Interim Disclosed Consolidated Financial Information

Joint stock company Russian Agricultural Bank and its subsidiaries

for the nine-month period ended 30 September 2023

with report on review

Interim Disclosed Consolidated
Financial Information of
Joint stock company Russian Agricultural Bank
and its subsidiaries

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Report on Review of the Interim Disclosed Consolidated Financial Information

To the Shareholder and the Supervisory Board of
Joint stock company
Russian Agricultural Bank

Introduction

We have reviewed the accompanying interim disclosed consolidated financial statements of Joint stock company Russian Agricultural Bank (hereinafter – "the Bank") and its subsidiaries (hereinafter – "the Group"), which comprise the interim disclosed consolidated statement of financial position as at 30 September 2023, the interim disclosed consolidated statement of profit or loss and other comprehensive income for the three-month and nine-month periods then ended and selected notes thereto (the "interim disclosed consolidated financial information").

Management of Joint stock company Russian Agricultural Bank is responsible for the preparation and presentation of this interim disclosed consolidated financial information in accordance with the principles described in Note 1 "Basis of preparation of interim disclosed consolidated financial statements" to the accompanying interim disclosed consolidated financial information. Our responsibility is to express a conclusion on this interim disclosed consolidated 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 interim disclosed consolidated 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim disclosed consolidated financial information is not prepared, in all material respects, in accordance with the principles Described in Note 1 "Basis of preparation of interim disclosed consolidated financial statements" to the interim disclosed consolidated financial information.

NEW CHALLENGES
NEW SOLUTIONS

Emphasis of matter – basis of accounting, and restriction on use

We draw attention to the Note 1 "Basis of preparation of interim disclosed consolidated financial statements" to the interim disclosed consolidated financial information, which describes the principles applied in the preparation of this interim disclosed consolidated financial information. The interim disclosed consolidated financial information is prepared to present the consolidated financial position and consolidated comprehensive income of the Group, the disclosure of which will not adversely affect the Group and/or its counterparties. As a result, this interim disclosed consolidated financial information may not be suitable for another purpose. Our report is intended solely for the information of and use by the Shareholder and the Supervisory Board of the Bank and should not be used by parties other than the Shareholder and the Supervisory Board of the Bank. Our conclusion is not modified in respect of this matter.

G.A. Shinin
Partner
TSATR – Audit Services Limited Liability Company

13 November 2023

Details of the auditor

Name: TSATR – Audit Services Limited Liability Company
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
TSATR – Audit Services Limited Liability Company is a member of Self-regulatory organization of auditors Association "Sodruzhestvo". TSATR – Audit Services Limited Liability Company is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Details of the entity

Name: Joint stock company Russian Agricultural Bank
Record made in the State Register of Legal Entities on 22 October 2002, State Registration Number 1027700342890.
Address: Russia 119034, Moscow, Gagarinsky pereulok, 3.

In millions of Russian Roubles	Note	30 September 2023 (unaudited)	31 December 2022 (revised)
Assets			
Cash and cash equivalents		453 812	305 568
Mandatory cash balances with the Bank of Russia		8 958	5 236
Securities and derivative financial instruments		629 661	614 302
Due from other banks		76 237	30 632
Loans and advances to customers	3	3 370 757	3 177 822
Current and deferred income tax assets		12 056	12 762
Premises, equipment, intangible assets and right-of-use assets		84 651	76 159
Other assets		42 453	38 734
Total assets		**4 678 585**	**4 261 215**
Liabilities			
Due to other banks		172 109	209 261
Customer accounts	4	3 663 486	3 363 165
Promissory notes issued		38 199	64 652
Bonds issued		134 384	115 227
Current and deferred income tax liabilities		1 448	660
Other liabilities		96 564	94 604
Total liabilities before subordinated debts		**4 106 190**	**3 847 569**
Subordinated debts		281 887	134 404
Total liabilities		**4 388 077**	**3 981 973**
Equity			
Share capital		523 333	523 333
Perpetual bonds		55 345	49 865
Revaluation reserve for premises and investment securities at fair value through other comprehensive income		(16 041)	(8 906)
Accumulated loss		(272 128)	(285 049)
Equity attributable to the Bank's shareholder		**290 509**	**279 243**
Non-controlling interest		(1)	(1)
Total equity		**290 508**	**279 242**
Total liabilities and equity		**4 678 585**	**4 261 215**

Approved for issue and signed on behalf of the Management Board on 13 November 2023.

B.P. Listov
Chairman of the Management Board

E.A. Romankova
Deputy Chairman of the Management Board,
Chief Accountant

(Unaudited) *In millions of Russian Roubles*	**For the nine months ended 30 September 2023**	**For the three months ended 30 September 2023**
Interest income at effective interest rate	277 686	99 564
Other interest income	14 368	5 291
Interest expense	(196 119)	(69 178)
Net interest income	**95 935**	**35 677**
Credit loss expense	(30 300)	(11 930)
Net interest income after credit loss expense	**65 635**	**23 747**
Fee and commission income	19 183	7 483
Fee and commission expense	(2 428)	(831)
Gains less losses from financial instruments and at fair value through profit or loss, dealing in foreign currencies and precious metals, foreign exchange accounts translation	5 645	2 030
(Losses net of gains)/gains net of losses from investment securities at fair value through other comprehensive income	(164)	100
Other net operating income/(expense)	1 828	(2 268)
Administrative and other operating expenses	(60 638)	(20 107)
Profit before tax	**29 061**	**10 154**
Income tax expense	(5 280)	(1 711)
Profit for the period	**23 781**	**8 443**
Profit is attributable to:		
Shareholder of the Bank	23 781	8 443
Non-controlling interest	-	-
Profit for the period	**23 781**	**8 443**
Other comprehensive loss to be reclassified to profit or loss in subsequent periods, net of tax	**(7 100)**	**(12 994)**
Total other comprehensive loss	**(7 100)**	**(12 994)**
Total comprehensive income/(loss) for the period	**16 681**	**(4 551)**
Total comprehensive income/(loss) for the period is attributable to:		
Shareholder of the Bank	16 681	(4 551)
Non-controlling interest	-	-
Total comprehensive income/(loss) for the period	**16 681**	**(4 551)**

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements

In accordance with the decision of the Board of Directors of the Bank of Russia dated 29 December 2022 "On the requirements for disclosure of statements and information by credit institutions (head credit institutions of banking groups) in 2023" (hereinafter referred to as the "Decision"), starting with statements and information for 2022 and ending with reporting and information as of 1 October 2023, credit institutions (parent credit institutions of banking groups) disclose their annual (interim) consolidated financial statements on publicly available information resources, taking into account the restrictions and exceptions provided for in paragraph 1.1 (including restrictions on disclosure of data for the quarterly reporting dates of 2022 in full) and Appendix 1 to the Decision.

These interim disclosed consolidated financial statements of Joint Stock Company Russian Agricultural Bank and its subsidiaries (the "Group"):

1) Was prepared on the basis of the interim condensed consolidated financial statements of Joint Stock Company "Russian Agricultural Bank" and its subsidiaries for the 9 months ended 30 September 2023, by excluding "sensitive" information, that is, information, the disclosure of which could adversely affect the Group and (or) its counterparties;
2) Was prepared for information disclosure in accordance with the decision of the Board of Directors of the Bank of Russia dated 29 December 2022 "On the requirements for disclosure of statements and information by credit institutions (head credit institutions of banking groups) in 2023";
3) Excludes information, the disclosure of which, in the opinion of management, could adversely affect the Group and (or) its counterparties. The list of such information was determined by the Group's management based on the decision of the Board of Directors of the Bank of Russia dated 29 December 2022 "On the requirements for disclosure of financial statements and information by credit institutions (parent credit institutions of banking groups) in 2023";
4) Is prepared for the purpose of presenting the consolidated financial position and consolidated comprehensive income of the Group, the disclosure of which will not adversely affect the Group and (or) its counterparties. As a result, this interim disclosed consolidated financial information may not be suitable for any other purpose.

The interim disclosed consolidated financial statements include:

- Interim disclosed consolidated statement of financial position as at 30 September 2023;
- Interim disclosed consolidated statement of profit or loss and other comprehensive income for the three and nine months ended 30 September 2023 without comparative information;
- Selected explanatory notes to the interim disclosed consolidated financial statements.

The following are the significant accounting policies used in the preparation of these interim disclosed consolidated financial statements.

Summary of Significant Accounting Policies

New requirements effective from 1 January 2023

IFRS 17 Insurance Contracts. IFRS 17 replaces IFRS 4 *Insurance Contracts* for annual periods beginning on or after 1 January 2023. IFRS 17 is applied retrospectively and the Group has revised comparative information for 2022 and 2021 as a result.

The nature and impact of changes resulting from the application of this standard are described below.

Changes in classification and estimates

The adoption of IFRS 17 did not change the classification of the Group's insurance contracts.

The main model for accounting for insurance contracts under IFRS 17 is the general model, according to which:

- Groups of insurance contracts are valued at the present value of future cash flows, taking into account non-financial risk and current market conditions (liability on the remaining coverage) and unearned profits (contractual service margin);
- Insurance contract cash flows include all cash flows that are directly related to the fulfillment of insurance contracts, including cash flows that arise at the level of other Group's companies. The list of cash flows that are under an insurance contract for the purposes of IFRS 17 includes more items than in IFRS 4;

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

- The estimate of future cash flows must take into account all future cash flows under each contract in this group;
- Revenue is recognised over the period the service is rendered under the insurance contract;
- The expected loss from a group of contracts is not offset against the expected profit from other groups of contracts, but is recognised as a lump sum in profit or loss.

The majority of non-life insurance contracts entered into by the Group are valued using the premium allocation approach (PAA). The PAA model is broadly similar to the previously used accounting model under IFRS 4, with the following exceptions:

- The liability for the remaining insurance coverage reflects premiums received less acquisition cash flows and less amounts recognised in revenue for insurance services rendered;
- The measurement of the incurred loss liability (formerly loss allowance) is determined based on present value, and includes an explicit adjustment for non-financial risk.

Changes in Presentation and Disclosure

For presentation in the statement of financial position, the Group combines portfolios of insurance and reinsurance contracts issued and reinsurance contracts held and presents them separately:

- Portfolios of issued insurance and reinsurance contracts, which are assets;
- Portfolios of reinsurance contracts held that are assets;
- Portfolios of issued insurance contracts and reinsurance contracts that are liabilities;
- Portfolios of reinsurance contracts held that are liabilities.

The above portfolios are portfolios created at initial recognition in accordance with the requirements of IFRS 17.

Portfolios of insurance and reinsurance contracts that are assets are included in Other assets in the interim disclosed consolidated statement of financial position.

Portfolios of insurance and reinsurance contracts that are liabilities are included in Other liabilities in the interim disclosed consolidated statement of financial position.

In the interim consolidated statement of profit and loss and other comprehensive income, income and expenses on insurance contracts are presented as separate items. Previously, these incomes and expenses were included in income and expenses from non-banking activities. For the purposes of these interim disclosed consolidated financial statements these items are included in other net operating income.

Transition

Upon transition to IFRS 17, the Group applied full retrospective approach and recognised the effect of the re-measurement of insurance contract assets and liabilities in accordance with the requirements of IFRS 17 in retained earnings.

Amendments to IAS 12 Income Taxes. In May 2021, the IASB issued amendments that narrow the scope of the initial recognition exception under IAS 12 *Income Taxes* so that it no longer applies to transactions that give rise to equal taxable and deductible temporary difference.

The exemption applies only if the recognition of a lease asset and a lease liability (or a decommissioning liability and a decommissioning component of the asset) results in taxable and deductible temporary differences that are not equal.

The amendments should be applied for transactions occurring on or after the start date of the earliest comparative period presented.

At the beginning of the earliest comparative period presented, an entity must also recognise a deferred tax asset (if there is sufficient taxable profit in the future) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments are effective for annual periods beginning 1 January 2023. The Group is currently assessing the impact of the amendments on the calculation of deferred taxes. The amendments are not expected to have a significant impact on the Group's disclosed consolidated financial statements.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Disclosure of Accounting Policies — Amendments to IAS 1 and IFRS Practice Statement 2. In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement No. 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

Definition of Accounting Estimates — Amendments to IAS 8. In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments had no material impact on the Group's disclosed consolidated financial statements.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interest that does not present ownership interest is measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest form a separate component of the Group's equity except for the non-controlling interests in mutual funds under the Group's control, which are accounted for within Group's liabilities.

Structured entities. Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are presented that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion.

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

Financial instruments — key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. Fair value is the current bid price for financial assets, current ask price for financial liabilities and the average of current bid and ask prices when the Group is both in short and long position for the financial instrument. A financial instrument is regarded as quoted if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value of financial instruments traded in a market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques are used to fair value certain financial instruments for which external market pricing information is not available. Such valuation techniques include discounted cash flows models, generally accepted option pricing models, models based on recent arm's length transactions or consideration of financial data of the investees. Valuation techniques may require assumptions not supported by observable market data.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

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 exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing 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 whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (see accounting policy for income and expenses recognition).

Financial assets and liabilities

Initial recognition

(a) Classification and measurement

IFRS 9 includes three principal classification categories for financial assets: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (FVOCI) and financial assets measured at fair value through profit or loss (FVTPL).

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Business model assessment

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition at fair value through profit or loss (FVTPL). Under this criterion, debt instruments that do not correspond to a “basic lending arrangement”, such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVTPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a “hold to collect contractual cash flows” basis are measured at amortised cost;
- Instruments that are managed on a “hold to collect contractual cash flows and for sale” basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, are measured at FVTPL.

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because it’s the best way to reflect how 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, including whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of 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 in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group’s stated objective for managing the financial assets is achieved and how cash flows are realised.

All financial assets not classified as measured at amortised cost or at FVOCI as described above are measured at FVTPL. In addition, 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 measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Assessment whether contractual cash flows are solely payments of principal and interest

As a part of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet SPPI test.

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 considers the contractual terms of the instrument. This 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. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Prepayment and extension terms;
- Terms that limit the Group’s claim to cash flows from specified assets, e.g. non-recourse asset arrangements; and
- Features that modify consideration for the time value of money, e.g. periodic revision of interest rates.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Equity financial assets are classified at initial recognition as FVTPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

Derivatives are measured at FVTPL. Embedded derivatives are no separated from a host financial asset.

(b) Impairment

The Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12-month ECL). The 12-month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both lifetime ECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. Financial assets grouped on a collective basis according to the segments defined by the Group, industry sector, revenue size and other criteria.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

- *Stage 1:* When loans do not have factors that indicate a significant increase in credit risk and are not in default at the reporting date, Group recognises an allowance based on ECL over one year.
- *Stage 2:* When loans have factors that indicate a significant increase in credit risk, but are not in default at the reporting date, Group records an allowance for the lifetime ECL.
- *Stage 3:* When loans are considered credit-impaired (defaulted) at the reporting date, Group recognises an allowance based on ECL resulting from all possible cash flows arising from different recovery scenarios given default already happened.

For purchased or originated credit-impaired assets ECL is formed in the amount of cumulative changes in expected credit losses over the lifetime of the instrument from the date of acquisition or grant.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset. Financial assets are written off by the Bank either partially or in their entirety only when they cannot be recovered.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and measured as follows:

- Financial assets that are not credit-impaired at the reporting date: 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, where ECL from including undrawn loan commitments are estimated using credit conversion factor (CCF);
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Definition of default

Under IFRS 9, the Group considers a financial asset to be in default when there is available information that:

- 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 the respective 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 considers indicators that are:

- Qualitative;
- Quantitative: e.g. overdue status; and
- Based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time in order to reflect changes in circumstances.

Credit ratings and risk grades

The Group allocates each exposure to a credit rating or a 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 ratings and client's score are primary inputs into the determination of the probability of default (PD) estimation and development under IFRS 9 framework.

The Group also employs statistical models to analyze internal and external data to generate estimates lifetime PD-s and how these are expected to change as a result of the passage of time.

This analysis includes — where reasonable and supportable information is available — the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include variables such as GDP growth, benchmark interest rates and unemployment.

Determining whether credit risk has increased significantly

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 consider reasonable and supportable information that is relevant and available without undue costs or efforts, including both quantitative and qualitative information and analysis consisting — based on availability and complexity — of the Group's historical experience, expert credit assessment and forward-looking information.

The criteria may vary by portfolio and will include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- Credit rating as at the reporting date; with
- Credit rating that was estimated on initial recognition of the exposure.

The Group also may, using its expert credit judgement and, where possible, relevant historical experience, determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so.

The Group monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Modified assets and liabilities

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.

For the accounting purposes the Group defines significant and non-significant modification of financial assets. In case of significant modification the changing of contractual conditions (changing of currency of the financial instrument (besides conversion of the loan to roubles due to bankruptcy procedure / court decision), changing of interest rate from fix to float or float to fix and including/excluding conditions in the loan agreement which affect the SPPI test result) leads to derecognition of financial instrument.

In case of non-significant modification of financial assets or financial liabilities, the Group recalculates the gross carrying amount of a financial asset or liability as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset or liability using the original effective rate.

The contractual terms of a financial liabilities may be significantly modified in case of changes contractual conditions of present values of the estimated future cash flows, including commission payments after commission income received discounted on liabilities' original effective rate more than 10% of the discounted present value of the rest cash flows on original financial liability.

Under IFRS 9, when the terms of a financial asset are modified due to borrowers financial difficulties and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly should reflect comparison of:

- The PD at the reporting date based on the modified terms; with
- The PD estimated based on data on initial recognition and terms of the original contract.

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.

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key input variables into the measurement of ECLs are the following:

- Probability of default (PD) including lifetime PD-s;
- Loss given default (LGD);
- Credit conversion factor (CCF); and
- Exposure-at-default (EAD).

These parameters derived — alone or together — from internally developed statistical models based on own historical data or derived from available market data.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Forward-looking information

Under IFRS 9, the Group incorporates forward-looking information as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities in Russia.

The Group based on data availability and credibility of sources — using an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers include variables such as interest rates, unemployment rates, GDP forecasts and other.

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL).

The Group classifies and measures its derivative and trading portfolio at FVTPL. The Group may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from other banks, loans and advances to customers, investments securities at amortised cost

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

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

Debt instruments at FVOCI

In accordance with IFRS 9, the Group measures debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Expected credit losses (ECLs) for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Purchased or originated credit impaired assets. Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at initial recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Reclassification of financial assets and liabilities. The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise are expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits, reverse sale and repurchase agreements with other banks, and other cash equivalents with original maturity of less than one month. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Precious metals. Gold and other precious metals are recorded at the Bank of Russia bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the Bank of Russia bid prices are recorded as translation differences from precious metals.

Mandatory cash balances with the Bank of Russia. Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the contractual interest method is presented in the consolidated statement of profit or loss and other comprehensive income as interest income. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as Investment securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Investment securities at fair value through other comprehensive income. This classification includes investment securities which the Group 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 Group classifies investments as at fair value through other comprehensive income at the time of purchase.

Investment securities at fair value through profit or loss at initial recognition on management decision. Investment securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category by the Group, if such classification eliminates or significantly reduces inconsistency of measurement or recognition approaches (an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

Promissory notes purchased. Promissory notes purchased are included in trading securities or investment securities at amortised cost or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognised by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's initial cost.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at historical cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

Useful lives in years	Used in banking activities	Used in non-banking activities
Premises	40-100	20-40
Equipment	5-20	5-20

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Intangible assets. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives.

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

Non-current assets classified as held for sale. For the purpose of these interim disclosed consolidated financial statements non-current assets and disposal groups, which may include both non-current and current assets, are classified in the interim consolidated statement of financial position as 'Assets classified as held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's interim consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit, to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the interim consolidated statement of financial position.

For the purpose of these interim disclosed consolidated financial statements held for sale disposal groups are included in other assets.

Bank guarantees, letters of credit and undrawn loan commitments. The Group issues guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and — under IFRS 9 — an ECL provision. The premium received is armotised over the period of the guarantee.

Bank guarantees (payment guarantees) are not recognised at fair value on initial recognition. The premium received on such liabilities is recognised under IFRS 15 and amortised over the life of the guarantee. Impairment is recognised in accordance with IFRS 9.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks and banking groups. Liabilities due to other banks are carried at amortised cost.

Customer accounts. Customer accounts are represented by current/settlement accounts and term deposits and are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

Promissory notes issued. Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, they are 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/(losses) arising from early retirement of debt.

Bonds issued. Bonds issued represent amounts attracted from Eurobonds issue and bonds issued on domestic market. Issued Eurobonds and bonds issued on domestic market carry a coupon and are redeemable on a specific date. Bonds issued are carried at amortised cost. If the Group repurchases its bonds issued, they are 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/(losses) arising from early retirement of debt.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments (including forwards and swaps on currency, securities, precious metals and interest rates; options; futures on commodities, currency and indexes) are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if:

a) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c) The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial instrument out of the fair value through profit or loss category.

Financial assets are classified based on the business model and SPPI assessments.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

Regular way transactions. Regular way transactions are purchases or sales of financials assets that require delivery of assets within the period generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognised or derecognised on the contractual settlement date which is the date when the asset is to be delivered to or by the Group. Regular way transactions are not recognised as derivatives because of the short duration of the commitment to deliver financial assets between the trade and settlement date.

Any changes in the fair value of the financial assets at fair value through profit and loss to be received during the period between the trade date and the settlement date is recognised in the income statement and for financial assets at fair value through other comprehensive income is recognised in other comprehensive income for financial assets purchased.

Income taxes. Income taxes have been provided for in the disclosed consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the balance sheet liability method. Deferred income tax is provided for all temporary differences arising between the tax base of assets and liabilities and their carrying amount for disclosed financial reporting purposes, unless the deferred income tax arises from the initial recognition of goodwill, an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at the tax rates that will be applied during the period when the asset is realized or the liability is settled, based on legislation that has come into force or has actually come into force at the reporting date.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associated companies and joint ventures, unless the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Insurance operations. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of the insurance event, the date of occurrence of the insurance event and the claim value in respect of it.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Gross insurance premiums written. Gross insurance premiums written, which the Group is contractually entitled to receive from the insured in relation to insurance contracts, are recognised when due from a policyholder. Specifically, the Group recognises premiums for the policies issued during the year and includes an estimate of premiums due but not yet received by the reporting date, less an allowance for cancellations. Premiums are shown before the deduction of commission. Gross insurance premiums written are recognised as result from insurance operations within losses net of gains from non-banking activities.

Provision for unearned premiums. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in-force as at the reporting date, calculated on a time apportionment basis. Provisions for unearned premiums are recognised as result from insurance operations within losses net of gains from non-banking activities.

Claims paid. Claims and claims handling expenses are charged to the consolidated statement of profit or loss and other comprehensive income as incurred based on the evaluated liability for compensation payable to policy-holders or third parties.

Loss provision. The loss provision represents the accumulation of estimates for ultimate insurance losses and includes the outstanding claims reserve ("OCR") and provision for losses incurred but not yet reported ("IBNR"). Estimates of the claims handling expenses are included in both the OCR and the IBNR.

The OCR is provided in respect of claims reported but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases as at and after the reporting date. IBNR is actuarially determined by the Group.

Deferred acquisition costs. Deferred acquisition costs ("DAC") are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include commission to agents for concluding agreements with corporate clients and individuals, commission and brokerage fee for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortised over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

Liability adequacy test. At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, the current best estimates of the future contractual cash flows and claims handling and maintenance expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income, initially by writing off DAC and by subsequently establishing a provision for losses arising from the liability adequacy tests (the unexpired risk provision). When performing the liability adequacy test, the Group uses a combination of its own as well as externally available statistics and also includes a security margin. Insurance receivables are included as part of this test.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Perpetual bonds. Due to undefined maturity and an option for non-cumulative cancellation of coupon payments (without occurrence of rights of investors for accumulation of unpaid coupons), the Group accounts for perpetual bonds as an equity instrument and as a Tier I eligible instrument for the purpose of Basel Capital Adequacy Ratio calculation. The Bank of Russia approved the inclusion of these subordinated bonds in the regulatory capital calculation of the Bank.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

The Group accounts for perpetual bonds denominated in the foreign currency in the amount of RR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in retained earnings.

Coupon payments may be cancelled or deferred in accordance with the terms of the notes. Transaction costs are recorded in retained earnings. At the moment the coupon under perpetual bonds becomes mandatory, it is recorded as a dividend declaration described below.

Share capital. Ordinary and preference shares, that are not redeemable and dividend payments are at the discretion of the management, are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Revenue recognition — sale of goods. Revenue is recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct are separately recognised, and any discounts or rebates on the contract price are generally allocated to the separate elements. When the consideration varies for any reason, minimum amounts are recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Interest and similar revenue and expense. The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset’s effective interest rate which was used to measure the impairment loss.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVTPL is recognised using the contractual interest rate in “Other interest income” in the consolidated statement of profit or loss.

Fee and commission income. Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example loan fees, credit rating, loan servicing.

Commitment fees received by the Group to grant loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after its origination.

Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time. Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

1 Basis of Preparation of Interim Disclosed Consolidated Financial Statements (continued)

Fee income from providing transaction services. Fees arising from negotiating or participating in the negotiation of a transaction for a third party — such as where the Group's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses — are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Customer loyalty programs. The Group offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. Cashbacks on plastic card transactions reduce fee and commission income.

Foreign currency translation. The functional currency of each consolidated entity of the Group is the currency of the primary economic environment in which each entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

Transactions in foreign currencies are initially recorded in the functional currency, translated into Russian Roubles at the rate of exchange at the date of the transaction.

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Bank of Russia at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the Bank of Russia, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy of the entity or one of its counterparties. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state and non-state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. These payments are included in staff expenses in consolidated profit or loss.

Government grants and government assistance. Government grants are recognized where there is reasonable assurance that the grant will be received and all the related conditions will be complied with. Where the grant relates to an expense item, it is recognized as income in the same periods as the respective expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Government loans provided at below market interest rates are recognized in accordance with IFRS 9. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the consolidated statement of financial position. This benefit is accounted for in accordance with IAS 20.

The Group considers subsidies an integral part of the contractual terms and treats them as part of a single contract flow under the loan in accordance with IFRS 9.

Amendments of the financial statements after issue. Any further changes to these disclosed consolidated financial statements require approval of the Group's Management who approved these disclosed consolidated financial statements for issue.

2 Critical Accounting Estimates and Judgements in Applying Accounting Policies

In the process of applying accounting policies, the management of the Group, in addition to accounting estimates, makes judgments and assumptions that affect the amounts reflected in the consolidated financial statements. Judgments and assumptions are made based on management experience and other factors, including expectations regarding future events that management believes are reasonable in the light of current circumstances.

In the process of applying the Group's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. Below are the most significant use of judgments and evaluations.

Impairment losses on financial assets. The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL (lifetime expected credit loss) basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of correlation between macroeconomic scenarios and economic inputs, and the effect on PDs, EADs and LGDs. Thus, the functional dependence of the level of defaults on macroeconomic factors is determined by evaluating the regression between the values of the default level and various transformations of this indicator taking into account macroeconomic factors such as GDP growth rate, growth rate of the agro-industrial complex, oil prices, inflation rate, etc.;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect fair reported values.

Leases — estimating the incremental borrowing rate. The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay'.

Leases — estimating the lease term. Some of the contracts are unlimited and are automatically prolonged if neither side sends a notice to the other party about the termination of the contract. Under certain lease agreements, the Group has an option to extend the lease of assets for an additional period of up to five years. The Group uses judgment to determine whether it has sufficient assurance that it will exercise the extension option. At the same time, the Group takes into account all relevant factors that give rise to an economic incentive to exercise the option to extend the lease.

2 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances and approved by the management of the Bank. A key assumption in the business plan is to obtain profits in subsequent financial years through widening of product range and client base.

3 Loans and Advances to Customers

In millions of Russian Roubles	**30 September 2023 (unaudited)**	**31 December 2022**
Loans to legal entities	**3 019 578**	**2 804 248**
- Loans to corporates	2 971 645	2 783 459
- Lending for food interventions	47 933	20 789
Loans to individuals	**562 095**	**589 549**
- Mortgage loans	403 639	403 533
- Consumer and other loans	158 456	186 016
Total loans and advances to customers at amortised cost (before impairment)	**3 581 673**	**3 393 797**
Allowance for ECL	(233 085)	(235 260)
Total loans and advances to customers at amortised cost	**3 348 588**	**3 158 537**
Loans to customers at fair value through profit or loss	22 169	19 285
Total loans and advances to customers	**3 370 757**	**3 177 822**

4 Customer Accounts

In millions of Russian Roubles	**30 September 2023 (unaudited)**	**31 December 2022**
State authorities		
- Current/settlement accounts	9 040	3 547
- Term deposits	418 854	303 249
Other legal entities		
- Current/settlement accounts	274 654	273 294
- Term deposits	1 102 855	1 119 862
Individuals		
- Current/demand accounts	392 348	296 573
- Term deposits	1 465 735	1 366 640
Total customer accounts	**3 663 486**	**3 363 165**

5 Principles of Aggregating Information in Interim Disclosed Consolidated Financial Statements

These interim disclosed consolidated financial statements provide aggregate information on the interim disclosed consolidated statement of financial position, interim disclosed consolidated statement of profit or loss and other comprehensive income of the Group as at 30 September 2023 and for nine months ended at that date.

Information disclosed in the interim disclosed consolidated statement of financial position

"Securities and derivative financial instruments" line includes information on trading securities, investment securities (including those pledged under repurchase agreements) and derivative financial instruments with positive fair value.

"Other assets" line includes information on assets classified as held for sale and other financial and non-financial assets of the Group.

"Other liabilities" line includes information on derivative financial instruments with negative fair value and Group's other financial and non-financial liabilities.

Information on revaluation reserve for premises and revaluation reserve for investment securities measured at fair value through other comprehensive income is presented in the summary consolidated statement of financial position collectively in one line item.

Information disclosed in the interim disclosed consolidated statement of profit or loss and other comprehensive income

"Gains less losses from financial instruments and at fair value through profit or loss, dealing in foreign currencies and precious metals, foreign exchange accounts translation" line includes information on the following gains and losses:

- From trading securities;
- From financial instruments and loans to customers at fair value through profit or loss;
- From derivative financial instruments;
- From dealing in foreign currencies, and foreign exchange translation gains and losses;
- From dealing in precious metals.

"Other net operating income" line includes the following information:

- Gains and losses from non-banking activities;
- Revenue and losses from insurance activities;
- Gains and losses from disposal of subsidiaries;
- Other operating income.

"Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax" line includes:

- Changes in fair value of debt securities measured at fair value through other comprehensive income net of tax;
- Realised revaluation reserve on debt securities (at disposal) net of tax;
- Changes in allowance for expected credit losses of debt securities at fair value through other comprehensive income net of tax.

During the period ended 30 September 2023 total comprehensive income did not include any income or loss that would not be reclassified to profit or loss in subsequent periods.