

SPPI testing methodology

1. Terms and definitions

SPPI test – verification of financial assets for compliance with the requirements of IFRS 9 “Financial Instruments”.

Solely Payments of Principal and Interest (SPPI) criterion is a key requirement of IFRS that determines whether a financial asset can be carried at amortized cost or whether fair value accounting must be used.

A financial asset is a financial market instrument (bond)

Bond is a financial asset, information about which is contained on the Cbonds website; an object of the SPPI test.

Bond criteria are bond characteristics whose values are tested to ensure compliance with SPPI requirements.

SPPI requirements are those values of bond criteria at which the bond does not violate SPPI.

2. Purpose of the methodology

This document provides a set of criteria for conducting SPPI testing.

3. Objective of the project

Bonds of Russian issuers outstanding are being tested. Digital financial assets are not included in the testing. The list of relevant securities is available at the following [link](#).

Target users are employees of financial and accounting departments, analysts.

4. SPPI test results

The SPPI test result is one of the following:

- Positive: "Passed" with an indication of the stage at which the test is completed
- Negative: "Failed" with the reason for failure and the stage of completion

The table below shows the reasons for failing the SPPI test .

No.	Reason for failure
1	Cash flows other than principal and interest payments are present.
2	The structure of the security does not consist solely of principal and coupon payments.
3	The principal cash flows are contingent
4	A breach of the covenant results in cash flows that do not represent compensation solely for time and credit risk
5	The terms include embedded options that alter the principal amount and generate cash flows that are not solely interest payments
6	Redemption does not guarantee the return of a predetermined investment amount
7	Further analysis requires the involvement of a specialist
8	Interest cash flows are not predetermined
9	Cash flows depend on exchange rates

5. Algorithm for conducting the SPPI test

At each stage, a bond criterion (parameter) is analyzed. Once the analysis of a criterion reveals non-compliance with SPPI requirements, further analysis of subsequent criteria is not performed, and the test ends with a negative result.

5.1. Analysis of bond criteria according to the issue classification

Stage	The value of the classifier criterion	The result of the stage if the bond meets the criterion	Reason for failure to pass the test at this stage	The result of the stage if the bond does NOT meet the criterion	Example (if available)
1.1	Convertible	the test ends with a negative result	Cash flows other than principal and interest payments are present	Moving on to the next stage	Peresvet Bank Bonds, C01
1.2	Subordinated	the test ends with a negative result	Cash flows other than principal and interest payments are present	Moving on to the next stage	Alfa-Bank Bonds, ZO-500
1.3	Sukuk	the test ends with a negative result	The structure of the security does not consist solely of principal and coupon payments	Moving on to the next stage	VEB.RF Sukuk, PBO-002P-59PO
1.4	Inflation-linked principal	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	Russia Bonds, 52002
1.5	Structured products	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	Sber CIB Bonds, CIB-CO-EQ-001S-20
1.6	Payment-in-kind	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	
1.7	CDO	the test ends with a negative result	Cash flows other than principal and interest payments are present	Moving on to the next stage	
1.8	Securitization	the test ends with a negative result	Cash flows other than principal and interest payments are present	Moving on to the next stage	DOM.RF Mortgage Agent Bonds, 01
1.9	Mortgage	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	
1.10	Dual currency bonds	the test ends with a negative result	Cash flows depend on exchange rates	Moving on to the next stage	GTLK Bonds, ZO29-D
1.11	Restructuring	the test ends with a negative result	Cash flows other than principal and interest payments are present	Moving on to the next stage	Commercial real estate Garant-Invest Bonds, 002P-09

1.12	Other values*	Moving on to the next stage			
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*Other criteria values presented in the classifier are not decisive for passing the test, so there is no need to include their verification in the general algorithm, namely:

Securitization; ESG; Covered Bonds; Perpetual; Green Bonds; Amortizing Bonds; Guaranteed; Social Bonds ; Mortgage Bonds; Sustainability Bonds ; Inflation-linked coupon; Default possible; For qualified investors (Russia); Sustainability Linked Bonds; Short-term; Substitute bonds; Included in the Lombard list of the Central Bank of the Russian Federation; Transition Bonds; Commercial bonds; Non-market issues; Foreign bonds.

5.2. Analysis of underlying assets of structured products *

*This stage of the analysis applies to instruments that are structured in their economic essence (contain a reference to the underlying asset), but are not formally classified in the system as “Structured Products”.

Stage	The meaning of the underlying asset class criterion	The result of the stage if the bond meets the criterion	Reason for failure to pass the test at this stage	The result of the stage if the bond does NOT meet the criterion	Example (if available)
2.1	Fixed Income	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	
2.2	Commodities	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	
2.3	Credit	the test ends with a negative result	A breach of the covenant results in cash flows that do not represent compensation solely for time and credit risk	Moving on to the next stage	
2.4	Equity	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	
2.5	ETF	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	
2.6	FX	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	
2.7	Hybrid	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	
2.8	Other	the test ends with a negative result	The principal cash flows are contingent	Moving on to the next stage	

5.3. Analysis of other principal amount criteria other than covenants

Stage	Website section	Criterion	Condition	The result of the stage if the condition is met	The result of the step if the condition is NOT met	Reason for failure to pass the test at this stage	Example (if available)
3.1	Information on the issue	Capital Tier	Not an empty value	the test ends with a negative result	Moving on to the next stage	The terms include embedded options that alter the principal amount and generate cash flows that are not solely interest payments	
3.2	Early redemption conditions	Price offers	Not an empty value	Moving on to the next stage	the test ends with a negative result	Redemption does not guarantee the return of a predetermined investment amount	Gazprom, 4.95% 6feb2028, USD (29)
3.3	Offer type	Extension option	Corresponds to the meaning	the test ends with a negative result	Moving on to the next stage	Further analysis requires the involvement of a specialist	

5.4. Covenant Analysis

Stage	Meaning of covenants	The result of the stage if the bond meets the criterion	Reason for failure to pass the test at this stage	The result of the stage if the bond does NOT meet the criterion	Link to example
4.1	Rating trigger	the test ends with a negative result	A breach of the covenant results in cash flows that do not represent compensation solely for time and credit risk	Moving on to the next stage	RESO-Leasing Bonds, BO-05
4.2	Change of control	the test ends with a negative result	Further analysis requires the involvement of a specialist	Moving on to the next stage	TMK Bonds, 001P-04
4.3	Financial covenants	the test ends with a negative result	Further analysis requires the involvement of a specialist	Moving on to the next stage	Center-reserve Bonds, BO-02
4.4	Cross-default	the test ends with a negative result	Further analysis requires the involvement of a specialist	Moving on to the next stage	Omega Bonds, BO-01
4.5	Conditions for suspension of covenants	the test ends with a negative result	Further analysis requires the involvement of a specialist	Moving on to the next stage	
4.6	Other values*	Moving on to the next stage			

*Other covenant values do not lead to a negative test result, so there is no need to include their verification in the general algorithm, namely:

Designation of rights of subsidiaries; Limitation on activities; Limitation on indebtedness; Limitation on indebtedness of subsidiaries; Limitation on investments; Limitation on layering of debt obligations by ranks; Limitation on payments; Limitation on payments in relation to subsidiaries; Limitation on provision of security; Limitation on sale of assets; Limitation on sale of assets and leaseback; Limitation on mergers; Limitation on transactions with affiliates; Events of default.

5.5. Analysis of interest criteria

Stage	Website section	Criterion	Condition	The result of the stage if the condition is met	The result of the step if the condition is NOT met	Reason for failure to pass the test at this stage	Link to example
5.1	Cash flow	Coupon, %	the coupon rate is present in the entire cash flow	the test ends with a positive result	Moving on to the next stage		PERVOUR ALSKBANK Bonds, 001P-01

5.2	Cash flow parameters	Margin	the cash flow shows the margin	the test ends with a positive result	Moving on to the next stage		RZD Bonds, 001P-32R
5.3	Cash flow parameters	Bond type and coupon rate	The bond is discounted, the coupon rate is 0%	the test ends with a positive result	Moving on to the next stage		Alfa-Bank Bonds, 001P-14

5.6. Analysis of the variable coupon rate type

Stage	Variable Rate Type Value	The result of the stage if the bond meets the criterion	Reason for failure to pass the test at this stage	The result of the stage if the bond does NOT meet the criterion	Link to example
6.1	Rate change under special conditions	the test ends with a negative result	Interest cash flows are not predetermined	Moving on to the next stage	KVS - Saratov Bonds, 01
6.2	Variable rate type - Issuer decision	the test ends with a negative result	Interest cash flows are not predetermined	Moving on to the next stage	SFERA FINANSOV Bonds, BO-01P-02
6.3	Set by remarketing agent	the test ends with a negative result	Interest cash flows are not predetermined	Moving on to the next stage	
6.4	Fix to Float	the test ends with a positive result		Moving on to the next stage	Rosneft Bonds, 003P-02
6.5	Float to fix	the test ends with a positive result		Moving on to the next stage	TCC Bonds, class A4
6.6	Step-up/Step-down	the test ends with a positive result		Moving on to the next stage	
6.7	Floating rate	the test ends with a positive result		the test ends with a negative result*	TALK LIZING Bonds, 002P-04

* In this case, the reason for the SPPI test failure is indicated as "Further analysis requires the involvement of a specialist" and the test completion stage is "Other values", e.g. [Russian Post Bonds, 003P-07](#)