

Otkritie Bank: first half of 2020 Financial Results under IFRS

Otkritie banking group has published its Interim Condensed Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) for six months ended June 30, 2020, including report on review of AO PricewaterhouseCoopers Audit.

Mikhail Zadornov – President, Chairman of Otkritie Bank’s Management Board:

“In the first half of 2020, Otkritie bank and the companies of the group showed sustainable growth of assets and net income. The bank’s abundant liquidity cushion, high capital adequacy ratio and strong market positions make us confident in realization of our business growth strategy even during coronavirus pandemic spread.

We have increased the market share in all key lending segments, i.e. loans to individuals and legal entities. The growth rate of our corporate funds portfolio outpaced the market average.

The net income reported by the group is very close to the target level under the initial business plan for 6 months of 2020 despite the economy turmoil. The subsidiary companies of Otkritie bank, in particular Rosgostrakh insurance company, Otkritie Broker, Baltic Leasing, Otkritie non-state pension fund and Otkritie Asset Management company, made a strong impact in this result as their net profit reached the target level.

Our investments in IT infrastructure and remote channels helped us to mitigate sanitary and epidemiologic restrictions. More than 90% of all operations, including payment transactions of strong demand, are available in mobile and online banks.

Otkritie bank was the first bank in Russia, which offered support to SME customers, who suffered from the crisis more than others. The bank implemented support measures for individual clients, being among the first credit organizations on the market. These measures included credit holidays, materially reduced commissions on settlements and cash operations, zero compulsory payments and fees.

We are taking care of our employees’ safety. The majority of our colleagues, excluding those whose presence in office is essential, work in the remote mode. Since June the employees of the bank’s head office and service centers have been returning to the office gradually. The majority of points of sale across the country has been operating since May.

We are going to update our business plan and reshape our business model taking into account the current financial environment and try our best to smooth the consequences for our customers.

Otkritie bank and the Russian banking sector are stable. We consider that any crisis brings new opportunities for business development.”

Financial Highlights for the first half of 2020

Net profit of Otkritie group for the first half of 2020 amounted to RUB 14.8 billion.

Total capital adequacy ratio of the group (Basel III) comprised 14.7% as of June 30, 2020 (12.8% as of 2019 year-end). The group’s regulatory capital stood at RUB 383 billion as of June 30, 2020 (RUB 320 billion as of December 31, 2019).

The group’s **revenue** (operating income before impairment of assets) for the first half of 2020 comprised RUB 80.9 billion, up by 7% comparing with the same period of 2019 (RUB 75.3 billion). The net interest income growth was the main driver of the revenue growth.

The share of the key income sources of the group increased in the first half of 2020 and comprised 80% of revenue (74% at half year-end of 2019). Net interest income and net fee and commission income accounted for 45% and 15% of the revenue respectively. Operating results from pension and insurance businesses comprised 20% of the group’s revenue.

The group’s **net interest income** for the first half of 2020 amounted to RUB 36.7 billion, up by 19% comparing with the first half of 2019 (RUB 30.8 billion).

Otkritie bank's **net interest margin (NIM)**¹ stood at 2.9% for the first half of 2020. Otkritie bank's share in the group's net interest income amounted to 72% at half year-end of 2020.

The group's **net fee and commission income** for the first half of 2020 totaled RUB 12.0 billion, up by 5% comparing with half year-end of 2019 (RUB 11.4 billion). The greater volume of net fee and commission income came from settlements and cash operations (RUB 5.4 billion), brokerage (RUB 1.7 billion) and documentary operations (RUB 1.7 billion).

Operating results from insurance business for the first half of 2020 amounted to RUB 9.5 billion, up by 64% comparing with the first half of 2019. Insurance companies Rosgosstrakh and Rosgosstrakh-Life increased the amount of gross premiums by 26% comparing with the first half of 2019.

Operating results from pension business for the first half of 2020 amounted to RUB 7.0 billion, down by 8% comparing with the same period of 2019 due to the reduction of investment income.

In the first half of 2020, the group reported **net trading income** in the amount of RUB 0.9 billion. In the 2Q 2020, the bank received gains from operations with securities and foreign exchange in the amount of RUB 8.9 billion which allowed to mitigate the trading loss received in the 1Q 2020.

The group's **operating expenses** for the first half of 2020 increased by 4% comparing with the same period of 2019 and comprised RUB 48 billion. Payroll expenses accounted for 62% of the group's total operating expenses.

Key indicators of profit and loss statement

RUB billion

| | 1H'20 | 1H'19 | Change, % |
|---|-------------|-------------|--------------|
| Net interest income | 36.7 | 30.8 | 19% |
| Net fee and commission income | 12.0 | 11.4 | 5% |
| Net trading income | 0.9 | 11.6 | -92% |
| Operating results from insurance business | 9.5 | 5.8 | 64% |
| Operating results from pension business | 7.0 | 7.6 | -8% |
| Other income (expenses) | 14.8 | 8.1 | 83% |
| Revenue (operating income) | 80.9 | 75.3 | 7% |
| Operating expenses | - 48.0 | - 46.0 | 4% |
| Provisions on debt financial assets | - 11.4 | 15.9 | n/a |
| Other provisions | - 2.7 | - 8.8 | -69% |
| Taxes | - 4.0 | - 3.7 | 8% |
| Net profit | 14.8 | 32.7 | -55% |

Key financial ratios

| | 1H'20 | 2019 |
|----------------------|-------|-------|
| Return on equity | 6.3% | 12.3% |
| Return on assets | 0.9% | 1.9% |
| Net interest margin* | 2.9% | 2.8% |
| Cost-to-income ratio | 59.4% | 67.6% |

* Data of Otkritie bank on standalone basis

Balance Sheet Key Figures

As of June 30, 2020, Otkritie banking group's **total assets** grew by 3% and reached RUB 3,373 billion.

¹ Net interest margin (NIM) is calculated by dividing net interest income by average interest-bearing assets

The share of the banking business in the group's total assets accounted for 78% or RUB 2,616 billion as of June 30, 2020. The share of pension business in the total assets stood at 17% or RUB 589 billion. The share of insurance business in the total assets amounted to 5% or RUB 168 billion.

The assets' structure remained stable: the share of net loans continued to grow and comprised 41% of the group's assets or RUB 1,389 billion as of June 30, 2020 (38% or RUB 1,228 billion as of 2019 year-end). Investments in securities comprised 36% of total assets or RUB 1,228 billion, including pension and insurance businesses portfolios of RUB 588 billion. Cash and cash equivalents stood at 8% of the group's total assets or RUB 255 billion.

The group's **gross loan portfolio** grew by 12% and reached RUB 1,508 billion as of June 30, 2020.

Otkritie bank loan book growth outpaced the market indicators by 1.5 times, which allowed it to rank the seventh in terms of legal entities and individuals loan portfolio volumes holding 2.7% and 2.1% of the market respectively².

The group's loan portfolio of legal entities increased by 10% and amounted to RUB 1,089 billion as of June 30, 2020. The retail loan portfolio grew by 18% and totaled RUB 419 billion. As of June 30, 2020, the share of mortgage loans and consumer loans accounted for 47% and 45% of the group's gross retail loan portfolio respectively.

The **loan loss provision (LLP) ratio**³ stood at 7.9% as of June 30, 2020 (8.4% as of December 31, 2019). The share of problem loans⁴ reduced to 7.6% (8.4% as of 2019 year-end). The share of NPLs 90+ comprised 4.2% as of June 30, 2020 (3.8% as of December 31, 2019). Problem loans and NPL coverage ratios remained at a high level of 103% and 186% respectively as of June 30, 2020.

Customer deposits and accounts are the core source of the group's funding structure accounting for 67% of total liabilities and comprising RUB 1,928 billion as of June 30, 2020, having increased by 6% since the beginning of the year.

As of June 30, 2020, the share of individuals amounted to 53% of customer funds or RUB 1,016 billion, up by 3% since 2019 year end. The funds of corporate customers made up 47% of customer funding or RUB 912 billion, up by 9% since 2019 year end. The term deposits accounted for 67%, while the current accounts comprised 33% of the customer funding respectively.

² The market share is calculated in accordance with the Central Bank of Russia methodology excluding National Clearing Centre data as of July 1, 2020

³ Excluding loans valued at fair value through profit and loss

⁴ Include individually impaired loans (Stage 3) and financial assets that are credit-impaired at the date of initial recognition (POCI)

Key indicators of financial position

RUB billion

| | 6M'20 | 2019 | Change, % |
|--|--------------|--------------|-----------|
| ASSETS | 3,373 | 3,264 | 3% |
| Gross loans | 1,508 | 1,341 | 12% |
| Gross loans to legal entities | 1,089 | 987 | 10% |
| Gross loans to individuals | 419 | 354 | 18% |
| Securities portfolio | 1,228 | 1,255 | -2% |
| LIABILITIES | 2,882 | 2,791 | 3% |
| Customer funding | 1,928 | 1,818 | 6% |
| Retail customer funding | 1,016 | 985 | 3% |
| Legal entities accounts and deposits | 912 | 833 | 9% |
| Provisions for pension funds' activities | 569 | 569 | 0% |
| Provisions for insurance activities | 95 | 88 | 8% |
| EQUITY | 491 | 473 | 4% |

Key financial metrics

| | 6M'20 | 2019 |
|-----------------------------|-------|------|
| Net loans to deposits ratio | 72% | 68% |
| NPL90+ ratio | 4.2% | 3.8% |
| NPL90+ coverage ratio | 186% | 219% |
| The share of problem loans* | 7.6% | 8.4% |
| Problem loans* coverage | 103% | 100% |
| Provisioning ratio | 7.9% | 8.4% |

* Stage III and loans impaired at the date of initial recognition

Consolidated financial statements as of June 30, 2020 are available at ir.open.ru.