

Joint Stock Company “Mir Business Bank”

**Financial statements for the year ended 31 December 2020 and independent
auditor’s report**

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Independent auditor's report

To the sole stockholder and Board of directors MB Bank JSC

Report on the results of the audit of the annual financial statements

Opinion

We have audited the accompanying annual financial statements of JSC "MB Bank" (full name: Joint Stock Company "Mir Business Bank"; OGRN 1027739669726; located at: 9/1 Mashkov Street, Moscow, Russian Federation 105062), comprising:

- statement of financial position as at 31 December 2020
- statement of profit or loss and other comprehensive income for the year ended 31 December 2020,
- statement of changes in equity for the year ended 31 December 2020,
- statement of cash flows for the year ended 31 December 2020,
- notes to the financial statements for 2020, including summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying annual financial statements of JSC "MB Bank" (hereinafter - Credit organization) present fairly, in all material respects, the financial position of the Credit organization as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibility under those standards is further disclosed in the "Auditor's responsibility for the Audit of the Annual Financial Statements" section of this report. We are independent of the Credit organization in accordance with the Rules of independence of auditors and audit organizations, Code of professional Ethics of auditors, complying with International Code of Ethics for professional Accountants (including international independence standards), developed by the International Ethics Standards Board for Accountants and we have fulfilled our other responsibilities in accordance with these requirements of professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

Responsibility of the Management and members of Board of Directors of the Credit organization for the annual financial statements

Management is responsible for the preparation and fair presentation of these annual financial statements in compliance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the annual financial statements that are free from material misstatement, whether due to fraud or error

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

Members of the Board of directors are responsible for monitoring the preparation of the annual financial statements of the Credit organization.

Auditor's responsibility for the audit of the annual financial statements

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

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

- a) identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit organization's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimate, made by the management of the Credit organization, and related disclosures;
- d) conclude on the appropriateness of Credit organization's management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit organization to cease to continue as a going concern;
- e) evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the specified annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

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

Report on the procedures performed in accordance with the requirements of Federal Law No. 395-1 dd. 02.12.1990 "On Banks and Banking Activities"

The management of the Credit organization is responsible for compliance by the Credit organization with the mandatory ratios established by the Bank of Russia, as well as for compliance of internal control and organization of risk management systems with the Bank of Russia requirements.

According to Article 42 of the Federal Law dd. 2 December 1990 No. 395-1 "On Banks and Banking Activities" in the course of our audit of the annual financial statements of the Credit organization for 2020, we performed procedures with respect to:

- Credit organization's compliance with mandatory ratios established by the Bank of Russia as at 1 January 2021;
- compliance of the Credit organization's internal control and risk management systems in a Credit organization the Bank of Russia requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Credit organization's policies, procedures and methodologies with the Bank of Russia requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1) with respect to the Credit organization's compliance with mandatory ratios established by the Bank of Russia:

the mandatory ratios of the Credit organization as at 1 January 2021 were within the limits established by the Bank of Russia.

We have not performed any procedures with respect to accounting data of the Credit organization other than those we considered necessary to express our opinion on whether the accompanying annual financial statements of the Credit organization present fairly, in all material respects, its financial position as at 31 December 2020, and its financial performance and its cash flows for 2020, in accordance with the International Financial Reporting Standards;

2) with respect to compliance of the Credit organization's internal control and risk management systems in a Credit organization the Bank of Russia requirements:

a) in accordance with the requirements and recommendations of the Bank of Russia as at 31 December 2020, the Internal Audit Service of the Credit Organization is subordinate and accountable to the Board of Directors of the Credit organization, the Risk Department was not subordinated and not accountable to the divisions undertaking the respective risks;

b) as at 31 December 2020, the Credit organization had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, liquidity, and reputational risks, as well as regarding performance of stress-testing;

c) as at 31 December 2020, the Credit organization had a reporting system with regard to the Credit organization's significant credit, liquidity and reputational risks, and with regard to the Credit organization's capital;

d) frequency and sequential order of reports prepared by the Risk management and the Internal audit departments of the Credit organization in 2020 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Credit organization's internal policies. These reports included results of monitoring of effectiveness of the Credit Organization's respective methodologies and improvement recommendations;

e) as at 31 December 2020, the authority of the Credit Organization's Board of directors and executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Credit Organization. In order to control effectiveness and consistency of application of the Credit organization's risk management policies, during 2020 the Credit organization's Board of directors and executive bodies have regularly discussed reports prepared by the Risk department and the Internal audit service and have considered proposed corrective measures.

We have carried out the procedures with respect to the Credit organization's internal control and risk management systems solely to report on the findings related to compliance of the Credit organization's internal control and risk management systems with the Bank of Russia requirements.

Head of Bank Audit Department
and IFRS of Credit Institutions

Intercom-Audit LLC

(qualification certificate № 02-000030 dd. 15.11.2011,
without limitation as to period of validity)

E. V. Potkikh

Potkikh E.V.



Auditor:

Limited liability company "Intercom-Audit" (Intercom-Audit LLC), OGRN 1137746561787;
located at: room 6, office XV, floor 7, 2-13, Yamskogo polya 3d street, Moscow, Russian Federation,
125124

member of self-regulatory organization of auditors: Association "Sodruzhestvo",
ORNZ 11606074492

29 April 2021

Statement of Financial Position as at 31 December 2020

	Note	31 December 2020 year	as at 31 December 2019
Assets			
Cash and cash equivalents	5	29 090 117	14 835 396
Obligatory reserves with the Central Bank of the Russian Federation		3 398 990	2 090 534
Due from other banks	6	27 500 198	23 126 970
Loans to customers	7	3 781 505	2 881 040
Property, equipment and intangible assets	8	1 583 437	1 469 475
Other assets	9	81 888	11 574
Total assets		65 436 135	44 414 989
Liabilities			
Due to other banks	10	45 130 300	31 658 095
Customer accounts	11	7 731 031	2 047 649
Other liabilities	12	176 788	2 013 119
Subordinated loans	13	3 111 075	1 685 488
Deferred tax liabilities	20	30 797	42 880
Total liabilities		56 179 991	37 447 231
Equity			
Share capital	14	6 343 709	3 174 509
Share premium	14	77 336	75 060
Revaluation reserve for premises and equipment		124 344	122 226
Share premium		1 217 409	1 217 409
Retained earnings		1 493 346	2 378 554
Total equity		9 256 144	6 967 758
Total liabilities and equity		65 436 135	44 414 989

The financial statements were approved by management on 29 April 2021 and were signed on its behalf.

General Director

Chief Accountant

Statement of profit or loss and other comprehensive income for the year ended 31 December 2020

	Note	2020 thousand rubles	2019 thousand rubles
Interest income using the effective interest method	15	1 287 406	2 225 426
Interest expenses	15	(289 230)	(478 376)
Net interest income		998 176	1 747 050
Fee and commission income	16	108 057	195 194
Fee and commission expenses	16	(50 693)	(30 554)
Net fee and commission income		57 364	164 640
Net realised foreign exchange gain (loss)		202 577	213 262
(Net losses) net gains from foreign currency revaluation		128 430	(141 401)
Other operating income	17	25 536	6 702
Net income		1 412 083	1 990 253
Movements in allowances for expected credit losses	5,6,7,9,18	(27 371)	68 341
Operating expenses	19	(621 594)	(348 040)
Movements in provision for impairment of other non-financial assets	9	(26 172)	(17 304)
Profit before tax		736 946	1 693 250
Income tax expenses	20	(168 654)	(349 458)
Profit for the year		568 292	1 343 792

The statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes to, and forming part of, the financial statements.

JSC "MB Bank"**Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)**

Other comprehensive income (loss), net of income tax		
<i>Items that may not be reclassified subsequently to profit or loss:</i>		
Income (loss) from revaluation of property and equipment	2 647	(31 999)
Income tax attributable to other components of comprehensive income	(529)	6 400
<i>Total items that may not be reclassified subsequently to profit or loss</i>	2 118	(25 599)
Other comprehensive income (loss), net of income tax	2 118	(25 599)
Total comprehensive income for the year	570 410	1 318 193

General Director

Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the Notes to, and forming part of, the financial statements.

JSC "MB Bank"
Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)



The statement of changes in equity is to be read in conjunction with the Notes to, and forming part of, the financial statements.

JSC "MB Bank"
Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)



The statement of changes in equity is to be read in conjunction with the Notes to, and forming part of, the financial statements.

Statement of cash flows for the year ended 31 December 2020

	2020	2019
Cash flows from operating activities		
Interest received	1 256 459	2 244 760
Interest paid	(280 304)	(591 813)
Fee and commission received	105 333	200 876
Fee and commission paid	(50 693)	(30 382)
Gains less losses from foreign currencies	198 181	194 730
Other operating income	7 422	5 036
Operating expenses paid	(385 898)	(327 116)
Income tax paid	(139 745)	(334 490)
Cash flows from operating activities before changes in operating assets and liabilities	710 755	1 361 601
(Increase) decrease in operating assets		
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation	(1 308 456)	4 904 746
Net (increase) decrease in due from other banks	(4 322 623)	23 225 318
Net (increase) in loans to customers	(108 409)	(2 286 135)
Net decrease in other assets	(34 489)	(13 538)
Increase (decrease) in operating liabilities		
Net increase (decrease) in due to other banks	7 880 658	(40 286 652)
Net increase/(decrease) in customer accounts	5 436 225	(3 283 063)
Net decrease in other liabilities	(15 874)	(34 353)
Net cash flows used in (received from) operating activities	8 237 787	(16 412 076)
Cash flows from investing activities		
Purchase of property, equipment and intangible assets (Note 8)	(502 346)	(967 183)
Proceeds from sale of property and equipment (Note 8)	-	412
Net cash used in investing activities	(502 346)	(966 771)
Cash flows from financing activities		
Receipt of subordinated loan from shareholders	854 912	-
Repayment of finance lease liabilities	(6 995)	(4 255)
Net cash flows received from financing activities	847 917	(4 255)
Net increase in cash and cash equivalents	8 583 358	(17 383 102)

JSC "MB Bank"

Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)

Effects of changes in exchange rate of the Bank of Russia on cash and cash equivalents	5 671 382	(3 733 722)
Effect of changes in expected credit losses on cash and cash equivalents (see Note 5)	(3 855)	(3 836)
Cash and cash equivalents as at the beginning of the period (before expected credit losses allowance)	14 839 232	35 956 056
Cash and cash equivalents at the end of the period (net of ECL allowance) (Note 5)	29 090 117	14 835 396

General Director

Chief Accountant



The statement of cash flow is to be read in conjunction with the Notes to, and forming part of, the financial statements.

Notes to financial statements as at and for the year ended 31 December 2020 and for 2020

1. Principal activity of the Bank

Joint Stock Company "Mir Business Bank" (JSC "MB Bank") (the Bank) was registered on 30 January 2002 by the Central Bank of the Russian Federation (the CBR) under number 3396. The Bank has a license for carrying out banking operations in Russian Rubles and foreign currencies (with the right to attract funds from individuals through deposits), attracting funds to deposits and placing precious metals issued on 23 May 2018.

The principal activities of the Bank are banking transactions in the Russian Federation, namely, deposit taking, loan granting, cash and settlement operations as well as securities and foreign exchange transactions.

The Bank is registered at the following address: 9/1 Mashkov Street, Moscow, Russian Federation 105062. Postal and legal addresses are the same.

On 23 May 2018 the Bank became a member of the state deposit insurance system of the Russian Federation. The state deposit insurance system guarantees the payment of 100% reimbursement for deposits, the amount of which does not exceed RUB 1 400 thousand per individual, and/or individual entrepreneur, and/or legal entity, classified in accordance with the legislation of the Russian Federation as small enterprises, information about which is contained in a single register of small and medium-sized enterprises, in case of revocation of the bank's license or introduction of a moratorium on payments by the Central Bank of the Russian Federation.

As at 31 December 2020 and 31 December 2019, the Bank has a branch in Astrakhan (registered on 3 March 2011) located at the following address: 6a Bld. A, Lenin square, Kirovsk region, Astrakhan 414000.

As at 31 December 2020 and 31 December 2019, the Bank has an operating office in Kazan located at the following address: 47, Bolshaya Krasnaya St., Republic of Tatarstan, Kazan, 420015

As at 31 December 2020 and 31 December 2019, the Bank has no representative offices, front offices, additional offices, operational cash desks outside of the cash desk unit (OKVKU), cash and credit offices as well as separate and internal structural units in the territory of foreign states.

2. Operating Environment of the Bank

The Bank operates primarily in the Russian Federation.

The economy of Russia is demonstrating some characteristics inherent in to emerging markets. National economy is especially sensitive to the changes in oil and gas price. Legal, tax and administrative systems continue to develop and are subject to varying interpretations. Russian economy is still negatively affected by international sanctions against a number of Russian companies and citizens.

On December 31, 2019, China's first official message about the outbreak of a new coronavirus infection (COVID-19) appeared, which in a few months covered the whole world, including Russia. The World Health Organization announced the global COVID-19 pandemic on 11 March 2020. In response to the spread of COVID-19, the Russian Government, like many other governments, has implemented rigorous quarantine measures aimed at preventing the further spread of COVID-19, in particular measures related to:

- the closure of businesses and some government agencies;
- closing places where large groups of people gather, such as schools, sports facilities, bars and restaurants;
- bans on holding public events;
- the adoption of restrictive measures related to self-isolation and physical distancing of citizens;
- strengthening border controls;
- other restrictions.

Such measures disrupted the economic activities of many enterprises. The measures taken also affected consumer spending and asset prices. The pandemic has had a negative impact on the level of global and local economic activity.

As part of measures to support business, the Russian Government has provided for:

- a moratorium on bankruptcy;
- a moratorium on business inspections;
- credit holidays for business;
- interest-free loans for salaries;
- tax holidays;
- non-repayable subsidy;
- other measures.

After the relaxation of restrictions (in particular, the abolition of the self-isolation regime) in the summer of 2020, the Russian economy began to gradually recover. According to the Ministry of Economic Development, in December 2020, industrial production practically reached the level of the previous year. By the end of 2020 the Russian financial market was dominated by generally positive trends, despite the fact that there was a significant increase in the daily number of new cases of COVID-19. There was an increase in all industry indices (the largest growth was shown by oil and gas indices - by 23.5%, banks and finance - by 20.9%) on the stock market in the last two months of 2020, net purchases of domestic shares by foreign investors resumed. The increase in investor optimism, despite high incidence rates and the emergence of new strains of coronavirus, was associated with expectations of a gradual improvement in the epidemic situation in the world amid the readiness of the authorities of many countries to start large-scale vaccination of the population against COVID-19 and the expansion of incentives by the world's leading regulators.

The main changes in the economy in 2020 as a whole were as follows:

Significant depreciation of the Russian ruble against major foreign currencies and high volatility in the foreign exchange market was observed. The official rate of the US dollar, set by the Bank of Russia, increased from 61,9057 rubles per US dollar to 73,8757 rubles per US dollar p.a.. The official rate of the Euro, set by the Bank of Russia, increased from 69.3406 rubles per Euro to 90.6824 rubles per Euro p.a..

- There was an increased volatility in commodity prices and market share prices.

The key rate, which was 6.25% at the beginning of 2020, gradually decreased throughout the year and set at 4.25% by the end of the year.

Annual inflation was about 4,91%, which is higher than the Central Bank of Russia inflation target of 4% and higher than the annual inflation rate in 2019, which was 3,04% (December to December of the previous year).

Further development of the situation in the Russian economy will depend, inter alia, on measures taken by the Government of the Russian Federation and the Bank of Russia to overcome the negative consequences caused by coronavirus and foreign policy factors, as well as from measures aimed at preventing the spread of COVID-19 in Russia and in the world.

The above changes in the economic environment have an impact on the Bank's operations, in particular on the estimate of the expected credit losses.

It is currently not possible to assess the possible future current situation scenarios and impact thereof on the results of operations and the financial position of the Bank.

To obtain sufficient liquidity in a pandemic, the Bank attracted subordinated loans from the parent company, which allowed it to meet its obligations to customers on time. In accordance with the recommendations of the Bank of Russia, the procedures for updating customer information in terms of identity documents, as well as documents confirming the location of foreign citizens on the territory of the Russian Federation were postponed. For clients located outside the territory of the Russian Federation, it was allowed to temporarily submit documents on changes in information in electronic format. For the period of the pandemic for individuals, the fee for remote banking services has been canceled.

Besides, in 2020, as part of the application of the recommendations of the IASB and the European Banking Organization to correctly reflect the uncertainty associated with the COVID-19 pandemic, the Bank applied the following international practices:

- the approach to the calculation of macro corrections has been clarified;
- applied the level of losses in case of default in the conditions of an economic downturn.

As at 31 December 2020 the Bank has ceased to apply all the measures mentioned above.

The observed decrease in revenue in 2020 compared to 2019 is due to a significant decrease in the key interest rate. No decrease in demand was observed.

The management of the Bank believes that it takes all necessary measures for maintenance of financial stability of the Bank under these circumstances.

3. Basis of Preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Valuation principles of financial indicators

The accompanying financial statements are prepared according to the accounting principle at actual costs, except for land and buildings which carried using the revaluation model:

Functional and reporting currency

The functional currency of the Bank is the Russian Ruble (RUB) as, being the national currency of the Russian Federation, reflects the economic substance of the Bank's transactions and of the underlying events and circumstances relevant to them.

The Russian ruble is also the reporting currency of these financial statements.

These financial statements are presented in Russian rubles with figures rounded to the nearest thousand.

Use of estimates and judgments

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following sections of the accounting policies:

- -classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 is included in the following notes:

- impairment of financial instruments: determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL - Note 4.

Changes in accounting policies and presentation

The following amendments to standards and interpretations became effective for the Bank starting 1 January 2020, but did not have a significant impact on the Bank.

Amendments to the Conceptual framework for financial reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

The revised Financial Reporting Framework contains a new chapter on valuation, recommendations for reporting financial performance, improved definitions and recommendations (in particular, the definition of liabilities), and clarifications on important issues such as the role of governance, prudence and valuation uncertainty in preparing financial statements. reporting.

"Definition of Material" – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). These amendments clarify the definition of materiality and the application of this concept by incorporating definitional guidance that was previously provided in other IFRSs. In addition, the explanations for this definition have been improved. The amendments also ensure consistency in the use of the definition of materiality in all IFRSs. Information is considered material if omission, misstatement, or difficulty in understanding it could reasonably be expected to influence decisions made by the principal users of general purpose financial statements based on those financial statements that provide financial information about a particular reporting entity.

"Interest Rate Benchmark Reform" – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were caused by the replacement of basic interest rates such as LIBOR and other interbank offer rates (IBOR). The amendments provide temporary relief from the application of certain hedge accounting requirements to hedging relationships that are directly affected by the IBOR rate reform.

Change in ECL valuation based on current economic conditions

In order to objectively reflect the impact of the prevailing macroeconomic conditions and in accordance with the recommendations of the IASB, the Bank clarified the main approaches to assessing the level of expected credit losses. • The Bank has clarified its approach to calculating macro adjustments to the probability of default (PD) of borrowers. Macro-amendment models have been introduced, which more accurately reflect the changed economic conditions, updated forecasts of macroeconomic indicators have been used.

When calculating macro amendments for loans to legal entities, not only forecasts for the next year, but also forecasts for the next two years were taken into account. For loans to individuals (mainly short-term), forecasts for the horizon of one year were taken into account.

The measurement model of expected credit losses used by the Bank made it possible to promptly respond to all changes in the portfolio and take into account all the necessary information to accurately assess the level of risks and expected credit losses in 2020.

When assessing reserves for borrowers, the Bank used all available information on the financial condition of counterparties, the most relevant market indicators and took into account all the specifics of loans and borrowers.

At the end of 2020, based on up-to-date information on the state of the portfolio and improving macroeconomic conditions, the Bank resumed using the standard approach to calculating macro adjustments to the probability of default (PD) of borrowers, which was applied until 1 January 2020.

4. Summary of Significant Accounting Policies

Except for the changes disclosed in Note 3, the Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

Interest Income and Expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The "gross carrying amount of a financial asset" measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the financial asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see this Note below.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost .

Fee and commission income and expenses

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Financial assets and financial liabilities

Classification of financial instruments

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- 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 .

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- 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 .

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and

-
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered by the Bank includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, 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 the assets;
- how the performance of the portfolio is evaluated and reported to the Bank'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 its 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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk

associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate following the change of key rate set by the CBR. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Instead, the Bank considers these loans as in essence floating rate loans.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost. See Notes 10, 11, 12, 13.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition .

Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Modification of the financial assets and financial liabilities

Financial assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value. Any fees received as part of the modification are accounted for as follows:

fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the CBR key rate, if the loan agreement entitles the Bank to do so.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature) (applicable from 1 January 2018).

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate

the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Impairment

Refer to Note 21.

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments ;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than net investments in finance leases) on which credit risk has not increased significantly since their initial recognition (see Note 21).

Loss allowances for net investments in finance leases are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of expected credit losses allowance

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

financial guarantee contracts: present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Refer to Note 21.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and net investments in finance leases are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of a borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Loans to customers

"Loans to customers" line item in the statement of financial position includes:

- loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and

The Bank has no loan commitments measured at FVTPL.

For other loan commitments:

- The Bank recognises a loss allowance;

Property and equipment

Owned assets

Items of property and equipment are recognised at cost less accumulated depreciation and impairment losses except for the buildings recognised at revaluated cost as it is described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in other comprehensive income.

Depreciation and amortisation

Depreciation and amortisation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Depreciation rates applied to various items of property and equipment are as follows:

	<i>Depreciation rate,</i> %
Buildings	1 - 2
Furniture	5 - 20
Motor vehicles	12 - 35
Fixtures and fittings	15 - 50
Other	15 - 70

Operating leases

The Bank applies IFRS 16 since 1 January 2019. According to IFRS 16 the Bank recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Bank reflects depreciation expenses on assets in the form of right of use and interest expenses, relating to lease obligations.

At initial recognition, a lease liability is recognized at the present value of future lease payments discounted using the interest rate stipulated in the agreement, if such a rate can be easily determined, or if such a rate cannot be easily determined using an internal lessee borrowing rate for the lease term. Upon initial recognition lease liability is carried at amortised cost using the effective interest method.

Initially the right-of-use asset is recognized at cost, which includes the initial measurement of the lease liability, adjusted for lease payments at or before the date of the lease less the incentive lease payments received, the initial direct costs and cost estimates that the Bank will incur to restore the underlying asset to a condition that required in accordance with lease terms. Upon initial recognition right-of-use asset is amortised on a straight line basis. The depreciation period lasts until the earlier of the following two dates: the end of the useful life of the underlying asset or the end of the lease.

The Bank does not recognize a right-of-use asset and a lease liability under short-term lease agreements, in accordance with which the lease term is less than 12 months, and also under lease agreements for underlying assets with low cost. Lease payments under such agreements are recognized in profit or loss on a straight line basis over the duration of the agreement.

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 20 years.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Preference shares

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

Additional paid-in capital

Within additional paid-in capital contribution from shareholders is presented.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Payroll and related contributions

Wages, salaries, contributions to the state pension fund and social insurance fund, bonuses and non-monetary benefits are accrued as the services are provided by Bank's employees. Contributions to the state pension fund and social insurance fund are calculated as percentage to the current salary budget and recognized as personnel expenses at the period of salary accounting.

Bank has no other pension fund scheme as participating in Pension System of Russian Federation.

The Bank makes annual remuneration payments to the employees at the end of the year.

The Bank takes responsibility on making unused vacation payments to the employees of the credit organisation. Such liabilities are recognised in the statement of financial position within other liabilities and are simultaneously recognised in the statement of profit or loss and other comprehensive income as a part of vacations related to the reporting period and in retained earnings as a part of vacations related to the previous periods.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

Deferred tax

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or tax loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. The amount of deferred tax assets is analysed at the each reporting date and decreases to the extent to which utilisation of corresponding tax benefits is no more probable.

Provision:

The allowance is recorded in the statement of financial position in the case when the Bank has a legal or reasonable obligation as a result of the event and there is a probability that it will be necessary to divert funds to fulfill this obligation. If the effect is material, provisions are determined by discounting the expected future

cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

5. Cash and cash equivalents

	2020	2019
Cash on hand	1 052 269	1 714 256
Balances on accounts with the CBR (except for obligatory reserves)	1 607	1 774
Correspondent accounts and overnight deposits in banks:	28 040 096	13 123 202
of the Russian Federation	27 383 515	11 000 790
of the other countries	656 581	2 122 412
Allowance for expected credit losses	(3 855)	(3 836)
Total net cash and cash equivalents net of ECL allowance	29 090 117	14 835 396

Cash and cash equivalents are not credit-impaired.

As at 31 December 2020 the Bank has 3 counterparties (31 December 2019: 3 counterparties), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2020 is 27 380 777 thousand rubles (31 December 2019: 13 035 600 thousand rubles).

Information on the quality of cash and cash equivalents as at 31 December 2020 is presented in the following table.

as at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Minimum credit risk	1 607	-	-	1 607
Low credit risk	28 040 096	-	-	28 040 096
Allowance for expected credit losses	(3 855)	-	-	(3 855)
Total cash and cash equivalent assets	28 037 848	-	-	28 037 848

Information on the quality of cash and cash equivalents as at 31 December 2019 is presented in the following table.

as at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
Minimum credit risk	1 774	-	-	1 774
Low credit risk	13 123 202	-	-	13 123 202
Allowance for expected credit losses	(3 836)	-	-	(3 836)
Total cash and cash equivalent assets	13 121 140	-	-	13 121 140

The following table shows the analysis of changes in allowance for expected credit losses on cash and cash equivalents for 2020.

	Stage 1	Total
Balance as at 1 January 2020	(3 836)	(3 836)
ECL allowance	(19)	(19)
Balance as at 31 December 2020	(3 855)	(3 855)

JSC "MB Bank"**Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)**

The following table shows the analysis of changes in allowance for expected credit losses on cash and cash equivalents for 2019.

	Stage 1	Total
Balance as at 1 January 2020	(9 062)	(9062)
Net remeasurement of ECL allowance	5 226	5 226
Balance as at 31 December 2020	(3 836)	(3 836)

Information on the quality of due from other banks as at 31 December 2020 is presented below.

as at 31 December 2020	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total
Due from other banks					
Minimum credit risk	21 092 396	-	-	-	21 092 396
Low credit risk	6 424 529	-	-	-	6 424 529
Default assets	-	-	817 653	-	817 653
Allowance for expected credit losses	(16 727)	-	(817 653)	-	(834 380)
Total due from other banks	27 500 198	-	-	-	27 500 198

Information on the quality of due from other banks as at 31 December 2019 is presented below.

as at 31 December 2019	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total
Due from other banks					
Minimum credit risk	19 866 470	-	-	-	19 866 470
Low credit risk	3 261 875	-	-	-	3 261 875
Default assets	-	-	817 653	-	817 653
Allowance for expected credit losses	(1 375)	-	(817 653)	-	(819 028)
Total due from other banks	23 126 970	-	-	-	23 126 970

JSC "MB Bank"

Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)

The following table shows the analysis of changes in the allowance for expected credit losses on due from other banks for 2020 and 2019.

	2020			2019		
	Stage 1	Stage 3	Total	Stage 1	Stage 3	Total
Balance as at 1 January	(1 375)	(817 653)	(819 028)	(5 900)	(817 653)	(823 553)
ECL allowance	(15 352)	-	(15 352)	4 525	-	4 525
Balance at 31 December	(16 727)	(817 653)	(834 380)	(1 375)	(817 653)	(819 028)

As at 31 December 2020 the Bank has 4 counterparties (31 December 2019: 2 counterparties), whose credits balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2020 is 27 328 399 thousand rubles (31 December 2019: 22 866 426 thousand rubles).

7. Loans to customers

	2020	2019
Loans to legal entities	3 890 995	3 001 596
Loans to individuals	24 341	5 111
Gross loans to customers	3 915 336	3 006 707
Allowance for expected credit losses	(133 831)	(125 667)
Total net loans to customers	3 781 505	2 881 040

Information on the quality of loans to customers as at 31 December 2020 is presented below.

as at 31 December 2020	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total
Loans to customers					
Low credit risk	405 000	-	-	-	405 000
Medium credit risk	3 425 321	-	-	-	3 425 321
Default assets	-	-	85 015	-	85 015
Allowance for expected credit losses	(48 816)		(85 015)	-	(133 831)
Total loans to customers	3 781 505	-	-	-	3 781 505

Information on the quality of loans to customers as at 31 December 2019 is presented below.

as at 31 December 2019	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total
Loans to customers					
Low credit risk	340 000	-	-	-	340 000
Medium credit risk	2 597 863	-	-	-	2 597 863
Default assets	-	-	68 844	-	68 844
Allowance for expected credit losses	(56 823)		(68 844)	-	(125 667)
Total loans to customers	2 881 040	-	-	-	2 881 040

JSC "MB Bank"

Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)

The following table discloses the classification of loans to customers to the relevant group for assessment of the expected credit losses and the amount of the created allowance by class as at 31 December 2020 and as at 31 December 2019:

as at 31 December 2020	Stage 1	Stage 2	Stage 3	Purchased or originated credit- impaired	Gross amount	Allowanc e	Net amount
Loans to legal entities	3 805 979	-	85 015	-	3 890 994	(129 864)	3 761 130
Consumer loans	6 156	-	-	-	6 156	(365)	5 791
Mortgage loans	18 186	-	-	-	18 186	(3 602)	14 584
Total	3 830 321	-	85 015	-	3 915 336	(133 831)	3 781 505

as at 31 December 2019	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Gross amount	Allowance	Net amount
Loans to legal entities	2 932 752	-	68 844	-	3 001 596	(125 008)	2 876 588
Consumer loans	446	-	-	-	446	-	446
Mortgage loans	4 665	-	-	-	4 665	(659)	4 006
Total	2 937 863	-	68 844	-	3 006 707	(125 667)	2 881 040

JSC "MB Bank"**Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)**

The following table shows the analysis of changes in allowance for expected credit losses on loans to customers for 2019.

	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total
Other legal entities and entrepreneurs:					
Provision as at 1 January 2020	101 433	-	82 536	-	183 969
Contributions to the allowance / (Recovery of the allowance during the year due to the issue or repayment	(45 270)	-	(9 485)	-	(54 755)
Unwinding of discount	-	-	(4 207)	-	(4 207)
Provision on loans to legal entities and individuals as at 31 December 2020	56 163	-	68 844	-	125 007
Loans to individuals:					
Provision as at 1 January 2020	762	-	-	-	762
Contributions to the allowance / (Recovery of the allowance during the year due to the issue or repayment	(103)	-	-	-	(103)
Provision on loans to individuals as at 31 December 2020	659	-	-	-	659
Total expected credit loss allowance for loans to customers as at 31 December 2020	56 822	-	68 844	-	125 666
Total contributions to the provisions/Provision recovery during the period	(45 373)	-	(9 485)	-	(54 858)

Effect from changes in estimates as at 31 December 2020 and 31 December 2019

Changes in previously given estimates could affect the loan impairment allowance. For example, to the extent that net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2020 would be 37 611 thousand rubles lower/higher (31 December 2019: 28 766 thousand rubles lower/higher).

The approach used by the Bank to determine allowance for expected credit losses at 31 December 2020 is disclosed in Note 21.

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8. Property, Equipment and Intangible Assets

2020	Land	Building	Property under finance lease	Equity investments in real estate	Office and computer equipment	Intangible assets	Total
Actual costs/ Remeasured value							
Balance as at 1 January 2020	15 232	256 284	223 709	952 377	46 684	18 861	1 513 147
Additions in 2020	39 237	355 903	-	91 872	4 590	10 744	502 346
Revaluation for 2020	(18 937)	(168 662)	-	-	-	-	(187 599)
Disposals in 2020	-	-	(202 584)	-	-	-	(202 584)
Impairment for 2020	-	-	10 358	-	-	-	10 358
Balance as at 31 December 2020	35 532	443 525	31 483	1 044 249	51 274	29 605	1 635 668
Accumulated depreciation							
Balance as at 1 January 2020	-	-	3 721	-	33 942	6 009	43 672
Amortisation and depreciation for 2020	-	8 449	7 360	-	6 439	4 824	27 072
Disposals in 2020	-	-	(10 064)	-	-	-	(10 064)
Revaluation write-offs	-	(8 449)	-	-	-	-	(8 449)
Balance as at 31 December 2020	-	-	1 017	-	40 381	10 833	52 231
Carrying amount as at 31 December 2020	35 532	443 525	30 466	1 044 249	10 893	18 772	1 583 437

2019	Land	Building	Property under finance lease	Equity investments in real estate	Office and computer equipment	Intangible assets	Total
Actual costs/ Remeasured value							
Balance as at 1 January 2019	15 200	292 499	-	-	40 291	12 431	360 421
Additions in 2019	-	-	234 067	952 377	8 363	6 430	1 201 237
Disposals in 2019	-	-	-	-	(1 970)	-	(1 970)
Revaluation for 2019	32	(36 215)	-	-	-	-	(36 183)
Impairment for 2019	-	-	(10 358)	-	-	-	(10 358)
Balance as at 31 December 2019	15 232	256 284	223 709	952 377	46 684	18 861	1 513 147
Accumulated depreciation							
Balance as at 1 January 2019	-	-	-	-	31 578	3 668	35 246
Amortisation and depreciation for 2019	-	5 850	3 721	-	4 105	2 341	16 017
Disposals in 2019	-	-	-	-	(1 741)	-	(1 741)
Revaluation write-offs	-	(5 850)	-	-	-	-	(5 850)
Balance as at 31 December 2019	-	-	3 721	-	33 942	6 009	43 672
Carrying amount as at 31 December 2019	15 232	256 284	219 988	952 377	12 742	12 852	1 469 475

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2020 (2019: nil).

Revalued assets

Fair value of the land and building is categorised into Level 3 of the fair value hierarchy.

At 31 December 2020 buildings are revalued based on the results of an independent appraisal performed by professional independent appraiser Expert center Normative LLC (as at 31 December 2019: FinanceGroup LLC which has appropriate qualification and professional experience in property appraisal of similar category with similar location. Fair value has been calculated using market and income capitalisation approaches.

The following prices for real estate objects similar to the Bank's real estate have been used in income capitalisation approach:

Cost per 1 square meter, RUB th.	Minimum price	Maximum price
Land in Astrakhan	12 976	17 066
Building in Astrakhan	30 837	73 333
Building in Moscow (Mashkova st.)	240 228	250 000
Building in Moscow (Prechistenka st.)	362 958	467 321
Building in Kazan	121 483	190 401

The following adjustments were applied in the market approach:

	Minimum	Maximum
Adjustment for bargaining	-10,39%	-15,17%
Adjustment for location	0,22%	-25,63%
Adjustment for distance from metro station	0%	10,0%
Adjustment for the line of the building	0%	13,0%
Adjustment for location	0%	10,0%
Adjustment for the general condition of the building	0%	15,0%
Adjustment for the state of interior decoration	0%	22,0%

As part of the income capitalisation approach, rent rates were:

Cost per 1 square meter, RUB th.	Minimum rent rate, RUB/m2/p.a. incl. VAT	Maximum rent rate, RUB/m2/p.a. incl. VAT
Building in Astrakhan	9 493	12 000
Building in Moscow (Mashkova st.)	21 000	29 001
Building in Moscow (Prechistenka st.)	45 000	48 090
Building in Kazan	15 004	19 579

The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external and internal sources of information.

As at 31 December 2020, the carrying amount of the land and buildings includes 27 997 thousand rubles of negative revaluation at fair value (31 December 2019: positive revaluation in the amount of 154 447 thousand rubles is included). As at 31 December 2020 total deferred tax asset in the amount of 5 994 thousand rubles was calculated on the revaluation of buildings at fair value and recorded in equity (as at 31 December 2019: deferred tax liability in the amount of 30 889 thousand rubles).

Changes in the estimates above could affect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the value of the buildings as at 31 December 2020 would be 13 306 thousand rubles lower/higher (31 December 2019: 7 689 thousand rubles).

The carrying amount of buildings as at 31 December 2020, if the buildings would not have been revalued, would be 483 097 thousand rubles (31 December 2019: 134 006 thousand rubles).

As at 31 December 2020, fully depreciated assets in the amount of 27 118 thousand rubles are in use (31 December 2019: 24 943 thousand rubles).

9. Other assets

	2020	2019
Financial assets		
Other unsettled transactions	31 266	31 266
Other	4	6
Allowance for expected credit losses	(31 266)	(31 266)
Total other financial assets	4	6
Non-financial assets		
Prepayment for goods and services	94 815	23 171
Income tax prepayment	25 772	-
Prepaid taxes (other than income tax)	7 851	-
Other	3 097	1 518
Other non-financial assets impairment provision	(49 651)	(13 121)
Total other non-financial assets	81 884	11 568
Total other assets	81 888	11 574

The table below discloses the changes in the expected credit loss allowance for other assets in 2020 and 2019:

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	-	-	(31 266)	(31 266)
Remeasurement of loss allowance	-	-	-	-
Balance as at 31 December 2020	-	-	(31 266)	(31 266)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2018	-	-	(34 998)	(34 998)
Remeasurement of loss allowance	-	-	3 732	3 732
Balance as at 31 December 2019	-	-	(31 266)	(31 266)

Changes in provision for other assets and other provisions for 2020 and 2019 may be presented as follows:

	2020	2019
Other non-financial assets impairment provision as at 1 January	(13 121)	(6 172)
Provision	(36 530)	(6 988)
Write-offs	-	39
Other non-financial assets provision as at 31 December	(49 651)	(13 121)

As at 31 December 2020, other assets included overdue fully provided receivables of 49 651 thousand rubles (31 December 2019: fully provided receivables of 13 121 thousand rubles).

10. Due to other banks

	2020	2019
Correspondent accounts and overnight placements of other banks	29 580 561	23 449 685
Short-term loans and deposits of other banks	15 549 739	8 208 410
Total due to other banks	45 130 300	31 658 095

As at 31 December 2020, the Bank has 5 counterparties (31 December 2019: 4 counterparties), whose accounts and deposits individually exceed 10% of equity. The gross value of these balances as at 31 December 2020 is 41 676 780 thousand rubles (31 December 2019: 28 006 898 thousand rubles).

There has been no breaches of the obligations related to the deposits and balances from banks during 2020 and 2019.

11. Customer accounts

	2020	2019
Legal entities		
Current/settlement accounts	6 743 386	1 820 335
Term deposits	929 352	196 607
Liabilities on letters of credit	900	-
Individuals		
Current/settlement accounts	42 905	16 468
Term deposits	14 387	13 948
Unpaid transfers	-	179
Deposits for safety deposit boxes	101	112
Total customer deposits	7 731 031	2 047 649

As at 31 December 2020, the balances of 10 major customers (groups of related customers) amount to 7 704 798 thousand rubles which is equal to 99,7% of the total amount of current accounts and deposits from customers. Each such a customer's balance amounted to more than 133 000 thousand rubles (31 December 2019: The balances on Bank accounts of 10 major customers (groups of related customers) amount to 1 299 810 thousand rubles which is equal to 63.5% of the total amount of current accounts and deposits from customers. Each such a customer's balance amounted to more than 45 000 thousand rubles).

There have been no breaches of the obligations related to principal amount payments and interest payments or other breaches of obligations related to current accounts and deposits from customers during 2020 and 2019.

12. Other liabilities

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15. Interest income and expense calculated using the effective interest rate method

	2020	2019
Interest income using the effective interest method		
Due from other banks	1 071 252	2 065 300
Loans to customers	216 154	160 126
Total interest income using the effective interest method	1 287 406	2 225 426
Interest expenses		
Due to other banks	(245 273)	(456 017)
Subordinated loans	(12 591)	(8 757)
Customer accounts	(22 949)	(7 103)
Finance lease liabilities	(8 417)	(6 499)
Total interest expenses	(289 230)	(478 376)
Net interest income	998 176	1 747 050

Interest income for loans to customers for 2020 and 2019 doesn't include interest income for impaired loans to customers.

16. Fee and commission income and expenses

	2020	2019
Fee and commission income		
Commission on clearing and settlement transactions	43 691	98 171
Banknote Commission	6 661	30 219
Commission on cash transfers	24 990	41 245
Commission on opening and maintenance of bank accounts	7 888	7 301
Commission on guarantees issued	22 826	16 126
Other	2 001	2 132
Total fee and commission income	108 057	195 194
Fee and commission expenses		
Commission on clearing and settlement transactions and account maintenance	(37 337)	(1 985)
Operations with currency	(12 081)	(22 356)
Collection expense	-	(5 173)
Other	(1 275)	(1 040)
Total fee and commission expenses	(50 693)	(30 554)
Net fee and commission income	57 364	164 640

Commission incomes that are not an integral part of the effective interest rate on a financial asset or liability are recognised, depending on the type of service, either at the time or as the Bank fulfills its obligation to perform under the contract:

- a commission for cash and settlement operations, banknote transactions, money transfers, opening and maintaining bank accounts is charged in accordance with the rates depending on the type of transaction and is recognised as income at the time of the transaction;
- a commission on issued guarantees is paid by the client in advance and applies to income over the term of the relevant guarantee.

17. Other operating income

	2020	2019
Income from property lease	21 810	4 355
Fines and penalties received	3 726	415
Other	-	1 932
Total other operating income	25 536	6 702

18. Movements in allowances for expected credit losses

For the year ended 31 December 2020					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total
Cash and cash equivalents (Note 5)	19	-	-	-	19
Due from other banks (Note 6)	15 352	-	-	-	15 352
Loans to customers (Note 7)	(8 007)	-	20 007	-	12 000
Other financial assets (Note 9)	-	-	-	-	-
Total	7 364	-	20 007	-	27 371

For the year ended 31 December 2019					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired	Total
Cash and cash equivalents (Note 5)	5 226	-	-	-	5 226
Due from other banks (Note 6)	4 525	-	-	-	4 525
Loans to customers (Note 7)	45 372	-	9 486	-	54 858
Other financial assets (Note 9)	-	-	3 732	-	3 732
Total	55 123	-	13 218	-	68 341

19. Operating expenses

	2020	2019
Personnel expenses	235 000	200 774
Premises revaluation losses	181 797	-
Payroll related taxes	43 379	40 088
Depreciation of property and equipment, amortization of intangible and right-of-use assets (refer to Note 8)	27 073	16 017
Charity	25 863	1 337
Taxes other than income tax	24 385	13 637
Repair and maintenance	20 631	13 536
Security	15 625	9 949
Write-offs of inventories	7 348	10 641
Payment for the right to use intellectual property products	4 786	2 908
Short-term lease and low-value assets lease payments	4 745	630
Insurance	4 716	6 683
Communication	4 025	3 939
Other	22 221	27 901
Total operating expenses	621 594	348 040

20. Income Tax

	2020	2019
Current year tax expense	181 266	312 005
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(12 612)	37 453
Total income tax expense	168 654	349 458

In 2020 the applicable tax rate for current and deferred tax is 20 %(2019: 20%).

Reconciliation of effective tax rate for the year ended 31 December

	2020		2019	
Profit before tax	736 946		1 693 250	
Income tax at the applicable tax rate	147 389	20%	338 650	20%
Adjustment for income from transactions with related parties	6 346	1%	2 706	0%
Expenses not reducing tax base	14 919	2%	8 102	1%
Income tax expenses	168 654	23%	349 458	21%

Based on the results of the evaluation of a number of factors as well as on Russian tax law interpretation and previous experience the management of the Bank assumes that tax liabilities for all tax periods during which tax authorities may challenge completeness of payments to the state budget are recognised in full. This evaluation is based on measurable estimations and assumptions and may allow some professional judgements regarding future events influence. In a while the Bank may receive new information which may result in the necessity to change judgements regarding adequacy of current tax liabilities. Changes in the amount of tax liabilities will influence tax expense for the period during which these judgements have been changed.

Deferred tax assets and deferred tax liabilities

Temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2020 and 2019. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim deductions in future periods.

The deductible temporary differences as well as tax loss do not expire under current tax legislation.

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Movements in temporary differences during the years ended 31 December 2020 and 2019 are presented as follows.

2020	Balance at 31 2019	as December	Reflected in profit or loss	Reflected in in comprehensive income	other	Recognised in changes in equity	Balance as at 31 December 2020
Cash and cash equivalents		937	(166)		-	-	771
Promissory notes of other banks		2 090	(6 086)		-	-	(3 996)
Due from other banks		7 724	3 219		-	-	10 943
Loans to customers		(44 876)	(19 454)		-	-	(64 330)
Property, equipment and intangible assets		(74 420)	64 115		(529)	-	(10 834)
Other assets		8 992	7 241		-	-	16 233
Other liabilities		51 826	(37 167)		-	-	14 659
Tax loss carry-forwards		4 847	910		-	-	5 757
		(42 880)	12 612		(529)	-	(30 797)

2019	Balance at 31 2019	as December	Reflected in profit or loss	Reflected in in comprehensive income	other	Recognised in changes in equity	Balance as at 31 December 2019
Cash and cash equivalents		1 812	(875)		-	-	937
Promissory notes of other banks		(5 287)	7 377		-	-	2 090
Due from other banks		543	7 181		-	-	7 724
Loans to customers		3 010	(47 886)		-	-	(44 876)
Property, equipment and intangible assets		(33 597)	(47 223)		6 400	-	(74 420)
Other assets		8 323	669		-	-	8 992
Other liabilities		8 190	43 636		-	-	51 826
Subordinated loans		(296 409)	2 620		-	293 789	-
Tax loss carry-forwards		7 799	(2 952)		-	-	4 847
		(305 616)	(37 453)		6 400	293 789	(42 880)

Income tax recognised in other comprehensive income

The tax effects related to components of other comprehensive income for the years ended 31 December 2020 and 2019 are presented as follows:

	2020			2019		
	Amount Before tax ation	Income tax	Amount after tax- ation	Amount Before tax ation	Income tax	Amount after tax- ation
Fixed assets revaluation	2 647	(529)	2 118	(31 999)	6 400	(25 599)
Other comprehensive income	2 647	(529)	2 118	(31 999)	6 400	(25 599)

21. Risk management, internal control and corporate governance

The Bank was established as an open joint stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Board of Directors. The Board of Directors is responsible for overall governance of the Bank's activities.

Russian legislation and the Charter of the Bank establish lists of decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Board of Directors.

Internal control policies and procedures

Management of risk is applicable to financial risks (credit risk, liquidity risk, and market risks: currency risk, interest rate risk, other price risk), geographical, operating, reputational and legal risks.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorisation, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, management information, regulatory reports;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Bank developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documenting of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorisation of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank put in place a system of automated controls.

The internal control system in the Bank comprises:

- Board of Directors;
- Management board;
- Chief accountant;
- the Risk Department;
- the Security function;
- the Human Resource Function;
- the Internal Audit Service;
- the Internal Control (Compliance) Service;
- other employees, divisions and functions that are responsible for compliance with the established standards, policies and procedures, including:

-
- head of the branch in Astrakhan and heads of business-units;
 - the Financial Monitoring Function;
 - the head of the Legal department;
 - other employees/divisions with control responsibilities.

The main functions of the Internal Audit Service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures;
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents of the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks) and completeness of application of these documents;
- audit of reliability of internal control system over automated information systems;
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents of the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks) and completeness of application of these documents;
- audit of applicable methods of safekeeping the Bank's property;
- assessment of economic reasonability and efficiency of operations and other deals;
- audit of internal control processes and procedures;
- audit of the Internal Control Service and Risk Department.

The Internal Control Service conducts compliance activities focused primarily on non-compliance with laws and regulatory risks faced by the Bank.

The main functions of the Internal Control (Compliance) Service include the following:

- identification of compliance risks and regulatory risks;
- monitoring of events related to regulatory risks, including probability of occurrence and quantitative assessment of their consequences;
- monitoring of regulatory risks;
- preparation of recommendations on regulatory risks management;
- coordination and participation of design of measures to decrease regulatory risks;
- monitoring of efficiency of regulatory risks management;
- participation in preparation of internal documents on regulatory risks management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest;
- identification of conflicts of interests in business activities of the Bank and its employees, participation in internal documents design aimed at their mitigation;
- analysis of dynamics of clients' complaints;
- analysis of economic reasonableness of outsourcing agreements with suppliers;
- participation in interaction with authorities, self-organised organisations, associations and financial market participants.

Compliance with Bank's standards is supported by a program of periodic reviews undertaken by the Internal Audit Service. The Internal Audit Service is independent from management and reports directly to the Board

of Directors. The results of the Internal Audit Service reviews are discussed with the employees of the relevant departments. The results of reviews are communicated to the Board of Directors.

Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 *On Banks and Banking Activity*, Direction of the CBR dated 1 April 2014 No. 3223-U *On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation*, establish the professional qualifications, business reputation and other requirements for members of the Board of Directors, Management Board, Heads of the Internal Audit Service, Internal Control Service and the Risk Department and other key management personnel. All members of the Bank's governing and management bodies meet these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management function and internal control systems, including requirements related to the Internal Audit Service, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Policies and procedures of risk management

Management of risk is applicable to financial risks (credit risk, liquidity risk, and market risks: currency risk, interest rate risk, other price risk), geographical, operating, reputational and legal risks.

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Policy and procedures for risk management are reviewed on a regular basis for the purpose of reflection of changes in the market, offered bank products and services and emergent best practice. The Bank has developed a system of reporting on significant risks and capital.

As at 31 December 2020, the Bank's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Bank's significant risks, was approved by the authorised management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The Board of Directors has responsibility for appropriate functioning of the controlling system of the risk management, overseeing the management of key risks and approving its risk management policies and procedures as well as approving large deals.

The Credit Committee sets limits for operations exposed to risk in accordance with certain policies on the Bank's risk management.

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the General Director and to the Board of Directors. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

The Board of Directors and management bodies of the Bank have responsibility for controlling the Bank's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the view of controlling effectiveness of the Bank's risk management procedures and their consistent application the Board of Directors and management bodies of the Bank periodically receive reports prepared by the Internal Audit Service and the Risk Department, discuss the contents of these reports and consider proposed corrective actions.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled by the Credit Committee and the Management Board.

The main objectives of the Bank's risk management system are as follows:

- making proposals to authorised bodies on changes in limits restricting the level of banking risks;

The main objectives of the Bank's risk management system are as follows:

- making proposals to authorised bodies on changes in limits restricting the level of banking risks;
- control over compliance with limits set in the Bank (other restrictions aimed at banking risks mitigation/optimisation) and ensuring that information on breaches of the limits is timely communicated to the corresponding individuals in order prescribed by the Bank's internal documents;
- ensuring that the information on unfavourable factors which may result in the Bank taking excessive risks with proposals on immediate limits imposing which restrict the level of the risks taken is communicated to the Director General of the Bank;
- constant control over the level of the banking risks, developing and presenting to the Bank's management bodies proposals on measures aimed at changing of the risks level and structure including proposals for hedging or other operations aimed at mitigation or reallocation of the banking risks.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

In compliance with the Bank's internal documentation the risk management function and the Internal Audit Service frequently prepare reports, which cover the Bank's significant risks management. The reports include observations as to assessment of the effectiveness of the Bank's procedures and methodologies, and recommendations for improvement.

Stress-testing related to all significant types of risks is conducted by the Bank at least once a year. The results of the testing are considered and discussed by the Management Board.

Credit risk.

Credit risk is the risk of financial losses arising as a result of default by a borrower or counterparty of the Bank. The Bank has policies and procedures in place to manage credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by the Management Board.

Credit policy establishes:

- review and approval procedures loan applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- assessment methodology for the proposed collateral;
- loan documentation requirements;
- procedures for conducting continuous monitoring of loans and other credit risk bearing products.

Corporate loan applications are passed on to the Credit Department, which is responsible for the individual and corporate loan portfolio. Analysts' reports are based on a structured analysis, focusing on the customer's business and financial performance. The loan application and the report are then independently reviewed by the Risk Department by verifying resolution of the Credit Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of submissions by the Credit Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments, depending on the specific risks.

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

The Credit Department is also responsible for the reviewing loan applications from individuals. Information about borrower's income, data from NBCH, CBS web-sites, tax authorities, etc. is taken into account.

For the purpose of the risk mitigation the Bank sets standard unified requirements for borrowers. One of the methods of credit risk regulation is receipt of collateral for the funds placed by the Bank. Collateral comprises real estate, securities, vehicles and equipment, inventories. Several types of collateral may be accepted in order to mitigate credit risk.

The Bank applies similar credit policies in relation to credit related commitments based on procedures of transactions approval, risk limits, and monitoring procedures.

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

Credit risk – expected credit losses

Inputs into measurement of ECLs

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are derived from internally developed statistical models and other historical data, they are adjusted to reflect forward-looking information.

In accordance with IFRS 9 requirements, the Bank has developed a macroeconomic regression within its assessment of expected credit losses to account for macroeconomic trends.

Multiple linear regression was used for developing a macroeconomic regression for financial institutions. The following figures were used as independent variables: Brent oil price; GDP, GNP; unemployment level; refinancing rate; overdue debt to total debt for previous periods ratio.

The following variables were used within the macroeconomic regression for corporate loans: growth of Brent oil price, annual inflation growth.

Probability of default (PD) estimates are estimates at a certain date, which are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

To measure PD the Bank used the Shadow Rating Approach (SRA), which is based on development a statistical model allowing to measure the potential credit risk for a client using a set of qualitative and quantitative characteristics available to an external user. The calculation of parameters of the statistical model is based on the analysis of a sample of companies with external credit ratings. Thus, the model provides only an approximate estimate of the rating that could have been assigned to a certain entity. In case a counterparty is assigned an official credit rating by a leading international agency, such rating is of higher priority.

The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

thousand rubles	Item, under exposure as at 31 December 2020	Indicator PD
Cash and cash equivalents	29 090 117	Moody's default study
Due from other banks	27 500 198	Moody's default study

In developing this statistical model the Bank used information of the closest (related to the Russian Federation)

markets and publicly available information about companies. Business entities of the following countries were analysed (post-Soviet countries excluding Baltic countries and Turkmenistan): Russia, Kazakhstan, Ukraine, Georgia, Azerbaijan. Also, due to a limited number of business entities with a credit rating in CIS region, companies from BRICS group were considered: Brasilia, India, PRC and RSA

The sample included only companies having a long-term external credit rating assigned by one (or several) leading international agencies – S&P, Moody's, Fitch. Only global scale ratings were considered. In case several credit ratings were available, the maximum value was used for the statistical model.

In case a credit rating was assigned before 2017, the company has not been included into the sample as such rating is not relevant for 2017 financial figures.

The sample included only those companies that had published their full IFRS financial statements for 2017 in publicly available sources.

The credit rating is determined through comparing the probability of default obtained from the model with standard (fixed) PD intervals determined using the scale approved by the Bank for respective rating categories that are assigned based on available information.

Credit risk class (internal estimated rating)	External rating analogue
15 - 21	AAA- A-
6 - 14	BBB+ - B-
3 - 5	CCC- - CCC+
0 - 2	D - CC

The Bank has borrowers classified into Stage 1 with the credit rating of CC- - CC at the date of the loan issue which is due to country of the borrower's operation. There has been no significant increase of credit risk with regard to these borrowers.

LGD is the magnitude of the likely loss if there is a default. Three key methods may be used to measure LGD: economic LGD, statistical LGD and market LGD. Since the Bank does not have its own default statistics, it applied market LGD to measure expected credit losses.

The measurement of market LGD is performed based on available historical data and research of banks.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation and prepayments. The EAD of a financial asset will be the gross carrying amount at default.

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and

-
- backstop of 30 days past due.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade on initial recognition. The monitoring typically involves use of the following data.

Exposure to credit risk (due from other banks)

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- Data from credit reference agencies, press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Exposure to credit risk (corporate clients and individuals)

- Payment record – this includes overdue status as well as a range of variables about payment ratios
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and individuals.

Within the ECL calculation model used by the Bank each financial instrument is assigned with a certain ranking (Total score) varying from 0 to 21, with 0 being default and 21 being the highest credit rating possible.

The decrease of this ranking by 2 points is an indicator of a significant increase of credit risk and, consequently, leads to a change of the stage.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL (Stage 1) measurement to credit-impaired (Stage 3); and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenants;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, such as the CBR and Ministry of Economic Development, and selected private sector and academic forecasters.

In accordance with IFRS 9 requirements, the Bank has developed a macroeconomic regression within its assessment of expected credit losses to account for macroeconomic trends.

Multiple linear regression was used for developing a macroeconomic regression for financial institutions. The following figures were used as independent variables: Brent oil price; GDP, GNP; unemployment level; refinancing rate; overdue debt to total debt for previous periods ratio.

The following variables were used within the macroeconomic regression for corporate loans: growth of Brent oil price, annual inflation growth.

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 30 years.

Measurement of expected credit losses allowance

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2020. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	Stage 1	Total
Cash measured at amortised cost		
Rated from BBB- to BBB	1 607	1 607
Rated BB- to BB+	27 383 515	27 383 515
Having only internal credit risk ranking		
Rated BB- to BB+	13	13
Rated B- to B+	656 568	656 568
Allowance for expected credit losses	(3 855)	(3 855)
Carrying amount	28 037 848	28 037 848

	Stage 1	Stage 3	Total
Due from other banks at amortized cost:			
Rated BBB	21 092 396	-	21 092 396
Rated BB- to BB+	3 784 133	-	3 784 133
Having only internal credit risk ranking			
Rated B- to B+	2 640 396	-	2 640 396
Rated D	-	817 653	817 653
Allowance for expected credit losses	(16 727)	(817 653)	(834 380)
Carrying amount	27 500 198	-	27 500 198

	Stage 1	Stage 3	Total
<i>Loans to corporate clients measured at amortised cost</i>			
Having only internal credit risk ranking			
Rated B, BB- to B BB+	226 706	-	226 706
Rated B- to B+	3 579 274	-	3 579 274
Rated D	-	85 015	85 015
Allowance for expected credit losses	(44 849)	(85 015)	(129 864)
Carrying amount	3 761 131	-	3 761 131

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2019. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	Stage 1	Total
<i>Cash measured at amortised cost</i>		
Rated from BBB- to BBB	1 774	1 774
Rated BB- to BB+	10 998 262	10 998 262
Rated B- to B+	2 528	2 528
Having only internal credit risk ranking		
Rated B- to B+	2 122 402	2 122 402
Rated C- to C+*	10	10
Allowance for expected credit losses	(3 836)	(3 836)
Carrying amount	13 121 140	13 121 140

	Stage 1	Stage 3	Total
<i>Due from other banks at amortized cost:</i>			
Rated BBB	19 866 470	-	19 866 470
Rated BB- to BB+	3 142 608	-	3 142 608
Having only internal credit risk ranking			
Rated B- to B+	119 267	-	119 267
Rated D	-	817 653	817 653
Allowance for expected credit losses	(1 375)	(817 653)	(819 028)
Carrying amount	23 126 970	-	23 126 970

	Stage 1	Stage 3	Total
<i>Loans to corporate clients measured at amortised cost</i>			
Having only internal credit risk ranking			
Rated B- to B+	340 000	-	340 000
Rated CCC- to CCC+*	2 592 752	-	2 592 752
Rated D	-	68 844	68 844
Allowance for expected credit losses	(56 164)	(68 844)	(125 008)
Carrying amount	2 876 588	-	2 876 588

Concentration of credit risk

As at 31 December 2020, loans issued to 5 major borrowers amount to 3 890 995 thousand rubles which equals to 99,4% of the Bank's gross loan portfolio (31 December 2019: loans issued to 5 major borrowers amounted to 3 001 595 thousand rubles which equaled to 99,8% of the Bank's gross loan portfolio).

According to the CBR requirements the Bank calculates mandatory ratio of the maximum risk exposure ratio per borrower or group of related borrowers (ratio N6) which regulates (mitigates) the Bank's credit risk in respect of a borrower or group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital) and mandatory maximum large risks exposure ratio (N7), which regulates (mitigates) the Bank's credit risk in respect of large exposures of the Bank and sets the maximum ratio of the total large exposures of the Bank to the Bank's own funds (capital).

As at 31 December 2020 and 31 December 2019, the maximum N6 set by the CBR amounted to 25%, ratio H7 – 800%. N6 ratios calculated by the Bank as at 31 December 2020 and as at 31 December 2019 were within the level set by the CBR.

Maximum level of credit risk exposure in relation to credit related commitments as at the reporting date is presented in Note 21.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company supports the necessary level of liquidity for the purpose of ensuring constant availability of the monetary funds necessary for accomplishment of all liabilities as they fall due. The liquidity policy is reviewed and approved by the Management Board.

Liquidity risk management is characterised by liquid assets maintenance which exceed liabilities in the corresponding currency. The most liquid assets are cash and cash equivalents as well as amounts due from other banks.

The liquidity management policy comprises:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand;
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to the equity and liabilities maturing after one year.

The Bank was in compliance with these ratios as at 31 December 2020 and 2019.

The following tables present undiscounted cash flows from financial liabilities and credit related contingencies as at the maturity date which is earliest from those specified in the contracts. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment. Maximum amount of the guarantee in relation to financial guarantee contracts issued is recognised at the earlier period when the guarantee may be utilised.

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As at 31 December 2020	On demand	Less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Total amount of cash outflow	Carrying amount
Due to other banks	29 580 561	15 159 608	391 078	-	-	45 131 247	45 130 300
Customer accounts	6 787 292	448 880	498 108	6 356	-	7 740 636	7 731 031
Other financial liabilities	-	10 375	750	4 941	29 538	45 604	45 604
Subordinated loans	-	-	-	15 555	3 788 119	3 803 674	3 111 075
Credit related commitments	-	2 076 735	226 339	933 569	3 967	3 240 610	3 240 610
Total potential future payments for	36 367 853	17 695 598	1 116 275	960 421	3 821 624	59 961 771	59 258 620

As at 31 December 2019	On demand	Less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Total amount of cash outflow	Carrying amount
Due to other banks	23 449 685	8 224 070	-	-	-	31 673 755	31 658 095
Customer accounts	1 837 093	22 958	186 867	4 764	-	2 051 682	2 047 649
Other financial liabilities	1 720 056	5 909	16 255	11 716	494 854	2 248 790	1 970 810
Subordinated loans	-	-	-	8 427	2 043 525	2 051 952	1 685 488
Credit related commitments	-	34 670	384 854	1 823 856	-	2 243 380	2 243 380
Total potential future payments for	27 006 834	8 287 607	587 976	1 848 763	2 538 379	40 269 559	39 605 422

JSC "MB Bank"**Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2020.

As at 31 December 2020	On demand and less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Without maturity	Total
Assets						
Cash and cash equivalents	29 090 117	-	-	-	-	29 090 117
Obligatory reserves with the Central Bank of the Russian Federation	3 180 219	215 981	2 790	-	-	3 398 990
Due from other banks	24 704 082	2 796 116	-	-	-	27 500 198
Loans to customers	41 873	465 701	3 253 624	20 307	-	3 781 505
Property, equipment and intangible assets	-	-	-	-	1 583 437	1 583 437
Other assets	336	81 541	4	-	7	81 888
Total assets	57 016 627	3 559 339	3 256 418	20 307	1 583 444	65 436 135
Liabilities						
Due to other banks	44 740 009	390 291	-	-	-	45 130 300
Customer accounts	7 233 436	491 250	6 345	-	-	7 731 031
Other liabilities	20 852	86 794	4 941	64 201	-	176 788
Subordinated loans	-	-	-	3 111 075	-	3 111 075
Deferred tax liabilities	-	-	-	-	30 797	30 797
Total liabilities	51 994 297	968 335	11 286	3 175 276	30 797	56 179 991
Net liquidity gap	5 022 330	2 591 004	3 245 132	(3 154 969)	1 552 647	9 256 144
Cumulative liquidity gap	5 022 330	7 613 334	10 858 466	7 703 497	9 256 144	

JSC "MB Bank"**Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)**

The table below shows an analysis, by expected maturities, of amounts recognised in the statement of financial position as at 31 December 2019.

As at 31 December 2019	On demand and less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Without maturity	Total
Assets						
Cash and cash equivalents	14 835 396	-	-	-	-	14 835 396
Obligatory reserves with the Central Bank of the Russian Federation	1 881 481	20 905	188 148	-	-	2 090 534
Due from other banks	23 008 154	118 816	-	-	-	23 126 970
Loans to customers	62 621	558 354	126 130	2 133 935	-	2 881 040
Property, equipment and intangible assets	-	-	-	-	1 469 475	1 469 475
Other assets	11 574	-	-	-	-	11 574
Total assets	39 799 226	698 075	314 278	2 133 935	1 469 475	44 414 989
Liabilities						
Due to other banks	31 658 095	-	-	-	-	31 658 095
Customer accounts	1 859 194	183 698	4 757	-	-	2 047 649
Other liabilities	1 732 657	23 667	21 494	235 301	-	2 013 119
Subordinated loans	-	-	-	1 685 488	-	1 685 488
Deferred tax liabilities	-	-	-	-	42 880	42 880
Total liabilities	35 249 946	207 365	26 251	1 920 789	42 880	37 447 231
Net liquidity gap	4 549 280	490 710	288 027	213 146	1 426 595	6 967 758
Cumulative liquidity gap	4 549 280	5 039 990	5 328 017	5 541 163	6 967 758	

The management expects that cash flows from current accounts and deposits from customers may differ from those specified in the related contracts either because the management is authorised to manage cash flows or because the previous experience demonstrates that the terms of cash flows from financial liabilities may differ from those specified in contracts. Current account balances are included in the category "On demand" in the table above. However, withdrawal of cash from them usually take place within a longer period of time.

Market risk

The Company takes on exposure to market risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The market risk consists of exchange rate risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity instruments, which are exposed to general and specific market movements and changes in the degree of volatility of market rates and foreign exchange.

The main objectives of the market risk management is management and control that exposure to market risk was not beyond acceptable parameters, at the same time providing yield optimization, received under the accepted risk.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

The Executive Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, using of this approach does not allow to eliminate losses which exceed the limits set in case there are more significant changes in the market.

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Interest rate risk

The interest rate risk is a risk of change in fair value or future cash flows on the financial instrument owing to change of market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Such changes may increase the interest margin, but in the event of unexpected movements in interest rates interest margin may also decline.

The Bank is exposed to interest rate risk primarily in the result of its activities on loan granting at fixed interest rates amounted to sums and which maturity date differ from the amounts and terms of the funds raised at fixed interest rates.

The aim of the market risk management is to mitigate influence of the interest rates fluctuations which equal to net interest income. The Credit Committee sets interest rates for loans issued to legal entities and individuals.

The Bank performs interest rate stress-testing on a regular basis. In this case the evaluation of changes related to interest income and expenses is made only if interest rates have changed significantly. The risk related to early payment/change in interest rate (before the date specified in the contract) is also taken into account.

In case there are no hedging instruments the Bank usually tends interest rate positions to be equal.

Analysis of the Bank's interest rate risk is given in the table below. Interest-bearing assets and liabilities are reflected in the table at the carrying value and are grouped by contract terms of repricing or maturity dates, whichever date is earlier.

As at 31 December 2020	On demand	Less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Total
Interest-bearing assets						
Due from other banks	-	24 704 082	2 796 116	-	-	27 500 198
Loans to customers	-	41 873	465 701	3 253 624	20 307	3 781 505
Total interest-bearing assets	-	24 745 955	3 261 817	3 253 624	20 307	31 281 703
Interest-bearing liabilities						
Due to other banks	-	15 159 448	390 291	-	-	15 549 739
Current accounts from customers	29 805	-	-	-	-	29 805
Term customer accounts	-	446 144	491 250	6 345	-	943 739
Subordinated loans	-	-	-	-	3 111 075	3 111 075
Total interest-bearing liabilities	29 805	15 605 592	881 541	6 345	3 111 075	19 634 358
Interest rate gap as at 31 December 2020	(29 805)	9 140 363	2 380 276	3 247 279	(3 090 768)	11 647 345

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Financial Statements as at 31 December 2020 and for the year ended 31 December 2020 (in thousand rubles)

As at 31 December 2019	On demand	Less than 1 month	1 to 6 months	6 months to 1 year	More than 1 year	Total
Interest-bearing assets						
Due from other banks	-	23 008 154	118 816	-	-	23 126 970
Loans to customers	-	62 621	558 354	126 130	2 133 935	2 881 040
Total interest-bearing assets	-	23 070 775	677 170	126 130	2 133 935	26 008 010
Interest-bearing liabilities						
Due to other banks	-	8 208 410	-	-	-	8 208 410
Current accounts from customers	8 329	-	-	-	-	8 329
Term customer accounts	-	22 100	183 698	4 757	-	210 555
Subordinated loans	-	-	-	-	1 685 488	1 685 488
Total interest-bearing liabilities	8 329	8 230 510	183 698	4 757	1 685 488	10 112 782
Interest rate gap as at 31 December 2019	(8 329)	14 840 265	493 472	121 373	448 447	15 895 228

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2020 and 2019. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2020			2019		
	Average effective interest rates, %			Average effective interest rates, %		
	Rubles	USD	Other currencies	Rubles	USD	Other currencies
Interest-bearing assets						
Due from other banks	4,2%	-	0,6%	5,9%	-	6,0%
Loans to customers	8,1%	-	4,7%	12,0%	-	4,9%
Interest-bearing liabilities						
Due to other banks						
- Term deposits	1,7%	-	-%	4,2%	-	-%
Customer accounts						
- Current/settlement accounts	0,0%	-	0,0%	0,0%	-	0,0%
- Term deposits	3,3%	-	0,0%	4,7%	-	0,0%
Subordinated loans	-	-	0,5%	-	-	0,5%

Sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2020 and 2019, is as follows:

	2020	2019
bp parallel rise	84 547	116 581
bp parallel fall	(84 547)	(116 581)

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The Bank sets limits in relation to the level of the risk taken with a breakdown of currencies and in the whole as at the end of each day as well as within one day and controls compliance with them on a daily basis. As at 31 December 2020 and 31 December 2019, currency risk did not exceed the limits set.

A weakening of ruble exchange rate, as indicated below, against the following currencies at 31 December 2020 and 2019, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate fluctuations that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2020	2019
	thousands rubles	thousands rubles
20% appreciation of USD against RUB	(4 366)	2 324
20% appreciation of EURO against RUB	14 968	110 243
20% appreciation of other currencies against RUB	3 571	(206 989)

A strengthening of ruble against the above currencies at 31 December 2020 and 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

Operational risk

Operational risk is a risk of loss arising from mismatch of the nature and the volumes of the Bank's activities and/or requirements of the current legislation, internal procedures of banking operations and other transactions, breaches of them by the employees of the Bank or other individuals (due to lack of competence, unintended or intentional activities or inactivity), lack of functional opportunities (characteristics) of the information, technological and other systems or breaches in their functions as well as due to external circumstances. When the system of internal control stops functioning operational risks may damage reputation and have legal consequences or may lead to financial losses. When the system of internal control stops functioning operational risks may damage reputation and have legal consequences or may lead to financial losses.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank establishes internal controls procedures over operations conducted in its departments in order to mitigate operational risk. The system of control provides effective segregation of duties, access rights, procedures of approval, documentation and reconciliation, compliance with laws and regulations of the CBR, developing of plans aimed at maintenance of activities in emergency situations, staff training as well as assessment procedures including internal audit.

Control over operational risk is executed by the Risk Department. The Board of Directors approves general policies on the Bank's risk management as well as policies on any significant risk management. The Credit Committee sets limits upon operations exposed to risk in accordance with the principles specified by the Bank's risk management policies.

Legal risk

Legal risk is a risk of loss arising from non-compliance with legislation requirements and contracts, legal mistakes occurred under business activities, deficiencies of legislation (inconsistence of Russian legislation, lack of legal acts aimed at regulation of specific questions arising from the Bank's operational activity), breaches of legal acts and contractual terms by the Bank's counterparties.

The Bank develops standard templates of contracts, monitors changes in legislation and provides legal inspection of transactions and documents in order to mitigate legal risk.

Reputational risk

Reputational risk is a risk of a loss arising from decrease in the number of customers (counterparties) due to negative views about the Bank's financial position, the quality of the services rendered or nature of its activities. During its existence the Bank has proved its reputation to be one of the most stable and reliable banks in the Russian Federation due to timely fulfillment of its obligations, strong compliance with laws and business ethics.

The Bank pays great attention to the organisation of the full and reliable system of disclosures in media and on the Bank's web-site in order to eliminate negative views related to the Bank's financial stability.

The Bank performs the following activities on a regular basis:

- control over compliance by employees, related parties and ultimate owners with Russian legislation including legislation on banking privacy and internal control organisation over anti-money laundering and terrorism financing;
- monitoring of the goodwill of the clients and contractors, observing the know-your-client principle;
- customer surveys in order to analyse customers' preferences and identify deficiencies in the activities of the Bank and implementation of new proposals from customers;
- control over reliability of the accounting reports and other public information provided to shareholders, customers and counterparties, regulatory and supervisory authorities and other users.

There is a developed system of corporate management in the Bank, the main principals of which are stated in the Code of Corporate Management:

- Principle of ensuring rights and interests of a shareholder;
- Principle of effective management;
- Principle of segregation of duties among governing bodies and effective control;
- Principle of effective control over operational activities;
- Principle of transparent ownership structure and informational openness;
- Principle of legitimacy and compliance with ethics;

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- Principle of effective interaction with employees and fair remuneration;
 - Principle of social responsibility and development of partnership relations with interested parties.

The measures applied demonstrate low level of reputational risks the Bank is exposed to.

22. Contingencies and credit related contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or related to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Tax contingencies.

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012, new transfer pricing rules came into force in Russia. These rules provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated. However, it may be significant to the financial position and/or the overall operations of the Bank.

Credit related commitments

The Bank has credit related commitments to issue loans. These credit related commitments take the form of approved loans, credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures to credit related commitments and financial guarantees as it does for issue of loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

	2020	2019
Financial guarantees granted	2 645 610	1 879 369
Credit-related commitments	595 000	364 011
Total credit related commitments	3 240 610	2 243 380

The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank. The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

23. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability ('exit price') in an orderly transaction between the participants of the principal (or the most advantageous) market at the measurement date under current market conditions. But the price can be determined by direct observation or using a different valuation technique.

However, taking uncertainty and subjective judgements into account fair value should not be interpreted as realised under immediate sell of assets or liability transfer.

Fair value of financial assets and liabilities which are traded in the active market is based on market quotations and dealer prices. The Bank determines fair value of all other financial instruments of the Bank using other valuation techniques. Valuation methods such as the discounted cash flow model and models based on similar market transactions (market approach) or present value of the investee (income approach) are used to measure fair value of the assets and liabilities for which quoted market prices are not available.

Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Management believes that carrying amount of financial assets and liabilities of the Bank which are not recognised at fair value does not differ significantly from their fair value as at 31 December 2020 and 31 December 2019.

Fair value of the land and building is categorised into Level 3 of the fair value hierarchy. The main assumptions of fair value estimation are described in Note 8.

24. Related parties transactions

JSC “MB Bank”

Financial Statements as at 31 December 2020 and for 2020

(in thousands of Russian Rubles)

JSC “MB Bank”

Financial Statements as at 31 December 2020 and for 2020

(in thousands of Russian Rubles)

25. Capital management

The CBR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. The Bank calculates amount of capital in accordance with Provision of the CBR dated 4 July 2018 No. 646-P *On Methodology of Calculation of Own Funds (Capital) of the Credit Organisations (Basel III)* (Provision of the CBR No. 646-P).

As at 31 December 2020 and 2019, minimum levels of basic capital ratio (ratio N1.1), main capital ratio (ratio N1.2), own funds (capital) ratio (ratio N1.0) are 4.5%, 6.0% and 8.0%, accordingly. Starting from 1 January 2016, the Bank should comply with capital mark-ups: capital conservation mark-up, countercycle mark-up. As at 31 December 2020, minimum levels of capital mark-ups are 2.5%, 100%, accordingly (31 December 2019: 2.25% and 100%).

The Bank maintains capital adequacy at the level appropriate to the nature and volume of its operations.

In case values of capital adequacy ratios become close to limits set by the CBR and Bank's internal policy this information is communicated to the Management Board and the Board of Directors. The Bank is in compliance with the statutory capital ratios as at 31 December 2020 and 2019.

General Director

Chief Accountant