	95	17 327	138	303	1 197	111	-	-	639 861
Due to customers	221 490	143 702	294 734	58 795	40 854	17 784	455	120 191	43 719	-	-	941 724
Debt securities issued	-	20 033	3 026	2 087	10 193	8 920	2 880	25 838	43 303	-	-	116 280
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	3 779	-	3 779
Other liabilities	2 687	1 125	694	808	608	361	238	-	2 437	-	-	8 958
	695 288	276 141	336 752	61 785	68 982	27 203	3 876	147 226	89 570	3 779	-	1 710 602
Net position	446 855	(188 673)	(270 431)	(5 973)	(32 802)	45 033	100 845	101 172	(46 851)	17 220	11 194	177 589
Cumulative position	446 855	258 182	(12 249)	(18 222)	(51 024)	(5 991)	94 854	196 026	149 175	166 395	177 589	

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate currency and equity financial instruments which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or the ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The table below summarises the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
31 December 2018						
Interest-bearing assets	1 124 310	180 743	124 241	596 848	7 376	2 033 518
Interest-bearing liabilities	717 850	559 553	235 759	337 018	-	1 850 180
Net interest sensitivity gap as at 31 December 2018	406 460	(378 810)	(111 518)	259 830	7 376	183 338
31 December 2017						
Interest-bearing assets	954 740	151 441	102 375	500 790	11 194	1 720 540
Interest-bearing liabilities	696 705	611 076	129 351	260 733	-	1 697 865
Net interest sensitivity gap as at 31 December 2017	258 035	(459 635)	(26 976)	240 057	11 194	22 675

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 31 December 2017 is as follows:

	2018		2017	
	Profit or loss	Equity	Profit or loss	Equity
200 bp parallel rise	4 264	4 264	(1 320)	(1 320)
200 bp parallel fall	(4 264)	(4 264)	1 320	1 320

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of trading financial assets and investment financial assets due to changes in the interest rates based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves is as follows:

	2018		2017	
	Profit or loss	Equity	Profit or loss	Equity
200 bp parallel rise	(749)	(18 449)	(5 791)	(6 534)
200 bp parallel fall	749	18 449	5 791	6 534

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a 20% change in USD to RUB exchange rates is as follows:

	2018		2017	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against RUB	6 709	6 709	9 300	9 300
20% depreciation of USD against RUB	(6 709)	(6 709)	(9 300)	(9 300)

Equity price risk

Price risk is the risk that the value of an equity financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in an equity financial instrument.

Equity price risk is not significant.

Interest rate analysis

The interest rate policy is reviewed and approved by the ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	2018			2017		
	USD	RUB	Other foreign currencies	USD	RUB	Other foreign currencies
Interest bearing assets						
Cash and cash equivalents	3.8%	8.3%	0.1%	4.1%	8.1%	-
Deposits in credit and other financial institutions	6.2%	10.5%	1.8%	5.3%	10.7%	2.7%
Trading financial assets						
– government and municipal bonds	4.0%	9.1%	2.9%	3.5%	8.2%	-
– corporate bonds	7.0%	7.3%	3.0%	4.0%	9.4%	2.0%
Loans to customers	6.3%	11.5%	4.1%	5.9%	12.5%	3.6%
Investment financial assets						
– government and municipal bonds	4.6%	7.5%	0.0%	-	-	-
– corporate bonds	4.4%	6.0%	2.7%	5.6%	9.6%	2.2%
Interest bearing liabilities						
Due to credit institutions						
– term deposits	3.6%	8.0%	0.1%	3.2%	8.4%	1.5%
– syndicated debt	4.7%	-	1.5%	3.8%	-	1.5%
Due to customers						
– term deposits	3.9%	7.4%	0.7%	2.4%	8.0%	1.7%
– subordinated debt	4.9%	8.8%	-	4.9%	8.8%	-
Debt securities issued	6.5%	12.1%	-	7.1%	11.6%	-

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

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(in millions of Russian Roubles unless otherwise stated)

31 December 2018

	USD	RUB	Other currencies	Total
ASSETS				
Cash and cash equivalents	504 921	654 680	3 178	1 162 779
Obligatory reserves with the CBR	-	13 065	-	13 065
Due from credit and other financial institutions	5 475	4 029	3 679	13 183
Trading financial assets	1 904	12 623	1 138	15 665
Loans to customers	236 051	403 778	69 216	709 045
Investment financial assets	101 301	103 044	10 136	214 481
Investments in associates	-	2 275	-	2 275
Property and equipment	-	7 182	-	7 182
Deferred tax assets	-	113	-	113
Other assets	772	7 351	16	8 139
	850 424	1 208 140	87 363	2 145 927
LIABILITIES				
Due to credit institutions	295 208	235 299	22 423	552 930
Due to customers	525 006	681 525	65 644	1 272 175
Debt securities issued	91 218	14 087	-	105 305
Deferred tax liabilities	-	4 248	-	4 248
Other liabilities	5 083	13 980	1 033	20 096
	916 515	949 139	89 100	1 954 754
Net position before hedging	(66 091)	259 001	(1 737)	191 173
Derivative financial instruments	108 021	(110 064)	2 043	-
Net position	41 930	148 937	306	191 173

31 December 2017

	USD	RUB	Other currencies	Total
ASSETS				
Cash and cash equivalents	88 360	842 430	3 243	934 033
Obligatory reserves with the CBR	-	8 884	-	8 884
Due from credit and other financial institutions	82	8 427	7 860	16 369
Financial instruments at fair value through profit or loss	51 773	27 487	38 022	117 282
Available-for-sale securities	5 460	19 053	553	25 066
Loans to customers	137 255	485 778	145 643	768 676
Property and equipment	-	7 866	-	7 866
Deferred tax assets	-	281	-	281
Other assets	126	9 223	385	9 734
	283 056	1 409 429	195 706	1 888 191
LIABILITIES				
Due to credit institutions	260 676	364 332	14 853	639 861
Due to customers	192 397	491 214	258 113	941 724
Debt securities issued	84 096	32 184	-	116 280
Deferred tax liabilities	-	3 779	-	3 779
Other liabilities	1 276	6 947	735	8 958
	538 445	898 456	273 701	1 710 602
Net position before hedging	(255 389)	510 973	(77 995)	177 589
Derivative financial instruments	313 514	(390 663)	77 149	-
Net position	58 125	120 310	(846)	177 589

As at 31 December 2017 and 31 December 2018 the Group's significant open currency position in USD is due to the fact that perpetual debt issued in USD is reflected in equity and is not included in the table above.

Geographical risk

The geographical risk is the risk due to political, economic or social instability in the respective country.

The geographical concentration of major financial assets and liabilities as at 31 December 2018 and 31 December 2017 is disclosed in the table below:

31 December 2018	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	1 093 983	19 330	49 466	1 162 779
Obligatory reserves with the CBR	13 065	-	-	13 065
Due from credit and other financial institutions	4 661	814	7 708	13 183
Trading financial assets	12 468	3 140	57	15 665
Investment financial assets	170 938	42 773	770	214 481
Loans to customers	458 374	127 983	122 688	709 045
Investments in associates	2 275	-	-	2 275
	1 755 764	194 040	180 689	2 130 493
LIABILITIES				
Due to credit institutions	478 839	48 222	25 869	552 930
Due to customers	1 253 324	14 283	4 568	1 272 175
Debt securities issued	9 026	96 279	-	105 305
	1 741 189	158 784	30 437	1 930 410
Net position	14 575	35 256	150 252	200 083
31 December 2017	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	901 552	22 395	10 086	934 033
Obligatory reserves with the CBR	8 884	-	-	8 884
Due from credit and other financial institutions	6 323	3 450	6 596	16 369
Financial instruments at fair value through profit or loss	65 744	50 537	1 001	117 282
Available-for-sale securities	18 680	5 666	720	25 066
Loans to customers	640 752	80 744	47 180	768 676
	1 641 935	162 792	65 583	1 870 310
LIABILITIES				
Due to credit institutions	612 513	21 404	5 944	639 861
Due to customers	924 678	12 139	4 907	941 724
Debt securities issued	27 125	89 155	-	116 280
	1 564 316	122 698	10 851	1 697 865
Net position	77 619	40 094	54 732	172 445

The majority of non-financial assets and liabilities is located in Russia.

31 Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

	Trading financial assets	Investment financial assets
2018		
Carrying amount of assets	2 756	129 779
Carrying amount of associated liabilities	2 276	108 264
2017		
Carrying amount of assets	21 763	1 793
Carrying amount of associated liabilities	18 204	1 448

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. A part of securities that serve as collateral under reverse repurchase agreements has been pledged under sale and repurchase agreements by the Group. The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognised them. These securities are presented as “pledged under sale and repurchase agreements” in Notes 13 and 15. The cash received is recognised as a financial liability for the obligation to repay the purchase price for this collateral, and is included in due to credit institutions and due to customers (Notes 18 and 19). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

These transactions are conducted under terms that are usual and customary to standard lending activities, as well as the requirements determined by exchanges where the Group acts as intermediary.

32 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

	FVTPL	Amortised cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	-	1 162 779	-	1 162 779	1 162 779
Obligatory reserves with the CBR	-	13 065	-	13 065	13 065
Due from credit and other financial institutions	-	13 183	-	13 183	13 183
Trading financial assets	15 665	-	-	15 665	15 665
Loans to customers	63 383	645 662	-	709 045	717 280
Investment financial assets	120	39 401	174 960	214 481	213 148
Assets held for sale	-	609	-	609	609
Other financial assets	-	2 883	-	2 883	2 883
	79 168	1 877 582	174 960	2 131 710	2 138 612
Due to credit institutions	-	552 930	-	552 930	552 930
Due to customers	-	1 272 175	-	1 272 175	1 281 946
Debt securities issued	-	105 305	-	105 305	95 046
Other financial liabilities	6 329	5 589	-	11 918	11 918
	6 329	1 935 999	-	1 942 328	1 941 840

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2018 are:

- discount rates from 9.9% to 12.8% (roubles) and from 4.0% to 8.2% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 9.8% to 26.2% (roubles) and from 6.5% to 9.9% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 6.0% to 7.3% (roubles) and from 1.7% to 3.3% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 5.8% to 6.1% (roubles) and from 1.5% to 2.8% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

	Fair value through profit or loss	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	934 033	-	-	934 033	934 033
Obligatory reserves with the CBR	-	8 884	-	-	8 884	8 884
Due from credit and other financial institutions	-	16 369	-	-	16 369	16 369
Financial instruments at fair value through profit or loss	117 282	-	-	-	117 282	117 282
Available-for-sale securities	-	-	25 066	-	25 066	25 066
Loans to customers	-	768 676	-	-	768 676	770 867
Other financial assets	-	1 500	-	-	1 500	1 500
	117 282	1 729 462	25 066	-	1 871 810	1 874 001
Due to credit institutions	-	-	-	639 861	639 861	639 861
Due to customers	36 426	-	-	905 298	941 724	949 607
Debt securities issued	-	-	-	116 280	116 280	115 056
Other financial liabilities	1 551	-	-	2 571	4 122	4 122
	37 977	-	-	1 664 010	1 701 987	1 708 646

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2017 are:

- discount rates from 9.0% to 15.4% (roubles) and from 3.2% to 8.3% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 10.9% to 26.4% (roubles) and from 9.0% to 10.9% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.2% to 8.9% (roubles) and from 0.1% to 2.7% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 5.5% to 8.5% (roubles) and from 0.9% to 1.4% (foreign currency) are used for discounting future cash flows from retail deposits.

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist, Monte Carlo and polynomial-option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

Fair value hierarchy

The Group measures fair values for financial instruments recorded in the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the

unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following tables show an analysis of financial instruments recorded at fair value and financial instruments recorded at amortised cost for which fair value does not approximate their carrying amount as at 31 December 2018 and 31 December 2017:

31 December 2018	Level 1	Level 2	Level 3	Total
Trading financial assets	11 029	4 636	-	15 665
Loans to customers	-	-	717 280	717 280
Investment financial assets	212 848	120	180	213 148
Due to customers	-	1 281 946	-	1 281 946
Debt securities issued	95 046	-	-	95 046
Other financial liabilities	-	11 918	-	11 918

31 December 2017	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss	72 986	44 296	-	117 282
Available-for-sale securities	23 191	1 755	-	24 946
Loans to customers	-	-	770 867	770 867
Due to customers	-	949 607	-	949 607
Debt securities issued	115 056	-	-	115 056
Other financial liabilities	-	4 122	-	4 122

During the year ended 31 December 2018 there was transfer of assets between Level 1 and Level 3 in amount of RUB 180 million (31 December 2017: no transfers).

A reconciliation of movements in fair value of loans to customers at FVTPL for the year ended 31 December 2018 is as follows:

	31 December 2018
Fair value at 1 January 2018	32 714
Loan issues	39 618
Loan repayments	(12 429)
Interest income recognised	3 397
Changes in fair value measurement	(5 611)
Write-offs	(1 909)
Net foreign exchange gain	7 603
Fair value at 31 December 2018	63 383

The table below sets out information about significant unobservable inputs used in the measuring of financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2018:

Type of instrument	Fair values	Valuation technique	Significant unobservable input	Unobservable inputs used
Loans to customers at FVTPL	63 383	Discounted cash flow from operating activities	Risk-adjusted discount rate	RUB: 8,43% - 33,8% USD: 5,2% - 7,1% EUR: 3,7%

If discount rates differ by plus/minus one percent, fair values of these instruments would be RUB 61 531 million – RUB 64 358 million.

33 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share are calculated as follows:

	2018	2017
Profit for the year	27 224	20 703
Interest paid on perpetual debt securities issued, net of tax	(3 098)	(1 482)
Total profit for the year	24 126	19 221
Weighted average number of ordinary shares in issue	27 079 709 866	24 449 572 880
Basic and diluted earnings per share (in RUB per share)	0.89	0.79

34 Acquisition and disposal

Disposal of subsidiary

In June 2018, the Group sold 100% share in its subsidiary “MKB-Leasing” Group to a third party for a cash consideration of RUB 1 550 million. The Group recognised gain from disposal of a subsidiary in the amount of RUB 637 million. The financial result of a subsidiary for the period before disposal in amount of RUB 826 million (income) is included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

The disposal of a subsidiary had the following effect on assets and liabilities at the date of disposal as a result of the deconsolidation:

	Recognised amounts on disposal
ASSETS	
Cash and cash equivalents	703
Loans to customers	9 204
- <i>loans to corporate clients</i>	9 204
Property and equipment	19
Deferred tax asset	236
Other assets	4 015
LIABILITIES	
Due to credit institutions	9 118
Due to customers	20
- <i>due to corporate customers</i>	20
Debt securities issued	3 024
Deferred tax liability	230
Other liabilities	872
Net identifiable liabilities	913
Consideration received	1 550
Cash disposed of	(703)
Net cash inflow	847

35 Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities during the years ended 31 December 2018 and 31 December 2017 are presented as follows:

	Total amount as at 31 December 2017	Cash flow changes arising from financing activities	Non-cash flow changes arising from financing activities	Cash flow changes arising from investing activities	Non-cash flow changes arising from operating activities		Total amount as at 31 December 2018
			The effect of changes in foreign exchange rates	Net cash inflow (outflow) on disposal of subsidiary	The effect of changes in foreign exchange rates	Changes in the amount of accrued interest	
Syndicated loans in Due to credit institutions	29 487	(11 076)	3 408	-	19	(39)	21 799
Subordinated debt in Due to customers	39 842	-	3 561	-	38	130	43 571
Bonds in Debt securities issued	66 649	(11 305)	9 190	(3 024)	74	(450)	61 134
Subordinated bonds in Debt securities issued	49 631	(13 362)	7 690	-	79	133	44 171
Total	185 609	(35 743)	23 849	(3 024)	210	(226)	170 675

	Total amount as at 31 December 2016	Cash flow changes arising from financing activities	Non-cash flow changes arising from financing activities	Non-cash flow changes arising from operating activities		Total amount as at 31 December 2017
			The effect of changes in foreign exchange rates	The effect of changes in foreign exchange rates	Changes in the amount of accrued interest	
Subordinated debt in Due to credit institutions	623	(582)	(24)	(2)	(15)	-
Syndicated loans in Deposits by credit institutions	-	28 006	1 232	1	248	29 487
Subordinated debt in Due to customers	18 273	22 000	(917)	(15)	501	39 842
Bonds in Debt securities issued	95 252	(25 257)	(2 595)	(5)	(746)	66 649
Subordinated bonds in Debt securities issued	40 806	10 452	(1 545)	(55)	(27)	49 631
Total	154 954	34 619	(3 849)	(76)	(39)	185 609

36 Events subsequent to the reporting date

In January 2019 the Bank paid out the 9th coupon in the amount of RUB 2.4 million or RUB 42.85 per bond on domestic bonds series BO-10. The issue was originally placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 5 billion.

In January 2019 the Bank paid out the 9th coupon in the amount of RUB 387.4 million or RUB 46.13 per bond on domestic bonds series BO-11. The issue was originally placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 15 billion.

In January 2019 the Bank paid out the 1st coupon in the amount of RUB 299.2 million or RUB 59.84 per bond on perpetual subordinated bonds series 15. The issue was originally placed on 24 July 2018. The nominal value of the issue is RUB 5 billion.

In February 2019 the Bank placed senior Loan Participation Notes in the total amount of EUR 500 million at par with a fixed coupon rate of 5.15% p.a. and maturity of 5 years.

The Group made a decision to participate in the tender for acquisition of Asian-Pacific Bank (“APB”). The tender for sale of 99.99999983% of APB’s shares will be conducted by the Fund for Consolidation of the Banking Sector on 14 March 2019.

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Independent Auditors' Report

To the Shareholders and Supervisory Board of CREDIT BANK OF MOSCOW (public joint-stock company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the 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 the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements

Audited entity: CREDIT BANK OF MOSCOW (public joint-stock company).

Registration No. in the Unified State Register of Legal Entities 1027739555282.

Moscow, Russian Federation.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organizations: No. 11603053203.

as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to customers	
Please refer to note 13 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The impairment of loans to customers is estimated by management through application of judgment and use of highly subjective assumptions.</p> <p>Due to the significance of loans to customers (representing 41% of total assets) and the related estimation uncertainty, this is considered a key audit risk.</p> <p>For loans to corporate clients we focused on most significant loan exposures and analysed the adequacy of collective impairment allowance versus historical losses incurred and the assumptions and methodology used for calculation of impairment allowance for loans with signs of impairment.</p> <p>For loans to individuals we focused on key assumptions and judgements made by the Group in calculation of impairment allowance.</p>	<p>We assessed and tested the design and operating effectiveness of the controls over impairment identification for loans to corporate clients.</p> <p>With respect to unimpaired loans to corporate clients, where impairment is calculated based on historical data, we assessed whether historical experience was reflective of the losses incurred in the portfolio based upon the current economic environment and the current circumstances of the borrowers by comparing historical information to our own assessment.</p> <p>For a sample of exposures that were subject to an individual impairment assessment, we specifically challenged the Group's assumptions on the expected future cash flows, including the analysis of cash flows from operating activities and value of realizable collateral based on our own understanding of relevant industry-specific and other available market information.</p> <p>For impairment of loans to individuals calculated using statistical models, we tested the basis and operation of those models and the data used.</p> <ul style="list-style-type: none"> • We tested whether historical losses are calculated accurately and compared main assumptions to our own assessment in relation to key inputs. • We tested system-generated reports for impairment calculation in respect of completeness and accuracy of data used and the calculations within the reports. We also assessed IT controls over timely reflection of default events in the underlying systems. <p>We also assessed whether the consolidated financial statement disclosures appropriately reflect the Group's exposure to credit risk.</p>

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report for the year ended 31 December 2017 but does



not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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.

- 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

Report of findings from procedures performed in accordance with the requirements of Federal Law No. 395-1, dated 2 December 1990, *On Banks and Banking Activity*

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No. 395-1, dated 2 December 1990 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2018 established by the Bank of Russia; and
- whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment, and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios, as at 1 January 2018, were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

- Based on our procedures with respect to whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia, we found that:
 - as at 31 December 2017, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;
 - the Bank's internal documentation, effective on 31 December 2017, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;
 - as at 31 December 2017, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
 - the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2017, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
 - as at 31 December 2017, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk



management procedures and their consistent application during 2017, the Supervisory Board and Executive Management of the Bank periodically discussed the reports prepared by the risk management and internal audit functions, and considered the proposed corrective actions.

Procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:

Kolosov A. E.

JSC "KPMG"

Moscow, Russian Federation

28 March 2018



CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017
(in millions of Russian Roubles unless otherwise stated)

	Notes	2017	2016
Interest income	4	126 959	113 398
Interest expense	4	(81 679)	(73 099)
Net interest income	4	45 280	40 299
Provision for impairment of loans	13	(18 597)	(29 783)
Net interest income after provision for impairment of loans		26 683	10 516
Fee and commission income	5	15 510	13 394
Fee and commission expense	5	(3 002)	(2 247)
Net gain on financial instruments at fair value through profit or loss		773	235
Net realized gain and impairment of available-for-sale assets		341	1 208
Net foreign exchange gains		2 701	6 065
State deposit insurance scheme contributions		(1 286)	(920)
Operating lease income		1 634	1 252
Net income from disposal of subsidiaries	33	1 076	-
Other operating losses, net		(593)	(549)
Non-interest income		17 154	18 438
Operating income		43 837	28 954
Salaries and employment benefits	6	(9 516)	(7 700)
Administrative expenses	6	(5 377)	(5 260)
Depreciation of property and equipment	14	(1 863)	(1 481)
Provisions for impairment of other assets and credit related commitments	7	(264)	(778)
Operating expense		(17 020)	(15 219)
Profit before income taxes		26 817	13 735
Income tax	8	(6 114)	(2 861)
Profit for the year		20 703	10 874

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017
(in millions of Russian Roubles unless otherwise stated)

	Notes	2017	2016
Profit for the year		<u>20 703</u>	<u>10 874</u>
Other comprehensive (loss) income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
- revaluation of buildings		(132)	(102)
- income tax for revaluation of buildings		26	20
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
<i>Revaluation reserve for available-for-sale securities:</i>			
- net change in fair value		474	1 558
- net change in fair value transferred to profit or loss		(545)	(1 269)
- income tax related to revaluation reserve for securities		14	(58)
<i>Exchange differences on translation:</i>			
- exchange differences on translation		6	45
- exchange differences transferred to profit or loss on disposal of subsidiary		(51)	-
- income tax related to exchange differences on translation		6	(6)
Other comprehensive (loss) income for the year, net of tax		<u>(202)</u>	<u>188</u>
Total comprehensive income for the year		<u>20 501</u>	<u>11 062</u>
Basic and diluted earnings per share (in RUB per share)	32	0.85	0.46

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass



The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Financial Position
as at 31 December 2017
(in millions of Russian Roubles unless otherwise stated)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	9	934 033	373 327
Obligatory reserves with the Central bank of the Russian Federation		8 884	7 287
Deposits in credit and other financial institutions	10	16 369	403 480
Financial instruments at fair value through profit or loss, including	11	117 282	83 909
- <i>pledged under sale and repurchase agreements</i>	11	21 763	6 544
Available-for-sale securities, including	12	25 066	45 903
- <i>pledged under sale and repurchase agreements</i>	12	1 793	19 818
Loans to customers	13	768 676	626 535
- <i>loans to corporate customers</i>	13	685 937	533 470
- <i>loans to individuals</i>	13	82 739	93 065
Property and equipment	14	7 866	21 278
Deferred tax assets	8	281	-
Other assets	15	9 734	6 250
Total assets		1 888 191	1 567 969
LIABILITIES AND EQUITY			
Deposits by the Central bank of the Russian Federation	16	-	247 170
Deposits by credit institutions	17	639 861	381 624
Due to customers	18	941 724	689 496
- <i>due to corporate customers</i>	18	650 507	440 842
- <i>due to individuals</i>	18	291 217	248 654
Debt securities issued	19	116 280	137 203
Deferred tax liabilities	8	3 779	190
Other liabilities	20	8 958	8 885
Total liabilities		1 710 602	1 464 568
Equity			
Share capital	21	27 942	24 742
Additional paid-in capital		46 247	35 047
Perpetual debt issued	21	40 320	-
Revaluation surplus for buildings		582	688
Revaluation reserve for available-for-sale securities		394	451
Currency translation reserve		-	39
Retained earnings		62 104	42 434
Total equity		177 589	103 401
Total liabilities and equity		1 888 191	1 567 969

Commitments and Contingencies

Chairman of the Management Board

Chief Accountant

Vladimir A. Chubar

Svetlana V. Sass

The consolidated statement of financial position is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Cash Flows
for the year ended 31 December 2017
(in millions of Russian Roubles unless otherwise stated)

Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	129 680	109 337
Interest payments	(77 607)	(69 793)
Fees and commission receipts	15 606	13 714
Fees and commission payments	(2 989)	(2 247)
Net receipts from operations with securities	1 103	1 328
Net receipts from foreign exchange	13 495	3 037
State deposit insurance scheme contributions payments	(1 223)	(851)
Net other operating (payments) income receipts	(782)	242
Operating leases income receipts	1 633	1 241
Salaries and employment benefits paid	(9 312)	(7 684)
Administrative expenses paid	(5 081)	(4 990)
Income tax paid	(4 592)	(3 414)
Operating cash flows before changes in operating assets and liabilities	59 931	39 920
(Increase) decrease in operating assets		
Obligatory reserves with the Central bank of the Russian Federation	(1 597)	(1 350)
Deposits in credit and other financial institutions	366 282	(177 327)
Financial instruments at fair value through profit or loss	5 644	(11 390)
Loans to customers	(161 646)	(95 123)
Other assets	(1 168)	1 132
(Decrease) increase in operating liabilities		
Deposits by the Central bank of the Russian Federation	(237 786)	249 439
Deposits by credit institutions except syndicated and subordinated loans	247 939	319 981
Due to customers except subordinated debt	191 557	(128 548)
Promissory notes issued	(1 113)	238
Other liabilities	1 137	1 167
Net cash from operations	469 180	198 139
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale securities	(89 718)	(51 859)
Proceeds from disposal and redemption of available-for-sale securities	108 347	80 457
Net payments on acquisition of subsidiary	-	(194)
Net cash outflow on disposal of subsidiary	(265)	-
Purchase of property and equipment	(1 980)	(913)
Sale of property and equipment	3	77
Purchase of investment property	-	(370)
Net cash from investing activities	16 387	27 198

The consolidated statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2017
(in millions of Russian Roubles unless otherwise stated)

	Notes	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital		14 400	-
Proceeds from placement and issuance of perpetual debt		40 818	-
Interest on perpetual debt paid		(1 852)	-
Proceeds from subordinated deposits		22 000	-
Repayments of subordinated deposits		(582)	(701)
Proceeds from syndicated borrowings		28 006	-
Proceeds from placement and issuance of subordinated bonds		33 933	-
Repayments from subordinated bonds		(23 481)	-
Proceeds from placement and issuance of other bonds		13 229	44 536
Repayments of other bonds		(38 486)	(14 870)
Net cash from financing activities		87 985	28 965
Effect of exchange rates changes on cash and cash equivalents		(12 846)	(18 990)
Change in cash and cash equivalents		560 706	235 312
Cash and cash equivalents, beginning of the year		373 327	138 015
Cash and cash equivalents, end of the year	9	934 033	373 327

Chairman of the Management Board

Chief Accountant



Vladimir A. Chubar

Svetlana V. Sass

The consolidated statement of changes in equity is to be read in conjunction with the notes, forming an integral part of consolidated financial statements.

CREDIT BANK OF MOSCOW (public joint-stock company)
Consolidated Statement of Changes in Equity
for the year ended 31 December 2017
(in millions of Russian Roubles unless otherwise stated)

	Share capital	Additional paid-in capital	Perpetual debt issued	Revaluation surplus for buildings	Revaluation reserve for available-for-sale securities	Currency translation reserve	Retained earnings	Total equity
1 January 2016	24 742	35 047	-	769	220	-	31 560	92 338
Total comprehensive income for the year	-	-	-	(81)	231	39	10 874	11 063
31 December 2016	24 742	35 047	-	688	451	39	42 434	103 401
1 January 2017	24 742	35 047	-	688	451	39	42 434	103 401
Total comprehensive income for the year	-	-	-	(106)	(57)	(39)	20 703	20 501
Issue of share capital	3 200	11 200	-	-	-	-	-	14 400
Interest paid on perpetual debt issued	-	-	-	-	-	-	(1 852)	(1 852)
Perpetual debt issued (note 21)	-	-	40 977	-	-	-	-	40 977
Foreign exchange translation of perpetual debt issued	-	-	(657)	-	-	-	657	-
Transaction costs on perpetual debt issued	-	-	-	-	-	-	(159)	(159)
Tax effect on perpetual debt issued	-	-	-	-	-	-	270	270
Disposal of subsidiary	-	-	-	-	-	-	51	51
31 December 2017	27 942	46 247	40 320	582	394	-	62 104	177 589

Chairman of the Management Board

Chief Accountant



Vladimir A. Chubar

Svetlana V. Sass

The consolidated statement of changes in equity is to be read in conjunction with the notes, forming an integral part of consolidated financial statements.

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. On 16 May 2016 the Bank was re-registered as a public joint-stock company under the legislation of the Russian Federation. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 10 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 100 branches, 1 143 ATMs and 6 372 payment terminals.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Principal activities	Degree of control, %	
			31 December 2017	31 December 2016
"CBOM Finance p.l.c."	Ireland	Raising finance	100%	100%
"MKB-Leasing" Group	Russia	Finance leasing	100%	100%
"INKAKHRAN" Group	Russia	Cash handling	100%	100%
"CBM Ireland Leasing Limited"	Ireland	Operating leasing	-	100%
LLC "MKB-Invest"	Russia	Transactions with securities	100%	100%
LLC "Bank SKS"	Russia	Investment banking	100%	100%
CJSC "Mortgage Agent MKB"	Russia	Raising finance	100%	100%
LLC "Mortgage Agent MKB 2"	Russia	Raising finance	100%	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", "MKB Invest", CJSC "Mortgage Agent MKB" and "LLC Mortgage Agent MKB 2". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. "MKB Invest" is controlled by the Group through an option agreement. CJSC "Mortgage Agent MKB" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2014. "LLC Mortgage Agent MKB 2" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2016. CBM Ireland Leasing Limited was established for operating leasing of aircrafts and was sold by the Group in December 2017 (note 33). In August 2016 the Bank acquired 100% of shares in LLC Bank SKS to develop investment banking activities (note 33).

Shareholders

The Bank's shareholders as at 31 December 2017 are:

- LLC Concern Rossium – 55.74%
- RegionFinanceResurs, JSC – 9.99%
- LLC IC Algoritm – 8.70%

- Other shareholders – 25.57%.

The majority shareholder of Concern Rossium, LLC, is Roman I. Avdeev, who is an ultimate controlling party of the Group.

Related party transactions are detailed in note 26.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale securities are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries except for CBM Ireland Leasing Limited, whose functional currency is USD, is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest million.

Foreign currencies, particularly USD and euro, play significant role in determination of economic parameters for many business operations conducted in the Russian Federation. The table below sets out exchange rates for USD and euro against RUB, defined by the CBR:

	31 December 2017	31 December 2016
USD	57.6002	60.6569
EUR	68.8668	63.8111

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 13 in respect of loan impairment estimates, in note 14 in respect of buildings revaluation, in note 31 in respect of estimates of fair values of financial assets and liabilities.

Changes in accounting policies and presentation

The Group has adopted the following amendments to standards with a date of initial application of 1 January 2017:

- *Disclosure Initiative (Amendments to IAS 7)*. IAS 7 *Statement of Cash Flows* has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways.
- *Recognition of Deferred Tax Asset for Unrealised Losses (Amendments to IAS 12)*. The amendments to IAS 12 *Income Taxes* clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference. The amendments show that the entity can recognise a deferred tax asset if the future bottom line of its tax return is expected to be a loss if certain conditions are met.
- *Annual Improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 12)*. Amendments to IFRS 12 *Disclosure of Interests in Other Entities* clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements, except as explained in note 2, which addresses changes in accounting policies.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognized amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill arises on acquisitions of subsidiaries.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group includes cash and nostro accounts with the Central bank of the Russian Federation and deposits in credit and other financial institutions with initial maturity of less than one month in cash and cash equivalents. The minimum reserve deposit with the Central bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments which are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by the Central bank of the Russian Federation and deposits by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within cash and cash equivalents and deposits in credit and other financial institutions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards related to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards related to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards related to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of the lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments (“net investment in leases”) is recorded as part of loans to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Operating leases

Group as lessor

The Group recognizes assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating lease is recognized in profit or loss on a straight-line basis over the lease term.

Group as lessee

Where the Group is the lessee, the total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized as other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	50
Furniture and other property	4-6
Computers and office equipment	4
Vehicles	5
Aircrafts	20-30

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group has adopted a component based depreciation accounting model for certain groups of its assets (such as aircrafts). Under this approach, depreciation of certain parts of the relevant assets with a cost that is significant in relation to the total cost of such assets is calculated separately. Useful life of these parts may differ from the overall useful life of the relevant assets. The Group estimates depreciation of certain components based on their actual utilisation (not useful life) whenever this depreciation method allows for a more accurate estimate of the pattern of consumption of the future economic benefits embodied in such components. The Group reviews its assumptions on useful life and/or utilisation on a regular basis.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, typically between 1 and 5 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal groups, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale securities that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognized in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably. Financial guarantee liabilities and allowance for credit related commitments are included in other liabilities.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Perpetual instruments

Perpetual non-redeemable debt instruments issued by the Group which carry no mandatory interest payments are classified as equity.

Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service has been provided.

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Bank's contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognized in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer's decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment, and assess its performance, and for which discrete financial information is available.

New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 9 Financial instruments

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group did not apply IFRS 9 in advance in its consolidated financial statements for the year ended on 31 December 2017 and plans to disclose the resulting impact after its statements for the first quarter of 2018 have been prepared.

The evaluation of the new standard's impact has not yet been completed, because not all transition work has been finalized by the Group. Thus, the effect of the adoption of IFRS 9 on the opening balance of the Group's equity is not disclosed. The Group has revised and improved its accounting and internal control processes, adopted a new approach to classification and developed measurement models for expected credit losses. The Group has designed a procedure to test whether the contractual cash flows are solely principal and interest payments (SPPI criterion).

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Business model assessment

The Group will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

ii. Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

financial assets that are debt instruments;
lease receivables; and
loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

Definition of default

Under IFRS 9, the Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.
- In assessing whether a borrower is in default, the Group will consider indicators that are:
 - qualitative: e.g. breaches of covenant;
 - quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group; and
 - based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group’s historical experience, expert credit assessment and forward-looking information.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

the remaining lifetime probability of default (PD) as at the reporting date; with
the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Credit risk grades

The Group will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs will be the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models.

Impact assessment

The most significant impact on the Group's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

- For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group does not intend to adopt this standard early. Given the nature of the Group's operations, this standard is not expected to have significant impact on the Group's financial statements.

(c) IFRS 16 Leases

IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Group does not intend to adopt this standard early. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

(d) Other standards

Other amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

4 Net interest income

	2017	2016
Interest income		
Loans to customers	82 324	81 818
Deposits in credit and other financial institutions and the Central bank of the Russian Federation	35 794	19 450
Financial instruments at fair value through profit or loss and available-for-sale securities	8 841	12 130
	126 959	113 398
Interest expense		
Due to customers	(42 710)	(53 928)
Deposits by credit institutions and the Central bank of the Russian Federation	(27 757)	(8 398)
Debt securities issued	(11 212)	(10 773)
	(81 679)	(73 099)
Net interest income	45 280	40 299

5 Net fee and commission income

	2017	2016
Fee and commission income		
Plastic cards	2 661	2 384
Settlements and wire transfers	2 298	1 755
Guarantees and letters of credit	2 246	2 009
Other cash operations	2 060	1 655
Cash handling	2 031	2 589
Insurance contracts processing	1 952	1 932
Currency exchange and brokerage commission	1 340	473
Opening and maintenance of bank accounts	537	446
Other	385	151
	15 510	13 394
Fee and commission expense		
Settlements, wire transfers and plastic cards	(2 550)	(2 040)
Other	(452)	(207)
	(3 002)	(2 247)
Net fee and commission income	12 508	11 147

6 Salaries, employment benefits and administrative expenses

	2017	2016
Salaries	7 642	6 183
Social security costs	1 874	1 517
Salaries and employment benefits	9 516	7 700
Advertising and business development	1 155	907
Rent expenses	1 035	1 121
Property maintenance	707	660
Operating taxes	666	586
Security	577	619
Legal and consulting services	222	182
Communications	200	185
Write-off of low-value fixed assets	190	336
Computer maintenance and software expenses	179	164
Property insurance	175	183
Transport	144	123
Loss on revaluation of buildings	82	69
Other	45	125
Administrative expenses	5 377	5 260

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

7 Provision for impairment of other assets and credit related commitments

	2017	2016
Provision for impairment of other assets	128	507
Provision for impairment of credit related commitments	136	271
Other provisions	264	778

8 Income tax

	2017	2016
Current tax charge	2 891	5 096
Deferred taxation	3 223	(2 235)
Income tax expense	6 114	2 861

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2017 and 2016.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	2017	%	2016	%
Income before tax	26 817		13 735	
Income tax using the applicable tax rate	5 363	20.0%	2 747	20.0%
Income taxed at lower rates	(99)	(0.4%)	(28)	(0.2%)
Net non-deductible costs	850	3.2%	142	1.0%
Income tax expense	6 114	22.8%	2 861	20.8%

Movements in temporary differences during the years ended 31 December 2017 and 2016 are presented as follows.

	Balance 1 January 2017	Recognized in profit or loss	Recognized in other comprehensive income and equity	Recognized directly in equity	Balance 31 December 2017
Deposits in credit and other financial institutions	-	12	-	-	12
Financial instruments at fair value through profit or loss	207	8 501	-	-	8 708
Available-for-sale securities	(1 655)	710	(14)	-	(959)
Loans to customers	2 678	1 096	-	-	3 774
Property and equipment	233	50	(26)	-	257
Other assets	(445)	52	-	-	(393)
Deposits by credit institutions	-	-	-	-	-
Due to customers	48	(7 334)	-	-	(7 286)
Debt securities issued	25	208	-	131	364
Currency translation reserve	6	-	(6)	-	-
Other liabilities	(907)	(72)	-	-	(979)
Total net deferred tax liabilities (asset)	190	3 223	(46)	131	3 498

CREDIT BANK OF MOSCOW (public joint-stock company)
Notes to, and forming part of, the Consolidated Financial Statements
for the year ended 31 December 2017
(in millions of Russian Roubles unless otherwise stated)

	Balance 1 January 2016	Recognized in profit or loss	Recognized in other comprehensive income and equity	Recognized on acquisition of subsidiary	Balance 31 December 2016
Deposits in credit and other financial institutions	2	(2)	-	-	-
Financial instruments at fair value through profit or loss	173	34	-	-	207
Available-for-sale securities	1 953	(3 666)	58	-	(1 655)
Loans to customers	1 255	1 423	-	-	2 678
Property and equipment	317	(64)	(20)	-	233
Other assets	(710)	264	-	1	(445)
Deposits by credit institutions	-	-	-	-	-
Due to customers	12	36	-	-	48
Debt securities issued	37	(12)	-	-	25
Currency translation reserve	-	-	6	-	6
Other liabilities	(659)	(248)	-	-	(907)
Total net deferred tax liabilities (asset)	2 380	(2 235)	44	1	190

Income tax recognized in other comprehensive income

The tax effects relating to components of other comprehensive income comprise the following:

	2017			2016		
	Amount before tax	Tax benefit / (expense)	Amount net-of-tax	Amount before tax	Tax benefit / (expense)	Amount net-of-tax
Revaluation surplus for buildings	(132)	26	(106)	(102)	20	(82)
Revaluation reserve for available-for-sale securities	(71)	14	(57)	289	(58)	231
Currency translation reserve	(45)	6	(39)	45	(6)	39
Other comprehensive (loss) income	(248)	46	(202)	232	(44)	188

9 Cash and cash equivalents

	31 December 2017	31 December 2016
Cash on hand	19 732	18 763
Correspondent account with the Central bank of the Russian Federation	71 300	22 768
Nostro accounts with other banks		
rated from AA+ to AA-	3 305	1 133
rated from A+ to A-	5 789	3 621
rated from BBB+ to BBB-	3 236	74 357
rated from BB+ to BB-	1 241	873
rated from B+ to B-	11	27
not rated	740	518
Total nostro accounts with other banks	14 322	80 529
Deposits in credit and other financial institutions with maturity of less than 1 month		
Deposits with the Central bank of the Russian Federation	22 008	-
rated from AA+ to AA-	57	-
rated from A+ to A-	11 741	5 052
rated from BBB+ to BBB-	4 224	9 608
rated from BB+ to BB-	5 104	12 444
rated from B+ to B-	56 434	64 198
not rated	729 111	159 965
Total deposits in credit and other financial institutions with maturity of less than 1 month	828 679	251 267
Total cash and cash equivalents	934 033	373 327

Ratings are based on Fitch, Moody's and Standard & Poor's rating systems.

No cash and cash equivalents are impaired or past due.

The correspondent account with the Central bank of the Russian Federation represents balances held with the Central bank of the Russian Federation related to settlement activity, and was available for withdrawal at the period end.

As at 31 December 2017, receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 793 501 million (31 December 2016: RUB 228 616 million).

As at 31 December 2017, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 907 864 million (31 December 2016: RUB 278 955 million).

As at 31 December 2017, deposits in not rated credit and other financial institutions with maturity of less than 1 month include term deposits secured by liquid securities under agreements to resell (reverse repo) in the amount of RUB 729 111 million (31 December 2016: RUB 158 264 million).

As at 31 December 2017, the Group has one counterparty (31 December 2016: three counterparties) whose nostro accounts with other banks and deposits with maturity of less than 1 month exceed 10% of total nostro accounts with other banks and deposits with maturity of less than 1 month from credit and other financial institutions. The gross value of these balances as at 31 December 2017 is RUB 658 115 million (31 December 2016: RUB 256 993 million).

Information about the currency and maturity and effective interest rates of cash and cash equivalents is presented in note 29.

10 Deposits in credit and other financial institutions

	31 December 2017	31 December 2016
Term deposits		
rated from BB+ to BB-	5 556	1 506
rated from B+ to B-	1 044	167 063
rated from CCC+ to CCC-	-	29 558
not rated	9 769	205 353
Total deposits in credit and other financial institutions	16 369	403 480

Ratings are based on Fitch, Moody's and Standard & Poor's rating systems.

No deposits in credit and other financial institutions are impaired or past due.

As at 31 December 2017, receivables under reverse sale and repurchase agreements included in deposits in credit and other financial institutions are RUB 8 423 million (31 December 2016: RUB 397 591 million).

As at 31 December 2017, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 10 488 million (31 December 2016: RUB 483 281 million).

As at 31 December 2017, deposits included in not rated and rated from CCC+ to CCC- credit and other financial institutions are receivables in the amount of RUB 6 319 million (31 December 2016: RUB 232 989 million) secured by liquid securities under agreements to resell (reverse repo).

As at 31 December 2017, the Group has four counterparties (31 December 2016: two counterparties) whose deposit balances exceed 10% of total deposits in credit and other financial institutions. The gross value of these balances as at 31 December 2017 is RUB 15 321 million (31 December 2016: RUB 365 788 million).

Information about the currency and maturity and effective interest rates on deposits in credit and other financial institutions is presented in note 29.

11 Financial instruments at fair value through profit or loss

	31 December 2017	31 December 2016
Held by the Group		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	16 506	1 047
Russian Government eurobonds	8 049	1 745
Regional authorities and municipal bonds	1 576	4 298
Corporate bonds		
from BBB+ to BBB-	17 226	33 602
from BB+ to BB-	5 507	19 614
from B+ to B-	1 641	8 583
not rated	718	5 926
Equity investments	-	1
Derivative financial instruments	44 296	2 549
Total held by the Group	95 519	77 365

	31 December 2017	31 December 2016
<u>Pledged under sale and repurchase agreements</u>		
Government and municipal bonds		
Russian Government eurobonds	16 850	268
Russian Government Federal bonds (OFZ)	840	-
Corporate bonds		
from BBB+ to BBB-	2 138	315
from BB+ to BB-	1 935	5 961
Total pledged under sale and repurchase agreements	21 763	6 544
Total financial instruments at fair value through profit or loss	117 282	83 909

Ratings are based on Fitch, Moody's and Standard & Poor's rating systems.

No financial instruments at fair value through profit or loss are past due.

As at 31 December 2017, debt instruments in the amount of RUB 65 352 million (31 December 2016: RUB 64 807 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

12 Available-for-sale securities

	31 December 2017	31 December 2016
<u>Held by the Group</u>		
Corporate bonds		
from BBB+ to BBB-	68	1 538
from BB+ to BB-	6 555	8 590
from B+ to B-	7 810	6 265
not rated	8 495	9 580
Promissory notes		
not rated	225	-
Equity investments	120	112
Total held by the Group	23 273	26 085
<u>Pledged under sale and repurchase agreements</u>		
Corporate bonds		
from BBB+ to BBB-	858	5 428
from BB+ to BB-	935	14 390
Total pledged under sale and repurchase agreements	1 793	19 818
Total available-for-sale securities	25 066	45 903

Ratings are based on Fitch, Moody's and Standard & Poor's rating systems.

No available-for-sale securities are past due.

As at 31 December 2017, debt instruments available-for-sale in the amount of RUB 7 201 million (31 December 2016: RUB 31 536 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

13 Loans to customers

	31 December 2017	31 December 2016
Loans to corporate clients	731 105	566 168
Impairment allowance	(45 168)	(32 698)
Loans to corporate clients, net	685 937	533 470
Loans to individuals		
Auto loans	423	1 183
Mortgage loans	20 319	23 861
Credit card loans	3 713	3 783
Other loans to individuals	63 256	71 743
Impairment allowance	(4 972)	(7 505)
Total loans to individuals, net	82 739	93 065
Gross loans to customers	818 816	666 738
Impairment allowance	(50 140)	(40 203)
Net loans to customers	768 676	626 535

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Loans to customers		
- Not past due	714 669	617 224
- Not past due but impaired	74 992	30 214
- Overdue less than 31 days	4 805	1 857
- Overdue 31-60 days	3 255	1 210
- Overdue 61-90 days	1 334	964
- Overdue 91-180 days	8 905	1 544
- Overdue 181-360 days	5 334	6 213
- Overdue more than 360 days	5 522	7 512
Total gross loans to customers	818 816	666 738
Impairment allowance	(50 140)	(40 203)
Total net loans to customers	768 676	626 535

As at 31 December 2017, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 29 155 million, which represents 3.6% of the gross loan portfolio (31 December 2016: RUB 19 300 million and 2.9% respectively).

Non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 19 761 million or 2.4% of the gross loan portfolio (31 December 2016: RUB 15 269 million or 2.3%, respectively).

As at 31 December 2017, the ratio of total impairment allowance to overdue loans equals 172.0% and the ratio of total impairment allowance to NPLs equals 253.7% (31 December 2016: 208.3% and 263.3%, respectively).

Movements in the loan impairment allowance for the years ended 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Balance at the beginning of the period	40 203	36 874
Net charge	18 597	29 783
Net write-offs	(8 660)	(26 454)
Balance at the end of the period	50 140	40 203

As at 31 December 2017, net interest accrued on overdue and impaired loans amounts to RUB 4 689 million (31 December 2016: RUB 1 696 million).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Loans to corporate clients		
- Not past due	634 100	527 212
- Not past due but impaired	74 992	30 214
- Overdue less than 31 days	3 699	534
- Overdue 31-60 days	2 603	163
- Overdue 61-90 days	863	98
- Overdue 91-180 days	7 898	212
- Overdue 181-360 days	3 095	2 947
- Overdue more than 360 days	3 855	4 788
Total gross loans to corporate clients	731 105	566 168
Impairment allowance	(45 168)	(32 698)
Total net loans to corporate clients	685 937	533 470

As at 31 December 2017, the Group estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its internal credit rating adjusted for the value of collateral for portfolios of loans for which no indications of impairment have been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on projected cash flows from operating activities and the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management generally relies on market prices and professional judgment of internal appraisers, applying discount where appropriate.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus two percent, the impairment allowance as at 31 December 2017 would decrease/increase by RUB 13 719 million (31 December 2016: RUB 10 669 million).

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate and other property, equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Real estate and other property	115 225	90 256
Securities	94 073	78 106
Guaranteed deposits	68 896	4 992
Equipment and motor vehicles	30 217	33 036
Goods in turnover	10 132	16 380
Claims for contract receivables	7 086	9 827
Bank's own debt securities	160	1 116
Corporate guarantees and no collateral	360 148	299 757
	685 937	533 470

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Management estimates that the impairment allowance for loans to corporate customers would have been approximately RUB 5 129 million higher without any collateral as at 31 December 2017 (31 December 2016: RUB 3 205 million).

Collateral obtained

During the year ended 31 December 2017, the Group obtained certain assets the carrying amount of which as at 31 December 2017 was RUB 82 million by taking possession of collateral for loans to corporate customers (during the year ended 31 December 2016: RUB 115 million). The Group's policy is to sell these assets as soon as it is practicable.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the years ended 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Balance at the beginning of the period	32 698	27 783
Net charge	14 847	22 579
Net write-offs	(2 377)	(17 664)
Balance at the end of the period	45 168	32 698

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2017:

	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	388	18 705	3 479	57 997	80 569
- Overdue less than 31 days	2	185	-	919	1 106
- Overdue 31-60 days	2	75	33	542	652
- Overdue 61-90 days	1	81	18	371	471
- Overdue 91-180 days	9	128	52	818	1 007
- Overdue 181-360 days	12	383	93	1 751	2 239
- Overdue more than 360 days	9	762	38	858	1 667
Gross loans	423	20 319	3 713	63 256	87 711
Impairment allowance	(26)	(661)	(202)	(4 083)	(4 972)
Net loans	397	19 658	3 511	59 173	82 739

The following table provides information on the credit quality of loans to individuals as at 31 December 2016:

	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	1 094	21 603	3 511	63 804	90 012
- Overdue less than 31 days	16	182	-	1 125	1 323
- Overdue 31-60 days	8	44	25	970	1 047
- Overdue 61-90 days	9	54	20	783	866
- Overdue 91-180 days	9	176	54	1 093	1 332
- Overdue 181-360 days	33	415	101	2 717	3 266
- Overdue more than 360 days	14	1 387	72	1 251	2 724
Gross loans	1 183	23 861	3 783	71 743	100 570
Impairment allowance	(54)	(1 127)	(239)	(6 085)	(7 505)
Net loans	1 129	22 734	3 544	65 658	93 065

Management estimates loan impairment based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months. The significant assumptions used by management in determining the impairment losses for loans to individuals is that loss migration rates and recovery rates are stable and can be estimated based on the historic loss migration pattern for the past twenty four months.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the impairment allowance as at 31 December 2017 would increase/decrease by RUB 2 482 million (31 December 2016: RUB 2 792 million).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience.

As at 31 December 2017, impaired mortgage loans in the gross amount of RUB 1 614 million are secured by collateral with a fair value of RUB 1 148 million (31 December 2016: RUB 2 259 million and RUB 1 830 million, respectively).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2017 are as follows:

	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
Balance at the beginning of the period	54	1 127	239	6 085	7 505
Net (recovery) charge	-	(178)	155	3 773	3 750
Net write-offs	(28)	(288)	(192)	(5 775)	(6 283)
Balance at the end of the period	26	661	202	4 083	4 972

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2016 are as follows:

	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
Balance at the beginning of the period	114	902	545	7 530	9 091
Net charge	-	801	237	6 166	7 204
Net write-offs	(60)	(576)	(543)	(7 611)	(8 790)
Balance at the end of the period	54	1 127	239	6 085	7 505

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2017	31 December 2016
Loans to individuals	87 711	100 570
Crude oil production and trading	182 716	44 201
Petroleum refining / production and trading	132 982	72 484
Residential and commercial construction and development	55 611	55 345
Automotive, motorcycles and spare parts	53 294	49 693
Property rental	47 187	65 680
Food and farm products	40 947	72 252
Metallurgical	35 726	46 230
Pharmaceutical and medical products	32 526	20 145
Services	32 229	33 606
Industrial chemicals	27 949	1 453
Industrial equipment and machinery	25 649	20 221
Industrial and infrastructure construction	15 977	12 855
Construction and decorative materials, furniture	13 697	12 675
Financial companies	8 350	20 881
Consumer electronics, appliances and computers	8 349	7 823
Clothing, shoes, textiles and sporting goods	6 467	8 599
Equipment leasing	5 147	318

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	31 December 2017	31 December 2016
Consumer chemicals, perfumes and hygiene products	2 299	917
Paper, stationery and packaging products	1 718	2 628
Transport infrastructure contractors	1 092	5 042
Government and municipal bodies	320	1 422
Banking	1	10 508
Other	872	1 190
Total gross loans to customers	818 816	666 738
Impairment allowance	(50 140)	(40 203)
Net loans to customers	768 676	626 535

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2017	31 December 2016
Gross investment in finance lease	9 522	9 124
Unearned interest income	(1 972)	(2 053)
Net investment in finance lease before allowance	7 550	7 071
Impairment allowance	(207)	(275)
Net investment in finance lease	7 343	6 796

The contractual maturity of the net investment in leases is as follows:

	31 December 2017	31 December 2016
Less than 1 year	3 567	3 208
Between 1 and 5 years	3 676	3 375
More than 5 years	17	21
Overdue	83	192
	7 343	6 796

Loan maturities

Information about the currency and maturity and effective interest rates of loans to customers is presented in note 29.

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2017 is presented in the table below:

	Aircrafts	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount							
At 1 January 2017	14 978	5 007	880	706	2 626	63	24 260
Additions	-	851	310	433	378	3	1 975
Property received as a result of termination of lease agreements	-	-	1	-	-	-	1
Reclassification	-	-	-	2	-	(2)	-
Disposals	-	-	(26)	(1)	(23)	-	(50)
Disposal of subsidiary	(14 460)	-	-	-	-	-	(14 460)
Transfers	-	-	(62)	(2)	-	-	(64)
Revaluation	-	(219)	-	-	-	-	(219)
Impairment	-	-	(2)	-	-	-	(2)
Elimination of accumulated depreciation on revalued buildings	-	(115)	-	-	-	-	(115)
Currency exchange differences on translation	(518)	-	-	-	-	-	(518)
At 31 December 2017	-	5 524	1 101	1 138	2 981	64	10 808
Accumulated depreciation							
At 1 January 2017	707	-	485	306	1 484	-	2 982
Depreciation charge	994	115	179	219	357	-	1 864
Disposals	-	-	(11)	(1)	(17)	-	(29)
Disposal of subsidiary	(1 683)	-	-	-	-	-	(1 683)
Elimination of accumulated depreciation on revalued buildings	-	(115)	-	-	-	-	(115)
Transfers	-	-	(59)	-	-	-	(59)
Currency exchange differences on translation	(18)	-	-	-	-	-	(18)
At 31 December 2017	-	-	594	524	1 824	-	2 942
Carrying value							
At 31 December 2017	-	5 524	507	614	1 157	64	7 866

The movement in property and equipment for the year ended 31 December 2016 is presented in the table below:

	Aircrafts	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount							
At 1 January 2016	-	5 280	726	483	2 245	52	8 786
Additions	-	71	180	260	426	48	985
Disposals	-	(62)	(25)	(45)	(69)	-	(201)
Transfers	16 587	-	-	8	28	(37)	16 586
Revaluation	-	(166)	-	-	-	-	(166)
Impairment	-	-	(1)	-	(4)	-	(5)
Elimination of accumulated depreciation on revalued buildings	-	(116)	-	-	-	-	(116)
Currency exchange differences on translation	(1 609)	-	-	-	-	-	(1 609)
At 31 December 2016	14 978	5 007	880	706	2 626	63	24 260
Accumulated depreciation							
At 1 January 2016	-	-	340	238	1 203	-	1 781
Depreciation charge	749	116	166	113	337	-	1 481
Disposals	-	-	(21)	(45)	(56)	-	(122)
Elimination of accumulated depreciation on revalued buildings	-	(116)	-	-	-	-	(116)
Currency exchange differences on translation	(42)	-	-	-	-	-	(42)
At 31 December 2016	707	-	485	306	1 484	-	2 982
Carrying value At 31 December 2016	14 271	5 007	395	400	1 142	63	21 278

Revalued assets

The buildings were independently valued at 31 December 2017. The valuation was carried out by an independent firm of appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the income capitalisation and comparative sales and/or offer approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales and/or offers of

similar buildings. Final fair value was calculated based on integrated analysis of both approaches. Thus, these buildings were classified to Level 3 of the fair value hierarchy.

The following key assumptions are used in applying the income capitalisation approach:

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses;
- vacancy losses as a percentage of potential gross rent income are estimated in the range of 12.0% to 13.0%;
- buildings maintenance and general administrative expenses are estimated in the range from 17.8% to 18.0% of effective gross rent income;
- capitalisation rate in the range from 10.5% to 12.1% is applied to capitalise net income for the base year.

For the comparative sales and/or offers approach the most significant assumption made is a negotiation discount in the range from 8.0% to 12.0% implicit in advertized market prices.

Changes in these estimates could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2017 would be RUB 552 million (31 December 2016: RUB 501 million) higher/lower.

The carrying value of buildings as of 31 December 2017, if the buildings would not have been revalued, would be RUB 4 784 million (31 December 2016: RUB 4 040 million).

15 Other assets

	31 December 2017	31 December 2016
Receivables for commissions	702	752
Receivables and settlements with suppliers	664	481
Receivables under cession agreements	517	579
Impairment allowance	(383)	(435)
Total other financial assets	1 500	1 377
Assets held for sale	2 435	2 448
Current tax assets	2 198	101
Investment property	815	739
Advances issued	720	471
Reposessed collateral	679	138
Intangible assets	484	314
Property held for further leasing	424	-
Deferred expenses	168	138
Other	544	588
Impairment allowance	(233)	(64)
Total other non-financial assets	8 234	4 873
Total other assets	9 734	6 250

Included in assets held for sale is real estate in Moscow and Moscow region, obtained by taking control over collateral for impaired loans.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the years ended 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Balance at the beginning of the period	499	161
Net charge	127	507
Write-offs	(10)	(169)
Balance at the end of the period	616	499

16 Deposits by the Central bank of the Russian Federation

	31 December 2017	31 December 2016
Payables under repurchase agreements or collateralized loans	-	247 170
Total deposits by the Central bank of the Russian Federation	-	247 170

As at 31 December 2016, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 285 678 million.

Information about the currency and maturity and effective interest rates on deposits by the Central bank of the Russian Federation is presented in note 29.

17 Deposits by credit institutions

	31 December 2017	31 December 2016
Payables under repurchase agreements	534 452	247 011
Term deposits	57 252	129 999
Syndicated loans	29 487	-
Current accounts	18 670	3 991
Subordinated debt	-	623
Total deposits by credit institutions	639 861	381 624

As at 31 December 2017, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 630 957 million (31 December 2016: RUB 284 635 million).

As at 31 December 2017, the Group has one counterparty (31 December 2016: two counterparties) whose deposits balances exceed 10% of deposits by credit institutions. The gross value of these balances as at 31 December 2017 is RUB 478 354 million (31 December 2016: RUB 329 968 million).

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 29.

18 Due to customers

	31 December 2017	31 December 2016
Corporate customers		
Term and demand deposits and payables under derivative contracts	482 374	379 563
Current accounts	101 744	41 300
Subordinated debt	39 842	18 273
Payables under repurchase agreements	26 100	-
Term notes	447	1 706
Total corporate customers	650 507	440 842

	31 December 2017	31 December 2016
Individuals		
Term and demand deposits	276 292	235 354
Current accounts	14 925	13 300
Total individuals	291 217	248 654
Total due to customers	941 724	689 496

As at 31 December 2017, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 28 549 million.

As at 31 December 2017, the Group has one counterparty (31 December 2016: one counterparty), whose demand and term deposits exceed 10% of total customer accounts. The gross value of these balances as at 31 December 2017 is RUB 396 782 million (31 December 2016: RUB 243 280 million).

Information about the currency and maturity and effective interest rates on due to customers is presented in note 29.

19 Debt securities issued

	31 December 2017	31 December 2016
Promissory notes issued	-	1 145
Total promissory notes issued	-	1 145
Bonds	66 649	95 252
Subordinated bonds	49 631	40 806
Total bonds issued	116 280	136 058
Total debt securities issued	116 280	137 203

The table below provides a summary of bonds issued as at 31 December 2017 and 31 December 2016:

	Nominal amount of the initial issue RUB'mln / USD'mln	Amount of the issue outstanding		Issue date	Maturity date	Coupon rate
		31 December 2017	31 December 2016			
USD denominated subordinated Eurobonds issue	600	35 017	-	05.04.2017	05.10.2027	7.50% *
USD denominated Eurobonds issue	500	24 603	30 478	07.11.2016	07.11.2021	5.88% *
USD denominated Eurobonds issue	500	20 035	31 278	01.02.2013	01.02.2018	7.70% *
RUB denominated subordinated Eurobonds issue	5 000	5 059	5 056	26.11.2014	26.05.2025	16.50% *
RUB denominated bonds issue BO-11	15 000	4 815	13 033	10.07.2014	10.07.2019	9.15% *
USD denominated subordinated Eurobonds issue	500	4 442	30 639	13.05.2013	13.11.2018	8.70% *
RUB denominated bonds issue BO-10	5 000	4 105	4 113	10.07.2014	10.07.2019	11.00% *
RUB denominated bonds issue BO-06	5 000	3 592	5 110	24.10.2013	24.10.2018	10.15% *
RUB denominated subordinated bonds issue 11	3 000	3 026	3 024	11.12.2012	05.06.2018	12.25% *

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	Nominal amount of the initial issue RUB'mln / USD'mln	Amount of the issue outstanding		Issue date	Maturity date	Coupon rate
		31 December 2017	31 December 2016			
RUB denominated bonds issue BO-09	3 000	2 880	2 175	25.03.2015	25.03.2020	10.25% *
Mortgage-backed bonds	3 328	2 387	3 355	02.12.2016	07.12.2043	10.15% *
RUB denominated bonds issue BO-07	7 000	2 159	2 178	30.10.2013	30.10.2018	10.30% *
RUB denominated subordinated bonds issue 12	2 000	2 087	2 087	27.02.2013	22.08.2018	12.25% *
RUB denominated bonds issue 01	3 000	1 236	2 044	27.10.2016	21.10.2021	12.50% *
Mortgage-backed bonds	3 702	837	1 488	16.06.2014	07.06.2039	10.65% *
		116 280	136 058			

* Fixed coupon rate

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

Coupon payments are made semi-annually or quarterly, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

20 Other liabilities

	31 December 2017	31 December 2016
Derivative financial instruments	1 551	1 081
Payables to suppliers and other creditors	640	857
Payable to employees	580	377
Cash collection payables	468	377
Other liabilities	883	651
Total other financial liabilities	4 122	3 343
Deferred income	2 068	2 981
Allowance for credit related commitments	1 761	1 654
Taxes payable	439	389
Payables to Deposit Insurance Agency	321	259
Current tax liabilities	16	23
Other liabilities	231	236
Total other non-financial liabilities	4 836	5 542
Total other liabilities	8 958	8 885

21 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital at 31 December 2017 comprises 27 079 709 866 shares (31 December 2016: 23 879 709 866 shares) with par value of 1 RUB per share. In addition, at 31 December 2017 the Bank has 9 196 448 142 authorized but unissued ordinary shares with an aggregate nominal value

of RUB 9 196 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 862 million.

In October 2017 the Bank issued 3 200 000 000 additional ordinary shares with a par value of 1 RUB per share under secondary public offering. The Bank raised RUB 14 400 million during this offering. In December 2017 the CBR registered the Bank's share capital increase.

In May 2017 the Group issued subordinated perpetual Eurobonds in the amount of USD 700 million at par with a coupon rate of 8.875% per annum. The Group has the right to call the Eurobonds in November 2022 or on any subsequent coupon payment date thereafter at the option of the Group. The coupon is paid on a quarterly basis and the coupon rate is fixed until the first call date after which it is reset every 5 years. The coupon payment is not cumulative and may be cancelled at the discretion of the Group.

As the Group has discretion in relation to coupon and principal repayment, the Group classified subordinated perpetual Eurobonds as an equity instrument in the consolidated statement of financial position. The Central bank of the Russian Federation approved the inclusion of the perpetual Eurobonds in the calculation of statutory capital adequacy ratio. The Eurobonds are Basel-III compliant and eligible for inclusion into the Group's Additional Tier 1 capital upon receiving approval from the CBR (note 27).

The USD denominated subordinated perpetual Eurobonds are translated to its RUB equivalent at the period-end exchange rate with exchange differences recorded in retained earnings when incurred. Issuance costs are also recorded in retained earnings when incurred.

22 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	31 December 2017	31 December 2016
Guarantees and letters of credit	89 475	101 612
Undrawn loan commitments	25 436	26 677
Other contingent liabilities	17	322
	114 928	128 611

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

23 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2017	31 December 2016
Less than 1 year	992	821
Between 1 and 5 years	2 108	1 433
More than 5 years	76	49
	<u>3 176</u>	<u>2 303</u>

During the year ended 31 December 2017 RUB 1 035 million was recognised as an expense in profit or loss in respect of operating leases (31 December 2016: RUB 1 121 million).

Leases as lessor

Assets leased out under operating leases are represented by aircrafts, which were sold out in December 2017 (note 33).

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2017	31 December 2016
Less than 1 year	-	1 616
Between 1 and 5 years	-	6 464
More than 5 years	-	2 144
	<u>-</u>	<u>10 224</u>

The present value of minimum lease payments under these arrangements as at 31 December 2016 is RUB 8 654 million.

As at 31 December 2016, there was only one lessee under operating lease agreements.

24 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or related to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities

during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

25 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognized in the consolidated statement of financial position.

26 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	Amount	Average effective interest rate	Amount	Average effective interest rate
Cash and cash equivalents				
Under control of principal beneficiary	4 114	6.2%	-	-
Total cash and cash equivalents	4 114		-	
Financial instruments at fair value through profit or loss				
Under control of principal beneficiary	1 451	-	-	-
Total financial instruments at fair value through profit or loss	1 451		-	
Loans to customers				
Under control of principal beneficiary	22 600	12.7%	18 318	14.2%
Management	134	14.5%	70	16.4%
Total loans to customers	22 734		18 388	
Due to customers				
Term deposits by customers				
Under control of principal beneficiary	2 067	7.3%	241	10.0%
Management	187	5.8%	145	5.0%
Principal beneficiary	174	7.4%	828	9.9%
Parent company	-	-	977	10.1%
Total term deposits by customers	2 428		2 191	
Current accounts by customers				
Under control of principal beneficiary	3 595		68	
Parent company	1 321		-	
Management	23		64	
Principal beneficiary	2		3	
Total current accounts by customers	4 941		135	
Total due to customers	7 369		2 326	
Debt securities issued				
Under control of principal beneficiary	7 942	10.9%	-	-
Total debts securities issued	7 942		-	
Guarantees issued				
Under control of principal beneficiary	201		343	
Total guarantees	201		343	

As at 31 December 2017, the company under control of principal beneficiary has an investment in perpetual debt issued in amount of RUB 2 221 million. During the year ended 2017 the company under control of principal beneficiary received coupon payments on perpetual debt issued from the Group in the amount of RUB 103 million.

As at 31 December 2017, the undrawn loan commitments under credit line agreements for principal beneficiary and for management are RUB 890 million (31 December 2016: RUB 900 million).

Amounts included in profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016 in relation to transactions with related parties are as follows:

	2017	2016
Interest income		
Under control of principal beneficiary	3 590	778
Parent company	277	20
Management	14	9
Total interest income	3 881	807
Interest expense		
Under control of principal beneficiary	1 008	251
Parent company	44	67
Principal beneficiary	42	20
Management	15	13
Total interest expense	1 109	351
Commission income		
Under control of principal beneficiary	273	41
Parent company	39	7
Total Commission income	312	48
Net foreign exchange gains		
Under control of principal beneficiary	608	-
Total net foreign exchange gains	608	-

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the years ended 31 December 2017 and 31 December 2016 (refer to note 6) is as follows:

	2017	2016
Members of the Management Board	453	102
Members of the Supervisory Board	76	78
	529	180

27 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for banking groups. Since 1 January 2016 the Group calculated amount of capital in accordance with Provision of the CBR dated 3 December 2016 No. 509-P *On Calculation of Amount of Own Funds (Capital), Economic Ratios and Amounts (Limits) of Open Currency Positions of Banking Groups*. As at 31 December 2017 and 2016, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 4.5%, 6.0% and 8.0%, accordingly. Since 1 January 2016 the Group should comply with capital buffers: capital conservation buffer, countercycle buffer, and buffer for systematical importance. Management believes that the Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR offices that supervise the Bank with information on mandatory ratios in accordance with regulatory requirements. The accounting department controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the CBR and the Group's internal policy this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 31 December 2017 and 31 December 2016.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the IFRS consolidated financial statements as at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Tier 1 capital		
Share capital and additional paid-in capital	74 189	59 789
Retained earnings	62 104	42 434
Intangible assets	(484)	(314)
Core tier 1	135 809	101 909
Additional capital		
Perpetual debt issued	40 320	-
Total tier 1 capital	176 129	101 909
Tier 2 capital		
Revaluation surplus for buildings	582	688
Revaluation reserve for securities available-for-sale	394	451
Subordinated debt		
Subordinated loans	56 055	38 464
Subordinated bonds	41 257	18 294
Total tier 2 capital	98 288	57 897
Total capital	274 417	159 806
Risk-weighted assets		
Banking book	943 174	869 092
Trading book	133 987	138 703
Operational risk	97 409	77 593
Total risk weighted assets	1 174 570	1 085 388
Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio) (%)	11.6	9.4
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	15.0	9.4
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	23.4	14.7

In June 2015 the State Corporation "Deposit Insurance Agency" provided a subordinated loan of RUB 20 231 million to the Bank in a form of federal loan bonds (OFZ). The Bank has an obligation to return securities received back to the lender at the maturity of the agreement. The Bank pays charges equal to coupons on the bonds transferred plus a fixed margin. The contract also includes certain restrictions on ability of the Bank to sell or pledge securities received. The arrangement is a securities lending transaction. The Group does not recognize securities received

and a subordinated obligation to return them to the lender in the consolidated statement of financial position of the Group. The obligation to return securities received to the State Corporation “Deposit Insurance Agency” is subordinated to other ordinary obligations of the Group, and the terms of the loan satisfy the criteria for inclusion of the loan into the regulatory capital of the Bank in accordance with Russian banking legislation. As such, the Bank includes the amount of the subordinated loan described above into its Tier 2 capital for the purpose of statutory regulatory capital and capital calculated for capital management purposes in accordance with Basel III.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees.

28 Analysis by segment

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate business comprises corporate lending, overdraft lending, factoring, financial and operating leasing, letters of credit, guarantees, corporate deposit services, settlements and money transfers
- Retail banking comprises retail demand and term deposit services; retail lending, including other loans to individuals, car loans and mortgages, private banking services; banking card products, settlements and money transfers
- Treasury comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- Cash operations comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on consolidated financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm’s length basis.

The segment breakdown of assets and liabilities is set out below:

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	31 December 2017	31 December 2016
ASSETS		
Corporate business	695 723	552 400
Retail banking	86 294	95 693
Treasury	1 071 712	887 856
Cash operations	24 863	18 763
Unallocated assets	9 599	13 257
Total assets	1 888 191	1 567 969
LIABILITIES		
Corporate business	653 110	440 604
Retail banking	294 736	248 654
Treasury	748 892	763 107
Cash operations	5 525	3 289
Unallocated liabilities	8 339	8 914
Total liabilities	1 710 602	1 464 568

Segment information for the main reportable segments for the year ended 31 December 2017 is set below:

	Corporate business	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	66 283	16 095	44 523	58	-	126 959
Fee and commission income	4 288	6 067	1 027	4 128	-	15 510
Net gain on securities	-	-	1 114	-	-	1 114
Net foreign exchange gains	-	-	2 701	-	-	2 701
Other operating income (expenses), net	3 449	88	(1 382)	(38)	-	2 117
(Expenses) revenue from other segments	(10 779)	11 482	(1 499)	796	-	-
Revenue	63 241	33 732	46 484	4 944	-	148 401
Impairment losses on loans	(14 847)	(3 750)	-	-	-	(18 597)
Interest expense	(23 490)	(19 843)	(38 346)	-	-	(81 679)
Fee and commission expense	(13)	(2 508)	(459)	(22)	-	(3 002)
General administrative and other expenses	(2 784)	(5 596)	(432)	(4 404)	(5 090)	(18 306)
Expense	(41 135)	(31 696)	(39 237)	(4 426)	(5 090)	(121 584)
Segment result	22 106	2 036	7 247	518	(5 090)	26 817

Segment information for the main reportable segments for the year ended 31 December 2016 is set below:

	Corporate business	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	63 182	18 636	31 580	-	-	113 398
Fee and commission income	3 729	5 203	218	4 244	-	13 394
Net gain on securities	-	-	1 443	-	-	1 443
Net foreign exchange gains	997	119	4 934	15	-	6 065
Other operating income, net	1 097	(88)	(256)	(50)	-	703
Revenue (expenses) from other segments	5 118	9 275	(14 711)	318	-	-
Revenue	74 123	33 145	23 208	4 527	-	135 003
Impairment losses on loans	(22 579)	(7 204)	-	-	-	(29 783)
Interest expense	(35 856)	(18 072)	(19 171)	-	-	(73 099)
Fee and commission expense	(1 927)	(167)	(121)	(32)	-	(2 247)
General administrative and other expenses	(4 975)	(4 812)	(421)	(1 889)	(4 042)	(16 139)
Expense	(65 337)	(30 255)	(19 713)	(1 921)	(4 042)	(121 268)
Segment result	8 786	2 890	3 495	2 606	(4 042)	13 735

Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. There are no external customers (groups of related customers) with individual income from operations which exceed 10% of total income from operations. The majority of non-current assets are located in the Russian Federation.

29 Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an public joint-stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2017, the Supervisory Board includes:

- William F. Owens – Chairman

Members:

- Roman I. Avdeev
- Andrew S. Gazitua
- Thomas G. Grasse
- Vladimir A. Chubar
- Sergey Y. Menzhinskiy
- Alexey A. Stepanenko
- Lord Peter H. Dursbery

- Andreas Klingen
- Ilkka S. Salonen.

During the year ended 31 December 2017 the following changes occurred in the composition of the Supervisory Board:

- Mikhail E. Kuznetsov – resigned
- Marina M. Nastashkina – resigned
- Genadi Lewinski – resigned
- Sergey Y. Menzhinskiy – new member
- Alexey A. Stepanenko – new member
- Lord Peter H. Dursbery – new member.

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2017, the Management Board includes:

- Vladimir A. Chubar – Chairman of the Management Board
- Dmitry A. Eremin – First Deputy Chairman of the Management Board
- Alexey V. Kosyakov – Deputy Chairman of the Management Board
- Alexey A. Stepanenko – Deputy Chairman of the Management Board
- Andrey A. Kryukov – Deputy Chairman of the Management Board
- Yury A. Ubeev – Senior Vice President
- Svetlana V. Sass – Chief Accountant, Member of the Management Board
- Elena V. Shved – Director of the Finance Department, Member of the Management Board
- Anton O. Viritchev – Head of the Risk Management, Member of the Management Board
- Oleg A. Borunov – Deputy Chairman of the Management Board
- Alexander N. Kaznacheev – Deputy Chairman of the Management Board

During the year ended 31 December 2017 the following changes occurred in the composition of the Management Board:

- Oleg A. Borunov – new member
- Alexander N. Kaznacheev – new member
- Daria A. Galkina – resigned

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT-systems, data and systems integrity and protection;

- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documenting of controls and procedures
- requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards, and
- risk mitigation, including insurance where this is effective.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Regulation of the Central bank of Russian Federation dated 16 December 2003 No. 242-P *On the Organisation of Internal Control in Credit Organisations and Banking Groups* sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

The main functions of the Internal Audit Service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping of the Bank's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of the internal control service and the risk management service.

The Internal Control Service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of the Internal Control (Compliance) Service include the following:

- identification of compliance risks and regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation in design of measures to decrease regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients' complaints
- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organized organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the Internal Audit Service. The Internal Audit Service is independent from management and reports directly to the Supervisory Board. The results of the Internal Audit Service reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 *On Banks and Banking Activity*, Direction of the CBR dated 1 April 2014 No. 3223-U *On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation*, establish the professional qualifications, business reputation and other requirements for members of the Supervisory Board, Management Board, Heads of the Internal Audit Service, Internal Control Service and Risk Management Service and other key management personnel. All members of the Bank's Risks Division meet these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the Internal Audit and Control function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures for the management of credit exposures (both for recognized and unrecognized exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

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

The maximum exposure to credit risk in relation to assets recognized at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
ASSETS		
Cash and cash equivalents excluding cash on hand	914 301	354 564
Obligatory reserves with the Central bank of the Russian Federation	8 884	7 287
Deposits in credit and other financial institutions	16 369	403 480
Financial instruments at fair value through profit or loss	117 282	83 909
Available-for-sale securities	24 946	45 791
Loans to customers	768 676	626 535
Other financial assets	1 500	1 377
Total maximum exposure to credit risk on statement of financial position	1 851 958	1 522 943

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which

regulates the Bank's credit risk in respect of a borrower or group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2017 and 31 December 2016, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank was in compliance with limits set by the CBR as at 31 December 2017 and 31 December 2016.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds (capital).

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds (capital).

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Provision of the CBR dated 3 December 2016 No. 509-P *Calculation of Own Funds (Capital), Mandatory Ratios and Open Currency Position Limits for Banking Groups* and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2017 and 31 December 2016.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

These ISDA and similar master netting arrangements do not meet the offsetting criteria in the

consolidated statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

Types of financial assets/liabilities	Gross amounts of recognized financial assets/liabilities	Gross amount of recognized financial liabilities/assets offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts subject to offset under specific conditions		
				Financial instruments	Cash collateral received	Net amount
Reverse sale and repurchase	801 924	-	801 924	801 924	-	-
Total financial assets	801 924	-	801 924	801 924	-	-
Sale and repurchase	560 552	-	560 552	560 552	-	-
Total financial liabilities	560 552	-	560 552	560 552	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016:

Types of financial assets/liabilities	Gross amounts of recognized financial assets/liabilities	Gross amount of recognized financial liabilities/assets offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts subject to offset under specific conditions		
				Financial instruments	Cash collateral received	Net amount
Reverse sale and repurchase	626 207	-	626 207	626 207	-	-
Total financial assets	626 207	-	626 207	626 207	-	-
Sale and repurchase	494 181	-	494 181	494 181	-	-
Total financial liabilities	494 181	-	494 181	494 181	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortized cost.

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2017.

Types of financial assets/liabilities	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial assets/liabilities not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	793 501	Cash and cash equivalents	934 033	140 532	9
	8 423	Deposits in credit and other financial institutions	16 369	7 946	10
Sale and repurchase agreements	534 452	Deposits by credit institutions	639 861	105 409	17
	26 100	Due to customers	941 724	915 624	18

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position”, as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2016.

Types of financial assets/liabilities	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial assets/liabilities not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	228 616	Cash and cash equivalents	373 327	144 711	9
	397 591	Deposits in credit and other financial institutions	403 480	5 889	10
Sale and repurchase agreements	247 170	Deposits by the Central bank of the Russian Federation	247 170	-	16
	247 011	Deposits by credit institutions	381 624	134 613	17

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group is exposed to several types of operational risk, including unauthorized transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that the Group will be used for money laundering and financing of terrorist activities.

The Group’s Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognized principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organizational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

The Group established an Operational Risk Unit as a part of the Internal Control Division. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Operational Risk Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of the Internal Control Service on important developments and issues. The Head of the Internal Control Service reports directly to the Chairman of the Management Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios are:

- i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Group was in compliance with these ratios as at 31 December 2017 and 31 December 2016.

The following tables as at 31 December 2017 and 31 December 2016 show the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. Debt securities issued are shown in accordance with their early redemption dates. These expected cash flows can vary significantly from the actual future cash flows. Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2017	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Deposits by credit institutions	472 414	151 178	17 896	2 096	643 584	639 861
Due to customers	221 775	444 686	104 270	295 386	1 066 117	941 724
Debt securities issued	4 333	26 068	15 297	92 060	137 758	116 280
Other financial liabilities	2 127	754	443	798	4 122	4 122
Total contractual future payments for financial obligations	700 649	622 686	137 906	390 340	1 851 581	1 701 987
Guarantees and letters of credit	89 475	-	-	-	89 475	
Credit related commitments	25 436	-	-	-	25 436	

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31 December 2016	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Deposits by the CBR	247 639	-	-	-	247 639	247 170
Deposits by credit institutions	184 375	189 552	4 384	7 967	386 278	381 624
Due to customers	253 434	190 486	206 625	67 406	717 951	689 496
Debt securities issued	-	10 905	18 039	142 494	171 438	137 203
Other financial liabilities	589	1 713	661	380	3 343	3 343
Total contractual future payments for financial obligations	686 037	392 656	229 709	218 247	1 526 649	1 458 836
Guarantees and letters of credit	101 612	-	-	-	101 612	
Credit related commitments	26 677	-	-	-	26 677	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	31 December 2017	31 December 2016
Demand and less than 1 month	28 981	24 513
From 1 to 6 months	155 342	123 261
From 6 to 12 months	88 719	73 021
More than 1 year	3 250	14 559
	276 292	235 354

In accordance with terms of issuance of bonds the holders are entitled to demand early redemption of bonds at their nominal value at certain dates. Management believes based on the past experience that it can manage amounts that are claimed for early redemption by changing coupon rates on bonds, thus classifying bonds in accordance with their stated final maturity dates. Maturity based on early redemption dates as at 31 December 2017 and 31 December 2016 is shown in the tables below:

31 December 2017	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Debt securities issued	4 105	23 060	12 280	12 753	60 856	3 226	116 280

31 December 2016	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Debt securities issued	-	7 284	13 033	73 319	37 578	4 844	136 058

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position.

Securities included in financial instruments at fair value through profit or loss and available-for-sale securities that qualify as collateral for borrowing from the Central bank of the Russian Federation are shown in the category "Less than 1 month" as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs,

if necessary. Liquid securities included in the Lombard list of the Central bank of the Russian Federation pledged as collateral are presented in accordance with maturity of related repo transactions.

As at 31 December 2017 and 31 December 2016 the contractual maturities of all instruments included in financial instruments at fair value through profit or loss and available-for-sale securities were as follows:

31 December 2017	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Total
Financial instrument at fair value through profit or loss	4 589	5 738	10 632	4 051	53 672	38 600	-	117 282
Available-for-sale securities	2 354	6 927	1 510	4 195	9 408	552	120	25 066
31 December 2016	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	No maturity	Total
Financial instrument at fair value through profit or loss	17 450	20 535	6 959	20 721	13 514	4 729	1	83 909
Available-for-sale securities	1 477	6 588	9 657	19 275	6 426	2 368	112	45 903

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31 December 2017	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	934 033	-	-	-	-	-	-	-	-	-	-	934 033
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	8 884	-	8 884
Deposits in credit and other financial institutions	4	4 450	6 340	2 125	-	3 450	-	-	-	-	-	16 369
Financial instruments at fair value through profit or loss	77 040	1 772	2 044	-	-	-	-	36 426	-	-	-	117 282
Available-for-sale securities	7 546	20	5 388	-	914	1 911	284	8 331	552	120	-	25 066
Loans to customers	123 170	80 102	51 699	53 163	34 946	66 640	102 236	203 359	42 167	-	11 194	768 676
Property and equipment	-	-	-	-	-	-	-	-	-	7 866	-	7 866
Deferred tax assets	-	-	-	-	-	-	-	-	-	281	-	281
Other assets	350	1 124	850	524	320	235	2 201	282	-	3 848	-	9 734
	1 142 143	87 468	66 321	55 812	36 180	72 236	104 721	248 398	42 719	20 999	11 194	1 888 191
LIABILITIES												
Deposits by credit institutions	471 111	111 281	38 298	95	17 327	138	303	1 197	111	-	-	639 861
Due to customers	221 490	143 702	294 734	58 795	40 854	17 784	455	120 191	43 719	-	-	941 724
Debt securities issued	-	20 033	3 026	2 087	10 193	8 920	2 880	25 838	43 303	-	-	116 280
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	3 779	-	3 779
Other liabilities	2 687	1 125	694	808	608	361	238	-	2 437	-	-	8 958
	695 288	276 141	336 752	61 785	68 982	27 203	3 876	147 226	89 570	3 779	-	1 710 602
Net position	446 855	(188 673)	(270 431)	(5 973)	(32 802)	45 033	100 845	101 172	(46 851)	17 220	11 194	177 589
Cumulative position	446 855	258 182	(12 249)	(18 222)	(51 024)	(5 991)	94 854	196 026	149 175	166 395	177 589	

Management of the Group in its liquidity forecasts estimates that the liquidity gaps in the table above will be sufficiently covered by planned prolongations and planned funding raised from usual sources of financing and by ability to sell quickly or pledge into a repo transaction securities received under reverse repurchase agreements, which are liquid assets, as well as by the undrawn credit line facilities from the CBR and other financial institutions.

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31 December 2016	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	373 327	-	-	-	-	-	-	-	-	-	-	373 327
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	7 287	-	7 287
Deposits in credit and other financial institutions	-	275 110	162	40 773	87 435	-	-	-	-	-	-	403 480
Financial instruments at fair value through profit or loss	82 111	1 663	135	-	-	-	-	-	-	-	-	83 909
Available-for-sale securities	32 801	120	80	-	-	7 398	1 441	1 826	2 125	112	-	45 903
Loans to customers	85 362	42 819	86 461	42 924	39 302	63 244	72 275	118 676	69 160	-	6 312	626 535
Property and equipment	-	-	-	-	-	-	-	-	-	21 278	-	21 278
Other assets	459	455	598	343	236	49	-	298	-	3 812	-	6 250
	574 060	320 167	87 436	84 040	126 973	70 691	73 716	120 800	71 285	32 489	6 312	1 567 969
LIABILITIES												
Deposits by the CBR	247 170	-	-	-	-	-	-	-	-	-	-	247 170
Deposits by credit institutions	183 915	186 529	255	2 329	1 944	4 297	24	1 273	1 058	-	-	381 624
Due to customers	252 942	110 591	75 603	42 655	155 775	17 237	12 185	348	22 160	-	-	689 496
Debt securities issued	-	1 146	-	-	-	74 315	17 146	34 697	9 899	-	-	137 203
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	190	-	190
Other liabilities	965	2 423	1 066	812	812	254	250	250	-	2 053	-	8 885
	684 992	300 689	76 924	45 796	158 531	96 103	29 605	36 568	33 117	2 243	-	1 464 568
Net position	(110 932)	19 478	10 512	38 244	(31 558)	(25 412)	44 111	84 232	38 168	30 246	6 312	103 401
Cumulative position	(110 932)	(91 454)	(80 942)	(42 698)	(74 256)	(99 668)	(55 557)	28 675	66 843	97 089	103 401	

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate currency and equity financial instruments which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or the ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The table below summarizes the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates.

	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
31 December 2017						
Interest-bearing assets	954 740	151 441	102 375	500 790	11 194	1 720 540
Interest-bearing liabilities	696 705	611 076	129 351	260 733	-	1 697 865
Net interest sensitivity gap as at 31 December 2017	258 035	(459 635)	(26 976)	240 057	11 194	22 675
31 December 2016						
Interest-bearing assets	355 557	431 675	227 050	397 675	6 312	1 418 269
Interest-bearing liabilities	625 435	381 409	215 737	174 321	-	1 396 902
Net interest sensitivity gap as at 31 December 2016	(269 878)	50 266	11 313	223 354	6 312	21 367

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2017 and 31 December 2016 is as follows:

	2017		2016	
	Profit or loss	Equity	Profit or loss	Equity
200 bp parallel rise	(1 320)	(1 320)	(1 462)	(1 462)
200 bp parallel fall	1 320	1 320	1 462	1 462

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves is as follows:

	2017		2016	
	Profit or loss	Equity	Profit or loss	Equity
200 bp parallel rise	(5 791)	(6 534)	(2 087)	(3 300)
200 bp parallel fall	5 791	6 534	2 087	3 300

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 20% change in USD to RUB exchange rates is as follows:

	2017		2016	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against RUB	9 300	9 300	(431)	(431)
20% depreciation of USD against RUB	(9 300)	(9 300)	431	431

Equity price risk

Price risk is the risk that the value of an equity financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in an equity financial instrument.

Equity price risk is not significant.

Interest rate analysis

The interest rate policy is reviewed and approved by the ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	2017			2016		
	USD	RUB	Other foreign currencies	USD	RUB	Other foreign currencies
Interest bearing assets						
Cash and cash equivalents	4.1%	8.1%	-	3.3%	11.8%	2.3%
Deposits in credit and other financial institutions	5.3%	10.7%	2.7%	3.7%	11.1%	4.7%
Financial instruments at fair value through profit or loss						
– government and municipal bonds	3.5%	8.2%	-	4.4%	9.8%	-
– corporate bonds	4.0%	9.4%	2.0%	4.0%	9.5%	3.1%
Available-for-sale securities						
– corporate bonds	5.6%	9.6%	2.2%	3.1%	10.3%	-
– promissory notes	-	-	-	-	-	-
Loans to customers	5.9%	12.5%	3.6%	6.3%	15.0%	6.5%
Interest bearing liabilities						
Deposits by the CBR	-	-	-	3.1%	11.0%	-
Deposits by credit institutions						
– term deposits	3.2%	8.4%	1.5%	2.1%	10.4%	0.8%
– subordinated debt	-	-	-	7.7%	-	-
– syndicated debt	3.8%	-	1.5%	-	-	-
Due to customers						
– term deposits	2.4%	8.0%	1.7%	2.1%	9.7%	1.7%
– subordinated debt	4.9%	8.8%	-	4.9%	-	-
Debt securities issued	7.1%	11.6%	-	7.4%	12.2%	1.1%

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

31 December 2017	USD	RUB	Other currencies	Total
ASSETS				
Cash and cash equivalents	88 360	842 430	3 243	934 033
Obligatory reserves with the CBR	-	8 884	-	8 884
Deposits in credit and other financial institutions	82	8 427	7 860	16 369

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31 December 2017

	USD	RUB	Other currencies	Total
Financial instruments at fair value through profit or loss	51 773	27 487	38 022	117 282
Available-for-sale securities	5 460	19 053	553	25 066
Loans to customers	137 255	485 778	145 643	768 676
Property and equipment	-	7 866	-	7 866
Deferred tax assets	-	281	-	281
Other assets	126	9 223	385	9 734
	283 056	1 409 429	195 706	1 888 191
LIABILITIES				
Deposits by credit institutions	260 676	364 332	14 853	639 861
Due to customers	192 397	491 214	258 113	941 724
Debt securities issued	84 096	32 184	-	116 280
Deferred tax liabilities	-	3 779	-	3 779
Other liabilities	1 276	6 947	735	8 958
	538 445	898 456	273 701	1 710 602
Net position before hedging	(255 389)	510 973	(77 995)	177 589
Derivative financial instruments	313 514	(390 663)	77 149	-
Net position	58 125	120 310	(846)	177 589

As at 31 December 2017 the Group's significant open currency position in USD is due to the fact that perpetual debt issued in USD is reflected in equity and is not included in the table above.

31 December 2016

	USD	RUB	Other currencies	Total
ASSETS				
Cash and cash equivalents	261 478	102 869	8 980	373 327
Obligatory reserves with the CBR	-	7 287	-	7 287
Deposits in credit and other financial institutions	267 559	132 133	3 788	403 480
Financial instruments at fair value through profit or loss	42 132	41 514	263	83 909
Available-for-sale securities	25 208	20 695	-	45 903
Loans to customers	146 123	468 413	11 999	626 535
Property and equipment	14 271	7 007	-	21 278
Other assets	271	5 928	51	6 250
	757 042	785 846	25 081	1 567 969
LIABILITIES				
Deposits by the CBR	184 150	63 020	-	247 170
Deposits by credit institutions	90 319	283 680	7 625	381 624
Due to customers	251 021	425 731	12 744	689 496
Debt securities issued	92 395	43 662	1 146	137 203
Deferred tax liabilities	-	190	-	190
Other liabilities	1 628	7 204	53	8 885
	619 513	823 487	21 568	1 464 568
Net position before hedging	137 529	(37 641)	3 513	103 401
Derivative financial instruments	(140 222)	145 636	(5 414)	-
Net position	(2 693)	107 995	(1 901)	103 401

Geographical risk

The geographical risk is the risk due to political, economic or social instability in the respective country.

The geographical concentration of major financial assets and liabilities as at 31 December 2017 and 31 December 2016 is disclosed in the table below:

31 December 2017

	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	901 552	22 395	10 086	934 033
Obligatory reserves with the CBR	8 884	-	-	8 884
Deposits in credit and other financial institutions	6 323	3 450	6 596	16 369
Financial instruments at fair value through profit or loss	65 744	50 537	1 001	117 282
Available-for-sale securities	18 680	5 666	720	25 066
Loans to customers	640 752	80 744	47 180	768 676
	1 641 935	162 792	65 583	1 870 310
LIABILITIES				
Deposits by credit institutions	612 513	21 404	5 944	639 861
Due to customers	924 678	12 139	4 907	941 724
Debt securities issued	27 125	89 155	-	116 280
	1 564 316	122 698	10 851	1 697 865
Net position	77 619	40 094	54 732	172 445

31 December 2016

	Russia	OECD	Other non-OECD	Total
ASSETS				
Cash and cash equivalents	357 177	7 407	8 743	373 327
Obligatory reserves with the CBR	7 287	-	-	7 287
Deposits in credit and other financial institutions	397 310	1 919	4 251	403 480
Financial instruments at fair value through profit or loss	64 214	17 967	1 728	83 909
Available-for-sale securities	18 968	26 935	-	45 903
Loans to customers	505 266	50 452	70 817	626 535
	1 350 222	104 680	85 539	1 540 441
LIABILITIES				
Deposits by the CBR	247 170	-	-	247 170
Deposits by credit institutions	360 064	10 612	10 949	381 625
Due to customers	680 154	7 258	2 084	689 496
Debt securities issued	39 752	97 451	-	137 203
	1 327 140	115 321	13 033	1 455 494
Net position	23 082	(10 641)	72 506	84 947

The majority of non-financial assets and liabilities is located in Russia.

30 Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety

	Financial assets at fair value through profit or loss	Financial assets available for sale
2017		
Carrying amount of assets	21 763	1 793
Carrying amount of associated liabilities	18 204	1 448
2016		
Carrying amount of assets	6 544	19 818
Carrying amount of associated liabilities	5 927	17 378

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. A part of securities that serve as collateral under reverse repurchase agreements has been pledged under sale and repurchase agreements by the Group. The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognized them. These securities are presented as “pledged under sale and repurchase agreements” in notes 11 and 12. The cash received is recognized as a financial liability for the obligation to repay the purchase price for this collateral, and is included in deposits by the Central bank of the Russian Federation, deposits by credit institutions and due to customers (note 16, 17 and 18). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

These transactions are conducted under terms that are usual and customary to standard lending activities, as well as the requirements determined by exchanges where the Group acts as intermediary.

31 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

	Fair value through profit or loss	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	934 033	-	-	934 033	934 033
Obligatory reserves with the CBR	-	8 884	-	-	8 884	8 884
Deposits in credit and other financial institutions	-	16 369	-	-	16 369	16 369
Financial instruments at fair value through profit or loss	117 282	-	-	-	117 282	117 282
Available-for-sale securities	-	-	25 066	-	25 066	25 066
Loans to customers	-	768 676	-	-	768 676	770 867
Other financial assets	-	1 500	-	-	1 500	1 500
	117 282	1 729 462	25 066	-	1 871 810	1 874 001
Deposits by credit institutions	-	-	-	639 861	639 861	639 861
Due to customers	36 426	-	-	905 298	941 724	949 607
Debt securities issued	-	-	-	116 280	116 280	115 056
Other financial liabilities	1 551	-	-	2 571	4 122	4 122
	37 977	-	-	1 664 010	1 701 987	1 708 646

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2017 are:

- discount rates from 9.0% to 15.4% (roubles) and from 3.2% to 8.3% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 10.9% to 26.4% (roubles) and from 9.0% to 10.9% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.2% to 8.9% (roubles) and from 0.1% to 2.7% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 5.5% to 8.5% (roubles) and from 0.9% to 1.4% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

	Held for trading	Loans and receivables	Available- for-sale	Other amortised	Total carrying amount	Fair value
Cash and cash equivalents	-	373 327	-	-	373 327	373 327
Obligatory reserves with the CBR	-	7 287	-	-	7 287	7 287
Deposits in credit and other financial institutions	-	403 480	-	-	403 480	403 480
Financial instruments at fair value through profit or loss	83 909	-	-	-	83 909	83 909
Available-for-sale financial assets	-	-	45 903	-	45 903	45 792

	Held for trading	Loans and receivables	Available-for-sale	Other amortised	Total carrying amount	Fair value
Loans to customers	-	626 535	-	-	626 535	628 248
Other financial assets	-	1 377	-	-	1 377	1 377
	83 909	1 412 006	45 903	-	1 541 818	1 543 420
Deposits by the CBR	-	-	-	247 170	247 170	247 170
Deposits by credit institutions	-	-	-	381 624	381 624	381 624
Due to customers	-	-	-	689 496	689 496	694 976
Debt securities issued	-	-	-	137 203	137 203	139 661
Other financial liabilities	1 081	-	-	2 262	3 343	3 343
	1 081	-	-	1 457 755	1 458 836	1 466 774

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2016 are:

- discount rates from 9.5% to 18.1% (roubles) and from 3.5% to 10.0% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.6% to 28.0% (roubles) and from 10.1% to 12.5% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.5% to 10.5% (roubles) and from 0.1% to 2.7% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 8.1% to 9.8% (roubles) and from 0.6% to 1.6% (foreign currency) are used for discounting future cash flows from retail deposits.

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist, Monte Carlo and polynomial-option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

The fair value of unquoted equity securities available-for-sale with a carrying value of RUB 120 million (31 December 2016: RUB 112 million) cannot be determined.

Fair value hierarchy

The Group measures fair values for financial instruments recorded in the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following tables show an analysis of financial instruments recorded at fair value and financial instruments recorded at amortized cost for which amortized cost does not approximate their carrying amount as at 31 December 2017 and 31 December 2016:

31 December 2017	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss	72 986	44 296	-	117 282
Available-for-sale securities	23 191	1 755	-	24 946
Loans to customers	-	-	770 867	770 867
Due to customers	-	949 607	-	949 607
Debt securities issued	115 056	-	-	115 056
Other financial liabilities	-	4 122	-	4 122

31 December 2016	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss	81 360	2 549	-	83 909
Available-for-sale securities	45 792	-	-	45 792
Loans to customers	-	-	626 248	626 248
Due to customers	-	694 976	-	694 976
Debt securities issued	138 515	1 146	-	139 661
Other financial liabilities	-	3 343	-	3 343

During 2017 and 2016 there were no transfers of assets between Level 1 and Level 2.

32 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share are calculated as follows:

	2017	2016
Profit for the year	20 703	10 874
Weighted average number of ordinary shares in issue	24 449 572 880	23 879 709 866
Basic and diluted earnings per share in RUB (per share)	0.85	0.46

33 Acquisitions and disposals

Disposal of subsidiary

In December 2017, the Group sold a 100% share in its subsidiary CBM Ireland Leasing Limited to a third party for a cash consideration of USD 10 860 thousand. The Group recognized gain from disposal of a subsidiary in the amount of RUB 1 076 million, including foreign exchange difference accumulated in other comprehensive income for the period of holding in the amount of RUB 41 million. Net loss of a subsidiary in the amount of RUB 246 million is contributed in the consolidated statement of profit or loss and other comprehensive income.

The disposal of a subsidiary had the following effect on assets and liabilities at the date of disposal as a result of the deconsolidation:

	Recognized amounts on disposal
ASSETS	
Cash and cash equivalents	901
Property and equipment	12 777
Other assets	39
LIABILITIES	
Loans from credit institutions	13 190
Other liabilities	967
Net identifiable liabilities	(440)
Consideration received	636
Cash disposed of	(901)
Net cash outflow	(265)

Acquisition of subsidiary

On 18 August 2016 the Group acquired 100% shares in LLC “Bank SKS”, a company specialising on investment banking activities. The purchase consideration was RUB 560 million, which was settled in cash.

The fair value amounts of assets and liabilities of the acquired subsidiary recognized in the Group's consolidated financial statements were as follows at the date of acquisition:

	Recognized amounts on acquisition
ASSETS	
Cash and cash equivalents	366
Other assets	206
LIABILITIES	
Due to customers	11
Deferred tax liabilities	1
Net identifiable assets and liabilities	560
Consideration paid	560
Cash acquired	366
Net cash outflow	(194)

The amounts of revenue and profit or loss of LLC "Bank SKS" since the acquisition date and for the year ended 31 December 2016 as though the acquisition had been as of the beginning of the reporting year do not have a significant effect on consolidated revenue and profit or loss.

34 Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities during the years ended 31 December 2017 and 2016 are presented as follows:

	Total amount as at 31.12.2016	Cash flow changes arising from financing activities	Non-cash flow changes arising from financing activities	Non-cash flow changes arising from operating activities		Total amount as at 31.12.2017
			The effect of changes in foreign exchange rates	The effect of changes in foreign exchange rates	Changes in the amount of accrued interest	
Subordinated debt in Deposits by credit institutions	623	(582)	(24)	(2)	(15)	-
Syndicated loans in Deposits by credit institutions	-	28 006	1 232	1	248	29 487
Subordinated debt in Due to customers	18 273	22 000	(917)	(15)	501	39 842
Bonds in Debt securities issued	95 252	(25 257)	(2 595)	(5)	(746)	66 649
Subordinated bonds in Debt securities issued	40 806	10 452	(1 545)	(55)	(27)	49 631
Total	154 954	34 619	(3 849)	(76)	(39)	185 609

	Total amount as at 31.12.2015	Cash flow changes arising from financing activities	Non-cash flow changes arising from financing activities The effect of changes in foreign exchange rates	Non-cash flow changes arising from operating activities		Total amount as at 31.12.2016
				The effect of changes in foreign exchange rates	Changes in the amount of accrued interest	
Subordinated debt in Deposits by credit institutions	1 490	(701)	(150)	-	(16)	623
Subordinated debt in Due to customers	21 885	-	(3 668)	(22)	78	18 273
Bonds in Debt securities issued	72 385	29 666	(7 537)	(1)	739	95 252
Subordinated bonds in Debt securities issued	47 725	-	(6 113)	(131)	(675)	40 806
Total	143 485	28 965	(17 468)	(154)	126	154 954

35 Events subsequent to the reporting date

In January 2018 the Group paid out the 7th coupon in amount of RUB 217.79 million or RUB 55.45 per one bond on exchange bonds series BO-10. The issue was placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 5 billion.

In January 2018 the Group paid out the 7th coupon in amount of RUB 382.89 million or RUB 46.13 per one bond on exchange bonds series BO-11. The issue was originally placed on 10 July 2014 in the amount of RUB 5 billion with a maturity of 5 years and additional issue on 24 December 2014 in the amount of RUB 10 billion.

In January 2018 Yury A. Ubeev, previously Member of the Management Board, left the Management Board.

In February 2018 the Group redeemed on schedule its USD 500 million senior Loan Participation Notes with a fixed coupon rate of 7.70% p.a. and paid out the 10th coupon in the amount of USD 19.25 million.

In February 2018 the Group paid out the 4th coupon in the amount of USD 15.53 million on subordinated perpetual eurobonds. The issue was placed in May 2017. The nominal value of the issue is USD 700 million.

In February 2018 the Group placed senior Loan Participation Notes in the total amount of USD 500 million at par with a fixed coupon rate of 5.55% p.a. and maturity of 5 years.

In February 2018 the Group paid out the 10th coupon in the amount of RUB 122.16 million or RUB 61.08 per one bond on domestic bonds series 12. The issue was placed on 27 February 2013 with a maturity of 5.5 years. The nominal value of the issue is RUB 2 billion.

In February 2018 Analytical Credit Rating Agency (ACRA) upgraded CREDIT BANK OF MOSCOW's national scale credit rating from "A- (RU)" to "A (RU)", stable outlook.

In February 2018 Dmitry A. Eremin, previously First Deputy Chairman of the Management Board, left the Management Board.

In February 2018 Mikhail V. Polunin became a member of the Management Board and was appointed First Deputy Chairman of the Management Board.

In February 2018 Pavel B. Shevchuk became a member of the Management Board and was appointed First Deputy Chairman of the Management Board.

In March 2018 the Group paid out the 6th coupon in the amount of RUB 149.12 million or RUB 50.83 per one bond on domestic bonds series 09. The issue was placed on 25 March 2015 with a maturity of 5 years. The nominal value of the issue is RUB 3 billion.

Chairman of the Management Board

Chief Accountant

28 March 2018



Vladimir A. Chubar

Svetlana V. Sass

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