JSC MC Bank Rus

Financial statements for the year ended 31 December 2020 and Independent Auditor's Report

JSC MC Bank Rus

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JSC MC Bank Rus

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2020

Management is responsible for the preparation of the financial statements that present fairly the financial position of JSC MC Bank (the "Bank") as at 31 December 2020, and the related statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and of significant accounting policies and other notes to the financial statements (the "financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting policies and applying them consistently;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking all reasonably available measures to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Bank for the year ended 31 December 2020 were approved on 13 April 2021 by the Management Board of the Bank.

On behalf of the Bank's Management Board:

Sawaii Norihiro	Sezonova S.Y.
Chairman of the Management Board	**Deputy Chief Accountant**

13 April 2021
Moscow, Russian Federation

AO Deloitte & Touche CIS
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Moscow, 125047,
Russia

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Joint Stock Company MC Bank Rus:

Opinion

We have audited the financial statements of Joint Stock Company MC Bank Rus (the "Bank") which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 guarantee that an audit conducted in accordance with ISA 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 financial statements.

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

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

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

Report on procedures performed in accordance with the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

The Management of the Bank is responsible for compliance with the obligatory ratios established by the Bank of Russia, as well as for compliance of the Bank's internal control and risk management systems with the Bank of Russia requirements.

According to Article 42 of Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990 (the "Federal Law") in the course of our audit of the Bank's financial statements for 2020 we performed procedures with respect to the Bank's compliance with the obligatory ratios as at 1 January 2021 and compliance of its internal control and risk management systems with the Bank of Russia (the "CBR") requirements.

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

We report our findings below:

1. With respect to the Bank's compliance with the obligatory ratios: the obligatory ratios as at 1 January 2021 were within the limits established by the Bank of Russia.

   We have not performed any procedures with respect to the Bank's financial information other than those we considered necessary to express our opinion on whether the financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, its financial performance and its cash flows for 2020 in accordance with IFRS and Russian accounting standards;

2. With respect to compliance of the Bank's internal control and risk management systems with the CBR requirements:
   (a) in accordance with the CBR requirements and recommendations as at 31 December 2020 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors and the Bank's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBR;
   (b) as at 31 December 2020, the Bank had duly approved in accordance with the CBR requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;
   (c) as at 31 December 2020, the Bank had a reporting system with regard to the Bank's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Bank's capital;

(d) frequency and sequential order of reports prepared by the Bank's risk management and internal audit departments in 2020 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Bank's internal policies; these reports included the results of monitoring of the effectiveness of the Bank's respective methodologies and improvement recommendations;

(e) as at 31 December 2020, the authority of the Bank's Board of Directors and the Bank's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control the effectiveness and consistency of application of the Bank's risk management policies, during 2020 the Bank's Board of Directors and the Bank's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and considered proposed corrective measures.

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

Ekaterina Vladimirovna Ponomarenko
Engagement Partner

13 April 2021

Company: Joint Stock Company MC Bank Rus

Certificate of state registration No. 031.689 issued by the Moscow Registration Chamber on 10 October 2001.

Primary state registration number 1027739094250

Certificate of registration in the Unified State Register No. 77 007772881 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39 on August 21, 2002

Location: 117485, Moscow, 30/1 Obrucheva St., Bld. 2

Audit firm: AO Deloitte & Touche CIS

State Registration Certificate No. 018.482 issued by Moscow Registration Chamber on 30 October 1992.

Primary state registration number: 1027700425444

Certificate of Registration in the Unified State Register of Legal Entities: series 77 No. 004840299 of 13 November 2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-Regulated Organization of Auditors "Sodruzhestvo" (Association), ORNZ 12006020384.

JSC MC Bank Rus

Statement of Financial Position
as at 31 December 2020
(in thousands of Russian Rubles)

	Note	31 December 2020	31 December 2019
ASSETS:			
Cash and cash equivalents	5	3 009 449	852 667
Mandatory cash balance with the Central Bank of the Russian Federation		181 112	164 225
Due from banks	6	299 704	-
Loans to customers	7, 25	27 267 901	26 895 785
Property and equipment and intangible assets	8	505 638	547 647
Current income tax assets		25 719	2 972
Deferred tax asset	20	44 747	133 621
Other assets	9, 25	224 580	257 347
TOTAL ASSETS		**31 558 850**	**28 854 264**
LIABILITIES:			
Due to credit institutions	10	58 036	-
Due to customers	11, 25	25 424 933	23 398 461
Other liabilities and provisions	12, 25	395 107	452 543
TOTAL LIABILITIES		**25 878 076**	**23 851 004**
EQUITY:			
Share capital	14	2 823 977	2 823 977
Share premium	14	1 501 261	1 501 261
Perpetual subordinated debt	13	500 000	500 000
Retained earnings		855 536	178 022
TOTAL EQUITY		**5 680 774**	**5 003 260**
TOTAL LIABILITIES AND EQUITY		**31 558 850**	**28 854 264**

On behalf of the Bank's Management Board:

Sawaii Norihiro

Chairman of the Management Board

Sezonova S.Y.

Deputy Chief Accountant

13 April 2021
Moscow, Russian Federation

The notes on pages 10-89 form an integral part of these financial statements.

JSC MC Bank Rus

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2020
(in thousands of Russian Rubles)

	Note	2020	2019
Interest income	15, 25	3 927 305	3 644 625
Interest expense	15, 25	(1 673 192)	(1 537 335)
Net interest income		**2 254 113**	**2 107 290**
Change in allowance for impairment losses on interest bearing assets	5, 6, 7, 25	(351 502)	(291 168)
Net interest income after changes in allowance for impairment losses		**1 902 611**	**1 816 122**
Net gain on foreign currency transactions	25	1 901	2 750
Net gain on foreign currency revaluation		2 151	(1 471)
Fee and commission income	16, 25	193 770	187 305
Fee and commission expense	16, 25	(200 183)	(198 364)
Change in allowance for impairment losses on other assets and other provision	17	(8 514)	(6 267)
Other operating income	18, 25	85 274	68 880
Net non-interest income		**74 399**	**52 833**
Operating income		**1 977 010**	**1 868 955**
Operating expense	19, 25	(1 121 757)	(1 126 818)
Profit before taxation		**855 253**	**742 137**
Income tax expense	20	(177 739)	(157 131)
NET PROFIT		**677 514**	**585 006**
Other comprehensive income		-	-
COMPREHENSIVE INCOME		**677 514**	**585 006**

On behalf of the Bank's Management Board:

Sawaii Norihiro

Chairman of the Management Board

13 April 2021
Moscow, Russian Federation

Sezonova S.Y.

Deputy Chief Accountant

The notes on pages 10-89 form an integral part of these financial statements.

JSC MC Bank Rus

Statement of Changes in Equity
for the Year Ended 31 December 2020
(in thousands of Russian Rubles)

	Note	Share capital	Share premium	Perpetual subordinated debt	Retained earnings / (accumulated deficit)	Total equity
Balance as at 1 January 2019		**2 188 527**	**1 097 750**	**500 000**	**(906 984)**	**2 879 293**
Comprehensive income		-	-	-	585 006	585 006
Issuance of share capital	14	635 450	403 511	-	-	1 038 961
Financial aid from the principal shareholder	14	-	-	-	500 000	500 000
Balance as at 31 December 2019	**14**	**2 823 977**	**1 501 261**	**500 000**	**178 022**	**5 003 260**
Comprehensive income		-	-	-	677 514	677 514
Balance at 31 December 2020	**14**	**2 823 977**	**1 501 261**	**500 000**	**855 536**	**5 680 774**

On behalf of the Bank's Management Board:

Sawaii Norihiro

Chairman of the Management Board

Sezonova S.Y.

Deputy Chief Accountant

13 April 2021
Moscow, Russian Federation

МС Банк Рус

The notes on pages 10-89 form an integral part of these financial statements.

JSC MC Bank Rus

Statement of Cash Flows
for the Year Ended 31 December 2020
(in thousands of Russian Rubles)

	Note	2020	2019
Cash flows from operating activities:			
Interest received		3 529 352	3 592 073
Interest paid		(1 747 686)	(1 466 119)
Fees and commission received		192 614	182 971
Fee and commission income paid		(202 047)	(197 962)
Income on foreign exchange trading		1 901	2 750
Other operating income received		78 943	58 136
Operating expense paid		(1 024 643)	(1 052 596)
Income tax paid		(111 612)	(63 000)
Cash flows from operating activities before changes in operating assets and liabilities		**716 822**	**1 056 253**
Changes in operating assets and liabilities			
Net increase in mandatory cash balance with the Central Bank of the RF		(16 887)	(32 600)
Net increase in due from other banks		(300 000)	-
Net increase on loans to customers		(198 114)	(7 740 955)
Net decrease / (increase) in other assets		(261)	2 968
Net increase in due to credit institutions		58 000	-
Net increase in due to customers		2 090 049	4 867 708
Net (decrease) / increase in other liabilities		(16 143)	20 384
Net cash from / (used in) operating activities		**2 333 466**	**(1 826 242)**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	8	(153 659)	(75 113)
Proceeds on disposal of property and equipment		2 655	4 555
Net cash used in investing activities		**(151 004)**	**(70 558)**
Settlement of lease liabilities	12	(26 084)	(734)
Proceeds from issue of shares	14	-	1 038 961
Financial aid from the principal shareholder	14	-	500 000
Net cash (used in)/from financing activities		**(26 084)**	**1 538 227**
Effect of exchange rate changes on balances of cash held in foreign currencies		2 151	(1 471)
Net increase/(decrease) in cash and cash equivalents		**2 158 529**	**(360 044)**
CASH AND CASH EQUIVALENTS, beginning of period	5	**852 683**	**1 212 727**
CASH AND CASH EQUIVALENTS, end of the period	5	**3 011 212**	**852 683**

On behalf of the Bank's Management Board:

Sawaii Norihiro

Chairman of the Management Board

13 April 2021
Moscow, Russian Federation

Sezonova S.Y.

Deputy Chief Accountant

МС Банк Рус

The notes on pages 10-89 form an integral part of these financial statements.

(in thousands of Russian Rubles, unless otherwise indicated)

1. Operating activities

The Bank has been operating in the Russian Federation since 1994. The Bank is regulated by the Bank of Russia (the "CBR") and conducts its business under license No. 2789.

As at 31 December 2020 and 2019, the Bank had the following shareholding structure:

Item description	Country of operation	Interest/voting rights, % as at 31 December 2020	Interest/voting rights, % as at 31 December 2019	Type of activity
Es-Invest B.V.	***Netherlands***	68,7	68,7	*Financial holding*
MC Factoring Rus LLC	***RF***	31,3	31,3	*The activities on provision of consulting services and matters of financial intermediary services*

As at 31 December 2020 and 31 December 2019, Private Limited Liability Company Es-Invest B.V. was a holder of 100% of the voting shares in the Bank. Location: Beethovenstraat 514, 3rd floor, 1082 PR, Amsterdam, the Netherlands.

As at 31 December 2020 and 31 December 2019, the owners of the company Es-Invest B.V. were:

Item description	Ultimate owner	31 December 2020, %	December 31, 2019, %
Mitsubishi Corporation	Mitsubishi Corporation	100,0	85,0
Sinoco limited	A.S. Petrov	-	15,0

The Bank operates under the following licenses and permits:

- The banking license to perform operations with Russian Rubles and foreign currency (without the right to raise funds from individuals) (No. 2789 dated November 14, 2014);
- License to raise funds in rubles and foreign currency from individuals to deposits (No. 2789 dated November 14, 2014).

Starting from 8 June 2011 the Bank is a participant of the obligatory insurance system for bank deposits under No. 991.

The Bank is primarily engaged in the following operating activities:

- Retail banking - providing banking services to individuals, maintaining current accounts of individuals, providing car loans and other consumer loans, cash transfers without opening a current account, and transactions in foreign currencies.
- Corporate banking — opening and maintenance of current and settlement accounts, bank deposits, loans and other credit facilities, foreign currency operations, money transfers without the need to open bank accounts by order of individuals.

Retail banking (car loans) is considered as a strategic area of development of the Bank. As regards retail banking, the Bank is primarily engaged in providing car loans to individuals purchasing cars from authorized dealers. The size, structure and stability of the customer base are the factors of the Bank's success and have a significant impact on prospects for its future development.

1. Operating activities (continued)

In particular, interacting with Mitsubishi distributor and dealerships ensures a constant and growing customer base.

Mitsubishi offers cars in the segment of compact, medium and large off-road vehicles the demand for which is steadily growing among consumers in the Russian Federation and which have a predominant share in the Bank's loan portfolio (data according to the internal analysis of the retail loan portfolio of JSC MC Bank Rus for the 2020 calendar year). Based on the analysis for 2017-2020 carried out by the official Mitsubishi distributor LLC MMC Rus, more than 30% of retail buyers of Mitsubishi cars are customers of the Bank. The cooperation with the specified counterparties generates a stable demand for financial products and services offered by the Bank while ensuring a potential for the development of corporate lending and the services for settlements and cash services for legal entities.

The Bank continues to increase car loan volumes by entering the market of used cars sold through authorized dealer centers.

Development of the corporate business of the Bank involves maintaining the loyalty of the existing customers, attracting new target Banks of customers, building trust with them and maintaining long-term mutually beneficial cooperation. For corporate customers the Bank seeks to offer a full range of services including settlement and cash services, lending and placing temporary available funds on current accounts, term deposits.

The address of the Bank: Bld. 2, 30/1 Obrucheva St. The Bank does not have any branches. As at 31 January 2020, the Bank has 29 cash offices in Moscow, Moscow region and Saint Petersburg, as well as the office for transactions with valuables.

The list number of employees as at 31 January 2020 was 262 people, as at 31 January 2019 – 246 people.

The Bank has a credit rating of Expert RA Rating Agency - ruA-, “stable” forecast of 19 October 2020.

As at 31 December 2020, the share of liabilities due to related parties was 90% (31 December 2019: 91%) (Note 25).

The financial statements of the Bank are available from mcbankrus.ru.

2. Significant accounting principles

Statement of compliance. These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

The Bank maintains its accounting records in accordance with Russian Accounting Standards (“RAS”). These financial statements have been prepared from the statutory accounting records and have been adjusted to conform with IFRS.

These financial statements have been prepared assuming that the Bank is a going concern and will continue operation for the foreseeable future.

2. Significant accounting principles (continued)

Moreover, the management of the Bank is intended to continue to develop the business by implementing the designed strategy. See the *Recoverability of Deferred Tax Assets* section in note 3 for further information about the Bank's development plans.

These financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated.

Basis of preparation. These financial statements have been prepared on the historical cost basis.

Foreign currency exchange rates used to revalue foreign currency account balances are presented as follows:

	31 December 2020	31 December 2019
Exchange rate at the end of the period to RUB		
1 US dollar (USD dollar")	73,8757	61,9057
1 EUR	90,6824	69,3406

***Functional currency*.** Items included in the financial statements of the Bank are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is the Russian ruble (RUB). These financial statements are presented in Russian rubles. All values are rounded to the nearest thousand Rubles, except when otherwise indicated.

***Offsetting*.** Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of financial results unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Income and expense recognition. Income and expenses are accounted for on the accrual basis. This involves recognizing financial results of operations (income and expenses) as they are performed, rather than as respective cash (or cash equivalents) is received or paid. Income and expenses are recognized in the period in which they arise.

Net interest income. Interest income and expense for all financial instruments of the Bank are recognized in *Net interest income* as *Interest income* and *Interest expense* in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

2. Significant accounting principles (continued)

The calculation of the value of a financial instrument may include, for example, the following commissions:

- For a loan origination;
- Directly related to the acquisition of financial assets;
- For opening a credit line;
- For maintaining an open credit line;
- For prolongation of a loan (other agreement for the allocation of funds);
- Directly related to the attraction of financial liabilities;
- Other commissions directly related to lending;
- Subsidies – the amount of cash of a compensatory nature for reimbursement to the Bank of shortfall in income on loans issued by the Bank (except for state subsidies).

Where insignificant, transaction costs are charged to expenses on a one-off basis.

Where insignificant, other transaction income is charged to income on a one-off basis.

Transaction costs and other income related to car loans issued to individuals are treated as follows:

- The amount of the subsidies from the Ministry of Industry and Trade for short-term interest income on car loans of individuals for the reporting month is to be recorded on the last business day of the month.
- The subsidy of the distributor for car loans to individuals is calculated on a monthly basis and is subject to a one-time reimbursement by the Distributor in full for the entire term of the loan agreement. Being a significant source of income for the Bank, subsidies are included in the EIR for loans issued over a reporting month. These subsidies are recognized on the last business day of a month to amortize such loans using the effective interest method.
- Agency fees from insurance companies (in terms of other significant income), as well as agency fees to dealers (in terms of significant transaction costs) for car loans of individuals.
- Remuneration to the Bank from insurance companies for concluding CASCO contracts and similar for car loans to individuals are recorded at a time due to the uncertainty of their receipt at the date of recognition of the loan and the specifics of the calculation.

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECL)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECL in determining the future cash flows expected to be received from the financial asset.

***Fee and commission income/expenses*.** Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Bank's statement of profit or loss include among other things fees charged for servicing a loan.

Fee and commission expenses with regards to services are accounted for as the services are received.

2. Significant accounting principles (continued)

Financial assets. All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned,

Initially financial assets are measured at fair value, plus transaction costs. The exception is financial assets classified as measured at fair value through profit or loss (FVTPL). There were no financial assets at FVTPL as at the reporting date. Transaction costs that are directly attributable to the acquisition of financial assets classified as at FVTPL are charged directly to profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Bank uses the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI). Therefore, all financial instruments are subsequently measured at amortized cost.

For an asset to be classified and measured at amortized cost, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model was applied retrospectively to all financial assets recognized on the Bank's balance as at the date of initial application of IFRS 9. The entity determines the business model at the level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

At initial recognition of a financial asset, the Bank determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Bank has not identified a change in its business models.

2. Significant accounting principles (continued)

Reclassifications. If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. Changes in contractual cash flows are considered under the accounting policy described below.

Impairment. The Bank recognizes loss allowance for ECL on the following financial instruments that are measured at amortized cost:

- Cash and cash equivalents;
- Due from banks;
- Loans to customers;
- Other financial assets (accounts receivable);
- Unused credit lines (contingent credit-related commitments).

When calculating expected credit losses (ECL) the Bank applies various models and assumptions. To determine the most appropriate model for each type of instrument, as well as the assumptions used in these models (including assumptions related to key credit risk factors), management applies professional judgment.

ECL are recognized through a allowance for losses at an amount equal to:

- 12-month ECL (expected credit losses that result from default events on a financial instrument, that are possible within 12 months after the reporting date; Stage 1);
- Lifetime expected credit losses (the expected credit losses that result from default events on a financial instrument, that are possible within the expected life of a financial instrument; Stages 2 and 3).

The allowance for lifetime ECL is required to be recognized if the credit risk increased significantly since the initial recognition of a financial instrument. Criteria for assessing a significant increase in credit risk are described below. For all other financial instruments, ECL are measured at an amount equal to 12-month ECL.

ECL are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For unused credit lines, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

2. Significant accounting principles (continued)

For corporate lending, forward-looking information includes the future prospects of the car industry (car market value per annum), obtained from economic expert reports, financial analysts, governmental bodies, relevant think tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information (GDP growth, Industrial Production Index (IPI), interest rates, etc.). The Bank allocates legal entities to a relevant internal credit risk grade depending on their credit quality. For retail lending, the forecast information includes economic forecasts prepared by governmental bodies, such as the Ministry of Economic Development of the Russian Federation and the Bank of Russia, with regard to key macroeconomic indicators (unemployment and USD rate). The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; and
- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

Significant increase in credit risk. The Bank monitors all financial assets, issued credit obligations and financial guarantees which are subject to impairment requirements to assess whether there has been a significant increase in the credit risk since initial recognition. In case of a significant increase in the credit risk, the Bank will estimate the amount of the loss allowance on the basis of the lifetime ECL.

In assessing whether the credit risk of a particular financial instrument has increased significantly since initial recognition, the Bank compares the risk of default on that financial instrument at the reporting date (taking into account the remaining maturity of the instrument) with the expected risk of default (taking into account the remaining maturity) at the date of initial recognition of the instrument.

In its assessment the Bank uses reasonable and supportable information (quantitative and qualitative), taking into account historical and forecast data, the receipt of which is possible without incurring unreasonable costs and wasting time, on the basis of the Bank's previous experience and expert assessment of loans.

Considering that a significant increase in the credit risk since initial recognition is a relative amount, this change in PD, in absolute terms, would be greater for financial instruments with a lower initial PD than for financial instruments with a higher PD.

If payments under the agreement are overdue by more than 30 days, the Bank recognizes a significant increase in credit risk and assigns the asset to Stage 2 of the impairment model, i.e. the allowance for losses is measured using lifetime ECL. The Bank monitors all financial assets, issued loan commitments that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

2. Significant accounting principles (continued)

Credit-impaired financial assets. 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. Credit-impaired financial assets relate to Stage 3 of the impairment model. For corporate borrowers, a financial asset is credit-impaired where it is reclassified from Stage 1, as compared with the initial recognition

Definition of default. The definition of default is critical for determination of ECL. The definition of default is used when calculating the amount of ECL and when determining the base for calculation of the loss allowance (12-month ECL and ECL for the whole period), since default represents a component of a probability of default (PD) indicator and has impact on evaluation of ECL and identification of a significant increase in the credit risk.

The Bank considers the following events as a default:

- The borrower is overdue for more than 90 days on any material credit obligation to the Bank; or
- The borrower is unlikely to fully pay its credit obligations to the Bank.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The assessed information depends on the type of an asset. For example, in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate loans, the Bank monitors indicators (e.g. adverse changes leading to wearker solvency of the borrower's business; a potential bankruptcy or license revocation) while taking a particular focus on loans on the watch list. It is assumed that if there are doubts about the creditworthiness of a particular counterparty, the risk arises precisely in relation to this list of loans under supervision. For retail lending, the Bank considers the expectation of forbearance and payment holidays, credit scores and events such as job termination, employer liquidation or bankruptcy, as well as events such as insolvency, arrest or death of a borrower.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

2. Significant accounting principles (continued)

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors such as for example, after changing the conditions, the contractual cash flows include not only payments on the principal amount of the debt and interest; the counterparty has changed. The extent of change in interest rates, maturity, covenants are also analyzed.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition.

If the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

2. Significant accounting principles (continued)

The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; and
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss.
The exception is for the equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

2. Significant accounting principles (continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Write-off of assets. As a rule, loans and other financial assets are subject to write-off if they are overdue for more than 1 year, taking into account all partial repayments of overdue debt, and if the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is 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. A write-off constitutes a derecognition event.

The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains.

Presentation of allowance for ECL in the statement of financial position. Loss allowance for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- With respect to loan commitments and undrawn credit lines: as a allowance.

Financial liabilities. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Except where other measurement methods apply, all financial liabilities, including due to credit institutions, customer accounts and other financial liabilities, are initially recognized at fair value net of transaction costs.

Derecognition of financial liabilities. The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

2. Significant accounting principles (continued)

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. The Bank assumes that the terms of the liability differ materially if the discounted present value of the cash flows under the new terms, including commission payments less commission received, discounted at the original effective interest rate, differs by at least 10% from the discounted present value of the remaining cash flows under the original financial liability. If modification is not significant, the difference between: (1) the carrying amount of the liability before modification; and (2) the present value of the cash flows after the modification is charged to profit or loss as other income or expenses.

***Cash and cash equivalents*.** Cash and cash equivalents consist of petty cash, balances with banks, cash equivalents representing short term highly liquid financial investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value, as well as short-term interbank placements for the period up to 30 days. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

***Mandatory cash balances with the Central Bank of the Russian Federation*.** Mandatory cash balance with the Central Bank of the Russian Federation represent mandatory reserve deposits with the CBR that are not available to finance the Bank’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

***Repossessed assets*.** In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of: their carrying amount and fair value less costs to sell.

***Property and equipment*.** Property and equipment are recorded in the statement of financial position at cost less accumulated depreciation and allowance for impairment losses (where appropriate).

The Bank assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of a net selling price and a value in use. Where the carrying value of property and equipment is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of profit and loss as an impairment loss on property and equipment. An impairment loss recognized for fixed assets in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount of fixed assets.

Gains and losses on the disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit or loss for the reporting period.

Expenditure for repairs and maintenance of property and equipment is charged to the statement of profit and loss as incurred.

2. Significant accounting principles (continued)

Depreciation is recognized so as to write off the cost of property and equipment less their residual values over their useful lives, using the straight-line method:

The group of property and equipment	Useful life, years
Office and computer equipment	4-15
Server equipment	5
Vehicles and other equipment	3-5
Leasehold improvements	Useful life of the leased asset

The estimated useful life, carrying values and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Assets held under leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets should be depreciated over the shorter of the lease term and its useful life.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

***Intangible assets*.** Intangible assets include identifiable non-monetary assets without physical substance. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets obtained within the operations on unification of entities, represent the fair value at acquisition date. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized over the useful economic lives of 1 to 25 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each reporting year-end.

Changes in estimated useful lives or estimated nature of the use of a certain asset and receipt of future economic benefits are recorded by changing a amortization period or amortization method (depending on the situation) and are considered as changes in accounting estimates. Amortization charges on intangible assets with finite useful lives are recorded in the statement of profit and loss as expenses according to the purpose of an intangible asset.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The useful life of an intangible asset with indefinite useful life is reviewed to determine whether indefinite life assessment continues to be supportable. Otherwise, the useful life changes prospectively from indefinite to finite.

2. Significant accounting principles (continued)

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Costs directly associated with the identifiable software that is controlled by the Bank and that during the period of one year and longer will generate economic benefits in the amount exceeding costs, are recognized as an intangible asset.

Direct costs include salaries the team of software developers and an appropriate share of administrative expenses. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital cost and added to the original cost of the computer software. Costs associated with software development and recognized as assets, are amortized on a straight line basis during their useful lives using amortization rates from 4% to 10% a year.

Lease. The Bank evaluates whether the contract as a whole or its individual components is a lease agreement from the moment of its conclusion. The Bank recognises a right-of-use asset and a corresponding lease liability in respect of all leases in which it is a lessee, with the exception of short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets (such as tablets and personal computers, small office furniture and telephones). For these leases, the Bank recognizes lease payments as operating expenses on a straight-line basis over the lease term, unless a different method of allocating costs more closely matches the distribution of the economic benefits of the leased assets over time.

Lease classification is recorded in the professional judgment.

All lease based on the analysis of the terms of contracts, previous practice, other significant factors in accordance with the requirements of IFRS 16, was grouped according to similar criteria as follows:

- Sublease of non-residential premises for the Bank's Head Office;
- Lease of non-residential premises for the placement of stand-alone cash desks and premises for working with valuables;
- Lease of fixed work places for credit managers;
- Lease of residential premises and parking for foreign employees;
- Lease of other property.

The following lease groups are recognized as an short-term lease:

A) Lease of fixed work places for the credit managers of the Bank;
B) Lease of apartments and parking space for foreign employees.

The Bank establishes a materiality criterion for the initial direct costs incurred by the lessee, as well as for the obligation to dismantle and move the underlying asset, restore the site on which it is located, or restore the underlying asset to the condition required by the lease in the amount of 10 % of the market value of the asset. Non-material direct costs are recognized as a lump sum as an expense in full. Non-material obligation to dismantle, etc. is not recognized.

<u>Accounting model for the right-of-use asset (property and equipment).</u> The Bank, as a lessee, applies the accounting model in accordance with its Accounting Policy to all property, plant and equipment at cost less depreciation and accumulated impairment losses.

2. Significant accounting principles (continued)

Right-of-use assets that meet the definition of property and equipment are also carried at cost less depreciation and accumulated impairment losses.

Accounting model for the right-of-use asset. The Bank, as a lessee, applies a model of accounting for Property temporarily not used in principal activity at cost less depreciation and accumulated impairment losses.

Right-of-use assets that meet the definition of the accounting model for the right-of-use asset are also carried at cost less depreciation and accumulated impairment losses.

Depreciation period of the asset. If the lease contract transfers ownership of the underlying asset to the Bank before the end of the lease term, or if the acquisition cost of the right-of-use asset reflects the lessee's intention to exercise a call option, the Bank depreciates the right-of-use asset from the lease commencement date to the end of the underlying asset's useful life.

Otherwise, the Bank depreciates the right-of-use asset from the commencement date of the lease to the earlier of the following dates:

- The date of the end of the useful life of the right-of-use asset;
- Lease expiration date.

The Bank, as a lessee, applies IAS 36 to determine whether an asset in the form of a right of use is impaired and to account for an identified impairment loss.

Discount rate for the lessee. In order to determine the discount rate (the rate of attraction of additional borrowed funds by the lessee), the Bank will use the weighted average interest rate on borrowed funds with a maturity of more than a year in the month preceding the date of origination of the right-of-use asset.

Revision of the discount rate. The Bank, as Lessee, re-measures the lease liability by discounting the revised lease payments using the revised discount rate in any of the following cases:

- Change in the lease term. The lessee shall determine the revised lease payments based on the revised lease term;
- Change in the valuation of the call option of the underlying asset, assessed taking into account the events and circumstances in the context of the call option. The lessee shall determine the revised lease payments to record the change in the amounts payable on the call option.

The right for the exemption. The Bank does not apply the general approach to leases if:

- The lease is short-term;
- The lease where the underlying asset is of low value.

The underlying asset has a low value if its value is less than RUB 300 thousand.

2. Significant accounting principles (continued)

Frequency of revaluation of embedded derivatives that are not separable from the lease contract. Where the lease payment is calculated as the RUB equivalent in foreign currency at the date of payment, the credit institution recognizes an embedded derivative that is not separable from the lease contract. Such an instrument is subject to revaluation at the end of the month as well as at the date of the lease payment.

In addition, the embedded instrument is subject to revaluation at the date of the contract modification, as well as at the date of the event related to the reassessment of the likelihood of exercising options for the extension or early termination of the lease contract, with the possibility of concluding a new lease contract for the same item as a priority.

Short-term lease. A short-term lease is a lease that, at the commencement date, has a maximum possible term of 12 months or less. The lease contract with a purchase option is not a short-term lease.

The Bank, as a lessee, recognizes the lease payments for short-term leases or leases with a low value of the underlying asset as an expense, either on a straight-line basis over the lease term or using another systematic approach. The Bank should take a different systematic approach if that approach better reflects the Bank's benefit pattern.

Taxation. Income tax expense comprises current tax and deferred tax.

Current tax. Current income tax is based on taxable profit for the year. Profit before tax differs from profit recorded in the *statement of profit or loss and other comprehensive income/statement of profit or loss* due to items of income or expense that are taxable or deductible for tax purposes in other reporting periods, and does not include items that are not taxable or deductible for tax purposes. The Bank's current income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities on income are measured at tax rates (and also provisions of the tax law) which were approved or almost approved by the legislation at the reporting date and it is expected that they will be effective during a tax asset implementation or repayment of the obligation.

The assessment of deferred tax liabilities and assets reflects tax consequences of the Bank's intentions (as at the end of the reporting period) concerning ways of compensation or repayment of the carrying amount of assets and liabilities.

2. Significant accounting principles (continued)

Current and deferred tax for the year. Current and deferred income tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity. In this case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes. The Russian Federation also has various taxes other than income tax, which are assessed on the Bank's activities. These taxes are included in operating expenses in the statement of profit and loss.

Provisions. Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle an obligation are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies. Contingent liabilities are not recognized in the statement of financial position but are disclosed in the financial statements unless the possibility of any outflow in settlement of economic benefits is remote. A contingent asset is not recognized in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Collateral. The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank's accounting policies the Bank's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant under certain circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3. Critical accounting judgments and key sources of estimation uncertainty (continued)

Material assumptions

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The business model used by the Bank is determined at the level that reflects the mechanism for managing the financial assets combined in the Bank to achieve a particular business goal. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate. and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase in credit risk. ECL are measured as a allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics. When ECL are measured for the Bank's assets, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics for the corresponding Bank's assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses). As a result, the assets move from 12-month to lifetime ECL, or vice versa. These movements can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECL but the amount of ECL changes because the credit risk of the portfolios differs.

***Determination of useful life of intangible assets*.** The Bank's management uses judgment in estimating whether the useful life of an intangible asset is finite or indefinite and in estimating the period of the useful life if it is finite. An intangible asset is considered to have an indefinite useful life, if the analysis of all appropriate factors indicates the lack of estimated limitations for the period during which an asset is expected to generate a net cash flow for the Bank.

Intangible assets with finite useful lives are amortized, and intangible assets with indefinite useful lives are not subject to amortization.

Due to rapid changes in the area of technologies, computer software and other intangible assets are highly susceptible to technological obsolescence. Thus, their useful life periods will possibly be short.

Uncertainty explains prudence in calculating the useful life of an intangible asset, but does not explain the choice of an unrealistically short useful life period.

3. Critical accounting judgments and key sources of estimation uncertainty (continued)

Economic and regulatory factors can have influence on the useful lives of intangible assets. Economic factors determine the period during which the entity will receive future economic benefits. Regulatory factors may limit the period during which the entity controls an access to these benefits. The useful life is the shortest of the periods, determined by the specified factors.

As at 31 December 2020, the Bank's intangible assets have finite useful lives from 1 to 25 years according to the management's estimates.

The useful lives of intangible assets are reviewed at the end of each reporting year. Due to the development of technologies, the Bank identified the need to reduce the useful life of intangible assets - software products that are part of the automated banking system. Starting from 1 January 2021, the useful life of the software products that are part of the automated banking system will be:

- No more than 12 years for software products put into operation before 1 January 2021;
- No more than 10 years for software products put into operation after 1 January 2021.

The expected effect on the annual financial result from the revision of the useful life of software products that are part of the automated banking system of the Bank, put into operation before 31 December 2020, will be about RUB 25 000 thousand in the form of additional expenses for amortization.

As at 31 December 2020, as a result of an impairment review of intangible assets, it was established that one of the objects of intangible assets № 12001520001 has indicators of impairment:

1. Significant changes in the Bank's business processes, which caused the need for additional costs for the complex integration of this software and other systems;
2. During 2020 in connection with COVID-19, there have been significant changes with adverse consequences in the market and economic conditions where the Bank operates;
3. Changes in internal reporting indicators, namely, failure to meet the target for the volume of the loan portfolio - according to the Business Plan approved by the Board of Directors on 13 December 2019, the volume of the loan portfolio as at 1 April 2020 was expected to be RUB 29.8 billion, according to the actual indicators as at the current date failure to achieve the portfolio indicators as at 1 April 2021 was at 6%.

In connection with the above, it was decided to impair the asset as at 31 December 2020 by 11,5% in the amount of RUB 20 million of the original cost of assets, including subsequent improvements.

***Recoverability of deferred tax assets*.** The carrying value of deferred tax assets amounted to RUB 44 747 thousand and RUB 133 621 thousand as at 31 December 2020 and 2019, respectively.

The carrying value of deferred tax assets is regularly revised and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The probability of existence of future taxable profit is estimated based on the following assertions:

- In 2020, the Bank earned taxable profit amounted to RUB 444 022 thousand and income tax amounted to RUB 89 million;
- In accordance with the approved Business Plan for the period 2021-2022, the Bank believes that it is likely to receive taxable profit in the future. This is supported by business plan data and the forecast of taxable profit determined based on the business plan.

3. Critical accounting judgments and key sources of estimation uncertainty (continued)

- In the period from 2021 to 2022 the Bank plans to significantly increase a portfolio of car loans and loans to autodealers to RUB 35 billion (less allowance). These actions, as well as a conservative policy with respect to increase in operating expenses, will allow the Bank to avoid incurring tax losses in the future. In this forecast, the Bank relies on statistical growth rates of the passenger and commercial cars market and forecasts for this segment, its own statistics, potential impact of COVID-19 and car sales plans of Mitsubishi Motors, the official distributor of Mitsubishi cars.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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.

Sources of estimation uncertainty

Determination of the number and relative value of forward looking scenarios for each type of product/market and the definition of forward looking information related to each scenario. When measuring the level of credit losses, the Bank uses reasonable forward-looking information, which is based on the assumptions about the future movement of various economic factors and how these factors will affect each other. Refer to Note 24 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward-looking information.

Probability of default (PD). Probability of default (PD) constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 24 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

Loss given default (LGD). Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 24 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Fair Value Measurement. In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Bank uses valuation models to determine the fair value of its financial instruments. Refer to Note 22 for more details on fair value measurement.

The uncertainty in the lease term assessment is disclosed in Note 8.

(in thousands of Russian Rubles, unless otherwise indicated)

4. Adoption of new and revised standards

New and amended IFRS effective in the current year

The amendments to the standards and interpretations specified below became effective for the Bank starting from 1 January 2020, but had no significant effect on the Bank:

Amendments to IFRS 9, IFRS 7 and IAS 39	*Interest Rate Benchmark Reform and its Effects on Financial Reporting*
Amendments to IFRS 3	*Definition of a Business*
Amendments to IAS 1 and IAS 8	*Definition of Materiality*
Conceptual Framework	*Amendments to References to the Conceptual Framework in IFRS Standards*
Amendments to IFRS 16	*Rent concessions related to the COVID-19 pandemic*

The adoption of the new standards and interpretations did not lead to significant changes in the Bank's accounting policies that have an impact on the reporting data of the current and previous periods.

New and revised IFRS in issue but not yet effective

At the time of approval of these financial statements, the Bank had not applied the following new and revised IFRS in issue but not yet effective:

IFRS 17	*Insurance contracts*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-Current*
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16	*Basic interest rate reform - stage 2*
Amendments to IFRS 3	*Business combinations - Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment (PPE) - Revenue before expected use*
Amendments to IAS 37	*Provisions, Contingent Liabilities and Contingent Assets — Onerous Contracts — Cost of Fulfilling a Contract*
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16	*Annual improvements to IFRS 2018-2020 Cycle*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*

The Bank does not expect that the application of the Standards above will have a significant impact on financial statements of the Bank in subsequent periods.

IFRS 17 Insurance Contracts. IFRS 17 establishes principles for recognition, measurement, disclosure and presentation of insurance contracts, and supersedes IFRS 4 *Insurance Contracts*.

IFRS 17 establishes a general model, which is modified and defined with respect to insurance contracts with direct participation features as the variable fee approach. If certain criteria are met, the general model is simplified by measuring liability for the remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. The model takes into account market interest rates and the impact of options and guarantees of policyholders.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. The draft of Amendments to IFRS 17, issues and difficulties associated with the implementation, which were identified after the issuance of IFRS 17. As a result, the effective date of IFRS 17 initially has been deferred to 1 January 2023, instead of the initially proposed date of 1 January 2021.

4. Adoption of new and revised standards (continued)

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard and the transition date is the beginning of the period immediately preceding the date of initial application.

Amendments to IAS 1 "Classification of Liabilities as Short-Term or Long-Term" (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles). The amendments are intended to facilitate the understanding that a liability is classified as long-term if the organization expects and has the authority to refinance the liability or postpone its maturity by at least 12 months after the reporting period under the existing credit line with the previous lender, on equal or similar terms.

The amendment affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition, or the information that entities disclose about those items.

The amendments clarify that the classification should be based on the existence at the end of the reporting period of the right to defer repayment of a liability for at least 12 months. Thus, the amendments explicitly indicate that only those rights that exist "at the end of the reporting period" should affect the classification of the liability. Moreover, the classification does not depend on expectations as to whether the organization will use the right to defer repayment of the liability, which means transferring funds, equity instruments, or other assets or services to a counterparty.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and are to be applied retrospectively. Early application is acceptable.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 Interest Rate Benchmark Reform - Phase 2. Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform - Phase 2* address the impact from the interest rate benchmark reform as regards accounting for modifications to financial assets, financial liabilities and lease liabilities, hedge accounting and disclosure requirements in line with IFRS 7.

Modification of financial assets, financial liabilities and lease liabilities. The amendments provide for a practical expedient to account for the change in the basis for determining the contractual cash flows as a direct consequence of interest rate benchmark reform. This practical expedient only applies where the new basis for determining the contractual cash flows is economically equivalent to the previous basis. Based on the practical expedient, the change in the basis for determining the contractual cash flows is applied prospectively by revising the effective interest rate. Any other changes are accounted for using the effective IFRS requirements The similar practical expedient applies to lessees accounting for leases under IFRS 16.

Disclosures. The amendments require an entity provide disclosures that enable a user to understand the nature and extent of risks arising from IBOR, how the entity is managing those risks, its progress in completing the transition from interest rate benchmarks to alternative benchmark interest rates and how it is managing the transition.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2021, with earlier application permitted.

4. Adoption of new and revised standards (continued)

Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date has yet to be set; however, earlier application of the amendments is permitted.

Annual Improvements to IFRS 2018-2020 Cycles. The list of amendments includes amendments to the three standards, as well as annual improvements to the Board, which are changes that clarify the wording or eliminate minor inconsistencies, omissions or contradictions between the requirements in the standards.

- **The amendments to IFRS 3** *Business Combinations* update the reference in IFRS 3 to the Conceptual Framework for Financial Statements without changing the accounting requirements for a business combination.
- **The amendments to IAS 16** *Property, Plant and Equipment* prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the condition necessary for it to be capable of operating in the manner intended by management. Instead, these sales revenue and related costs are recognized in profit or loss.
- **Amendments to IAS 37** *Provisions, Contingent Liabilities and Contingent Assets* determine the costs to be included in assessing whether the contract is unprofitable.
- Annual improvements introduce minor amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture* and illustrative examples accompanying IFRS 16 *Leases*.

All amendments are effective from 1 January 2022, with early application permitted.

The Bank does not anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise.

(in thousands of Russian Rubles, unless otherwise indicated)

5. Cash and cash equivalents

Cash and cash equivalents comprised the following:

	31 December 2020	31 December 2019
Cash on hand	570 573	271 372
Balances with the Central Bank of the Russian Federation (other than mandatory cash balances)	826 702	565 321
Deposits maturing within 30 days and funds in correspondent accounts with resident banks	1 613 937	15 990
Total	**3 011 212**	**852 683**
Less allowance for impairment losses	(1 763)	(16)
Total cash and cash equivalents	**3 009 449**	**852 667**

As at 31 December 2020 and 31 December 2019, the Bank had no restrictions on cash and cash equivalents.

As at 31 December 2020, cash and cash equivalents include deposits with 1 resident bank that exceed 10% of the Bank's equity in the amount of RUB 1 600 136 thousand before allowance (as at 31 December 2019, there were no such deposits).

The movements in the impairment allowance for cash and cash equivalents for 2020 and 2019 comprised:

	Deposits maturing within 30 days with resident banks	Correspondent accounts with resident banks	Total
As at 1 January 2019	**-**	**14**	**14**
Allowance	-	2	2
As at 31 December 2019	**-**	**16**	**16**
Allowance	1 760	(13)	1 747
As at 31 December 2020	**1 760**	**3**	**1 763**

(in thousands of Russian Rubles, unless otherwise indicated)

6. Due from banks

Due from banks comprise:

	31 December 2020	31 December 2019
Term deposits with resident banks	300 034	-
Total	**300 034**	**-**
Less allowance for impairment losses	(330)	-
Total due from banks	**299 704**	**-**

As at 31 December 2020 and 2019, the Bank had no deposits over 10% of equity with resident banks.

The movements in the impairment allowance for due from banks for 2020 and 2019 comprised:

	Term deposits with resident banks	Total
As at 1 January 2019	**-**	**-**
Allowance	-	-
As at 31 December 2019	**-**	**-**
Allowance	330	330
As at 31 December 2020	**330**	**330**

7. Loans to customers

Loans to customers consist of 91% of loans due from individuals and 9% of loans due from legal entities, which are recognized at amortized cost (as at December 31, 2019 - 96% and 4%, respectively).

	31 December 2020	31 December 2019
Loans to individuals - car loans	25 709 131	26 383 616
Loans to legal entities	2 487 896	1 131 700
Loans to customers before allowance for impairment losses	**28 197 027**	**27 515 316**
Allowance for impairment	(929 126)	(619 531)
Total loans to customers	**27 267 901**	**26 895 785**

As at 31 December 2020 and 31 December 2019, all loans to customers were represented by loans to individuals and companies operating in Russia.

(in thousands of Russian Rubles, unless otherwise indicated)

7. Loans to customers (continued)

The movements in the impairment allowance for loans to customers comprised:

	Individuals (car loans)	Legal entities	Total
As at 1 January 2019	**248 831**	**62 029**	**310 860**
Allowance	286 975	4 191	291 166
Sale of loans	(1 726)	-	(1 726)
Bad debt (write-off)/recovery	19 231	-	19 231
As at 31 December 2019	**553 311**	**66 220**	**619 531**
Allowance	346 128	3 297	349 425
Sale of loans	(33 076)	-	(33 076)
Bad debt (write-off)/recovery	(6 754)	-	(6 754)
As at 31 December 2020	**859 609**	**69 517**	**929 126**

In 2020, the Bank sold loans to third parties with a carrying amount of RUB 42 733 thousand, the amount of the allowance at the date of sale was RUB 33 076 thousand, and cash consideration was RUB 9 658 thousand. The Bank transferred all the risks and benefits associated with these loans, without the obligation to repurchase these loans (in 2019, the loan debt was sold to third parties with a carrying amount of RUB 4 868 thousand, the amount of the allowance at the date of sale was RUB 1 726 thousand, cash consideration was RUB 3 142 thousand).

Below is the analysis of loans to customers by economic sectors:

	31 December 2020	31 December 2019
Economic sectors analysis:		
Individuals	25 709 131	26 383 616
Lease	1 581 453	696 375
Trade and service	906 443	435 325
Gross loans to customers	**28 197 027**	**27 515 316**
Less allowance for impairment losses	(929 126)	(619 531)
Total loans to customers	**27 267 901**	**26 895 785**

(in thousands of Russian Rubles, unless otherwise indicated)

7. Loans to customers (continued)

The table below summarizes carrying values of loans to customers by a type of collateral obtained by the Bank:

	31 December 2020	31 December 2019
Vehicles	26 665 722	26 644 608
Equipment	61 744	61 744
Property	-	85 000
Unsecured loans	1 469 561	723 964
Loans to customers before allowance for impairment losses	**28 197 027**	**27 515 316**
Less allowance for impairment losses	(929 126)	(619 531)
Total loans to customers	**27 267 901**	**26 895 785**

Carrying value of loans and fair value of assets pledged as at 31 December 2020 and 31 December 2019 are presented as follows:

	31 December 2020		31 December 2019	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Loans collateralized by cars	26 665 722	41 121 136	26 644 608	39 801 760
Loans collateralized by pledge of equipment	61 744	-	61 744	-
Loans collateralized by property	-	-	85 000	145 449
Unsecured loans	1 469 561	-	723 964	-
Total	**28 197 027**	**41 121 136**	**27 515 316**	**39 947 209**

The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

As at 31 December 2020, loans and advances to customers include loans owed by 3 borrowers, each of which individually exceeds 10% of the Bank’s equity, for a total amount of RUB 2 117 472 thousand (as at 31 December 2019 – one borrower in the amount of RUB 600 000 thousand).

Please see Note 24 for other details on loans to customers, including the analysis of loans by stages.

(in thousands of Russian Rubles, unless otherwise indicated)

8. Property and equipment and intangible assets

Property and equipment and intangible assets comprise:

	Intangible assets	Computers and office equipment	Right-of-use assets	Vehicles and other equipment	Capital investments	Total property and equipment and intangible assets
Value						
1 January 2019	**323 318**	**155 853**	**-**	**49 455**	**12 906**	**541 532**
Additions	59 435	11 890	132 738	3 788	-	207 851
Disposals	(893)	(15 015)	-	(7 404)	-	(23 312)
31 December 2019	**381 860**	**152 728**	**132 738**	**45 839**	**12 906**	**726 071**
Additions	43 616	27 727	2 035	3 423	-	76 801
Disposals	(24 804)	-	(871)	(7 661)	-	(33 336)
Modification of lease contacts	-	-	(9 677)	-	-	(9 677)
31 December 2020	**400 672**	**180 455**	**124 225**	**41 601**	**12 906**	**759 859**
Accumulated depreciation/amortization and impairment						
1 January 2019	**(56 913)**	**(61 229)**	**-**	**(12 271)**	**(648)**	**(131 061)**
Depreciation and amortization charge	(22 508)	(15 632)	(3 979)	(9 693)	(664)	(52 476)
Disposals	16	1 359	-	3 738	-	5 113
31 December 2019	**(79 405)**	**(75 502)**	**(3 979)**	**(18 226)**	**(1 312)**	**(178 424)**
Depreciation and amortization charge	(26 751)	(20 465)	(30 313)	(8 780)	(666)	(86 975)
Impairment	(20 000)	-	-	-	-	(20 000)
Disposals	24 804	-	101	6 273	-	31 178
31 December 2020	**(101 352)**	**(95 967)**	**(34 191)**	**(20 733)**	**(1 978)**	**(254 221)**
Residual book value						
As at 31 December 2020	**299 320**	**84 488**	**90 034**	**20 868**	**10 928**	**505 638**
As at 31 December 2019	**302 455**	**77 226**	**128 759**	**27 613**	**11 594**	**547 647**

Intangible assets as at 31 December 2020 include a purchase of license from the related party in the amount of RUB 243 071 thousand (as at 31 December 2019 in the amount of RUB 243 071 thousand), presented in the table above at cost less accumulated depreciation. The average useful life of the license is 17 years, the amortization rate is 5,8% a year.

In 2020, the Bank recognized impairment for the software included in the automated banking system due to certain adverse factors: adverse effects of COVID-19 on the Bank's operating conditions, significant changes in business processes within the Bank that caused additional costs to integrate this software product and other systems, failure to meet internal reporting targets in relation to this software product.

As at 31 December 2020 and 2019, fully amortized equipment with an initial cost of RUB 56 742 thousand and RUB 57 239 thousand, respectively, is included in property, plant and equipment.

(in thousands of Russian Rubles, unless otherwise indicated)

8. Property and equipment and intangible assets (continued)

The Bank leases office space and IT equipment. The net book value of assets in the form of the right-of-use assets of the leased property is represented by the following types of assets:

	31 December 2020	31 December 2019
Sublease of premises for the Bank's Head Office	68 694	101 406
Sublease of stand-alone cash desks	17 341	21 979
Optical fiber rent	3 999	5 374
Total net book value of the right-of-use assets of the leased property	**90 034**	**128 759**

In terms of the cost of lease payments, the sublease contract for non-residential (office) premises to locate the Bank's Head Office is material.

The premises occupied by the Bank are located at: 117485, Moscow, 30/1 Obrucheva St., Bld. 2.

The Bank rents an office building from third parties on the basis of a sublease agreement, which is concluded for 11 months. Another Additional agreement is signed for the next 11 months on the term expiration.

Since the annual prolongation of the agreement has been made for more than 5 years, there is a letter from the building owner to the anchor tenant about the intention to prolong the rent agreement until 31 December 2023, the Bank determines the term of the rent without the right for early termination under this agreement with consideration of the penalties that may be imposed in case of termination, including such economic disincentives as rental property improvements or cost of moving or the importance of the premises for the Bank's operations. As a result, the rental term of the most significant office building is determined to be 5 years.

The cost of a lease payment is determined by the contract and is subject to revision by entering into additional agreements to the contract, at the initiative of the lessor.

As at the reporting date, the Contract provides for a conditional monthly rent in the amount of RUB 2 268 thousand. The contract provides for the use of the premises by the tenant only within the permitted use specified in the contract, all improvements and changes must be agreed with the owner of the building occupied.

It was decided to recognize the rent of non-residential premises for the placement of stand-alone cash desks for a financial term of 5 years from the date of the last prolongation of the agreement (with the condition of prolongation existing in the agreement) or 5 years from 1 January 2020, if the rental term is indefinite, based on the following factors:

- Is an identifiable asset, because the place for the stand-alone cash desks is rigidly fixed, it is labor-intensive and unprofitable for the Bank to close the stand-alone cash desks at any time and terminate the rent;
- Availability of past practice of using the specified group of assets for a period of up to 5 years or more.

(in thousands of Russian Rubles, unless otherwise indicated)

8. Property and equipment and intangible assets (continued)

The rent of optical fibers in the cable is recognized as the for the period until 30 November 2023 on the basis of the following factors:

- The agreement identifies certain fibers of cable for use by the credit institution at certain addresses and quantities. These fibers are dedicated solely to the transfer of data by the credit institution during the term of the agreement. The supplier does not have a material right of replacement. Thus, the fibers are identified assets because they are physically separable and explicitly stated in the agreement.
- The term of the fiber rent and the head office rent are closely interrelated, so it is equated to that term.

The table below analyses lease expense recognized in the statement of profit or losses.

	2020	2019
Amounts recognized in profit and loss		
Depreciation expense on right-of-use assets	(30 313)	(3 979)
Interest expense on lease liabilities	(7 258)	(1 027)
Expense within short-term lease	(6 993)	(40 252)
Expense related to variable lease payments not included in the measurement of a lease liability	(14 383)	(12 144)
Total	**(58 947)**	**(57 402)**

In 2020, due to the renegotiation of the office rent agreement, the Bank recognized the change in rent payments as a modification of the rent agreement.

Please see Note 12 for the analysis of lease liabilities by maturity.

9. Other assets

Other assets comprise:

	31 December 2020	31 December 2019
Other financial assets.		
Accounts receivable	122 445	232 476
Allowance for impairment	(13 466)	(9 931)
Less allowance for impairment losses	108 979	222 545
Other non-financial assets		
Advances paid	115 996	34 993
Settlements on taxes (other than income tax)	3	3
Allowance for impairment	(398)	(194)
Less allowance for impairment losses	115 601	34 802
Total other assets	**224 580**	**257 347**

(in thousands of Russian Rubles, unless otherwise indicated)

9. Other assets (continued)

The movements in the allowance for impairment losses on other assets comprise:

	2020	2019
At 1 January	**10 125**	**6 048**
Other assets written off as bad debt against allowance	(1 898)	(551)
Allowance for other assets	5 637	4 628
As at 31 December	**13 864**	**10 125**

10. Due to credit institutions

Amounts due to banks comprised:

	31 December 2020	31 December 2019
Due to credit institutions		
Term deposits of the Bank of Russia	58 036	-
Total due to credit institutions	**58,036**	**-**

As at 31 December 2020, 31 December 2019, there were no deposits in amounts due to credit institutions that exceeded 10% of the Bank’s equity.

11. Due to customers

Customer accounts comprise:

	31 December 2020	31 December 2019
Due to non-governmental legal entities		
Term deposits	24 191 702	22 632 779
Current/settlement accounts	663 764	216 826
Due to individuals		
Current/settlement accounts	569 467	548 856
Total customer accounts	**25 424 933**	**23 398 461**

As at 31 December 2020 and 2019, customer accounts included amounts due to four and two customers, exceeding 10% of equity individually and representing 96% of customer accounts (31 December 2019: amounts due to four customers, exceeding 10% of equity individually representing 95% of customer accounts).

(in thousands of Russian Rubles, unless otherwise indicated)

11. Due to customers (continued)

	31 December 2020	31 December 2019
Analysis by economic sector/customer type:		
Financial sector	21 247 887	21 181 624
Trade and service	2 139 717	191 941
Insurance	1 467 862	1 476 040
Individuals	569 467	548 856
Total customer accounts	**25 424 933**	**23 398 461**

Customer accounts in the amount of RUB 21 028 703 thousand were raised under a guarantee issued by Mitsubishi Corporation to a related party in the interests of the Bank (as at 31 December 2019 - RUB 20 986 747 thousand). Information about guaratee is provided in Note 25.

Information on customer accounts by currency, maturity, etc., is presented in Note 24.

12. Other liabilities and provisions

Other liabilities and provisions comprise:

	31 December 2020	31 December 2019
Other financial liabilities:		
Accounts payable	162 610	159 000
Net payables under lease	97 405	132 004
Payables to personnel on payroll	70 064	68 657
Accrued commission expense	23 604	35 524
Total other financial liabilities	**353 683**	**395 185**
Other non-financial liabilities		
Taxes payable, other than income tax	22 277	38 454
Social contributions	13 983	16 472
Loss provision – loan commitments	4 587	1 710
Payables to the deposit insurance fund	577	722
Total other non-financial liabilities	**41 424**	**57 358**
Total other liabilities and provisions	**395 107**	**452 543**

To comply with the classification of non-financial liabilities the Bank revised its approach to determining the composition of other non-financial liabilities and moved the remaining social contribution liabilities to this section. In the financial statements for 2019, the amount of other financial liabilities was RUB 411,657 thousand, and other non-financial liabilities - RUB 40,886 thousand. In the reporting period, taking into account the revision, the amount of other financial and non-financial liabilities for 2019 is 395 185 and 57 358 thousand rubles, respectively.

(in thousands of Russian Rubles, unless otherwise indicated)

12. Other liabilities and provisions (continued)

The movements in the impairment provision for loan commitments for 2020 and 2019 comprised:

	Loss provision – Credit commitments	Total
As at 1 January 2019	**71**	**71**
Provision charge	1 639	1 639
As at 31 December 2019	**1 710**	**1 710**
Provision charge	2 877	2 877
As at 31 December 2020	**4 587**	**4 587**

The table below analyzes lease liabilities by maturity.

	31 December 2020	31 December 2019
Maturity analysis:		
Up to 1 year	34 457	36 543
1 to 2 years	34 463	36 253
From 2 to 3 years	34 402	36 253
From 3 to 4 years	4 211	36 123
From 4 to 5 years	360	3 955
Over 5 years	-	112
Less: interests not received	(10 488)	(17 235)
Total	**97 405**	**132 004**
By lease term:		
Long-term	64 035	96 899
Short-term	33 370	35 105
Total	**97 405**	**132 004**

In accordance with the requirements of IFRS 16, the Bank classifies the repayment of the principal amount of the lease liability as cash flows from financing activities and the repayment of interest as cash flows from operating activities in the statement of cash flows. The table below shows the changes in the Bank's lease obligations in 2020 and 2019.

(in thousands of Russian Rubles, unless otherwise indicated)

12. Other liabilities and provisions (continued)

	Balance of the liability as at 31 December 2019	Principal loan amount payments	Interest adjustment	Disposal	Modification of contract terms	Recognition of new right-of-use-assets	Balance of the liability as at 31 December 2020
Settlement of lease liabilities	132 004	(26 084)	68	(805)	(9 677)	2 035	97 405
Total	**132 004**	**(26 084)**	**68**	**(805)**	**(9 677)**	**2 035**	**97 405**

	Balance of the liability as at 31 December 2018	Principal loan amount payments	Recognition of new right-of-use-assets	Balance of the liability as at 31 December 2019
Settlement of lease liabilities	-	(734)	132 738	132 004
Total	**-**	**(734)**	**132 738**	**132 004**

13. Perpetual subordinated loan

Perpetual subordinated loan comprises:

	Currency	Maturity date	Nominal interest rate	Weighted average effective rate	31 December 2020	31 December 2019
Subordinated loan from related parties	RUB	perpetual	4,00%	4,00%	500 000	500 000
Total perpetual subordinated loan					**500,000**	**500,000**

Interest payments on subordinated loan are made on a quarterly basis. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to repayments of liabilities due from the Bank to all other creditors.

The Bank attracted perpetual subordinated debt from the related party in July 2018. This subordinated loan has no contractual maturity date and the Bank has the right to repay it at its discretion, not earlier than 5 years after being included in the sources of the Bank's additional capital subject to being agreed with the Bank of Russia.

In 2020, the rate under the subordinated loan agreement was reduced because it is tied to the key rate of the Bank of Russia and changes from the day following the day the key rate changes:

- Before 27 March 2020 – 7,0%;
- From 27 March 2020 – 5,75%;
- From 27 April 2020 – 5,25%;
- From 22 June 2020 – 4,25%;
- From 27 July 2020 – 4,00%.

(in thousands of Russian Rubles, unless otherwise indicated)

14. Share capital and share premium

As at 31 December 2020 and 31 December 2019, the Bank's share capital comprised:

	Number of shares (items)	Par value (RUB' 000)	Nominal value (RUB' 000)	Nominal value restated hyperinflatory (RUB' 000)
1 January 2019	**1 395 000**	**1**	**1 395 000**	**2 188 527**
Issue of ordinary shares	635 450	1	635 450	635 450
1 January 2020	**2 030 450**	**1**	**2 030 450**	**2 823 977**
Issue of ordinary shares	-	-	-	-
31 December 2020	**2 030 450**	**1**	**2 030 450**	**2 823 977**

All ordinary shares have a par value of RUB 1 000 per share. Each share carries one vote.

On 10 October 2013, the Bank of Russia registered an additional issue of ordinary non-certificated registered shares for a total of RUB 1 333 000 000 As a result of the issuance, the Bank placed 1 333 000 ordinary registered non-certificated shares with a par value of RUB 1 000 (placement price per share of RUB 1 750). On 21 November 2013, the Bank of Russia registered the report on the results of the additional issuance of the Bank's ordinary shares.

On 29 January 2019, the Bank's share capital increased by RUB 635 450 thousand, share premium increased by RUB 403 510,8 thousand due to the additional issue and sale of 635 450 shares of the Bank at the price of placement of RUB 1 635 per share to LLC MS Factoring RUS. As a result, the Bank's share capital following the additional share issue amounted to RUB 2 823 977 thousand, share premium of RUB 1 501 261.

On 26 March 2019, the Bank received an interest-free cash contribution of RUB 500 000 thousand under grant financing agreement of 22 March 2019 between the Bank and its shareholder ES-Invest B.V. to finance and support the Bank's activities.

On 3 April 2020, Sinoco Limited withdrew from Es-Invest B.V. by selling its share to Mitsubishi Corporation, thereby making Mitsubishi Corporation the 100% ultimate beneficiary of the Bank.

(in thousands of Russian Rubles, unless otherwise indicated)

15. Interest income and expense

Interest income and expense comprised the following:

	Year ended 31 December 2020	Year ended 31 December 2019
Interest income		
Financial assets at amortized cost comprised:		
Loans to customers	3 868 713	3 627 228
Loans and balances with credit institutions	58 592	17 397
Total interest income on financial assets recorded at amortized cost	**3 927 305**	**3 644 625**
Interest expense		
Financial liabilities at amortized cost comprise:		
Due to customers	(1 613 626)	(1 500 738)
Due to credit institutions	(26 966)	(570)
Subordinated debt	(25 342)	(35 000)
Lease liability	(7 258)	(1 027)
Total interest expense on financial liabilities at amortized cost	**(1 673 192)**	**(1 537 335)**
Net interest income	**2 254 113**	**2 107 290**

In 2020 and 2019, all interest income on financial assets at amortized cost and all interest expense on financial liabilities at amortized cost were determined using the effective interest rate method.

16. Fee and commission income and expense

Fee and commission income and expense comprise:

	Year ended 31 December 2020	Year ended 31 December 2019
Fee and commission income		
On payment transactions	192 315	182 116
Commission income on opening and maintenance of bank accounts	956	1 069
Other	499	4 120
Total fee and commission income	**193 770**	**187 305**
Fee and commission expense		
On information services	(83 533)	(94 263)
On cash settlement services and maintenance of accounts	(62 620)	(57 015)
On potential client search services	(33 205)	(38 777)
Agency fee for collection of overdue debts	(18 792)	(5 011)
Cash collection	(1 534)	(1 907)
Other	(499)	(1 391)
Total fee and commission expense	**(200 183)**	**(198 364)**
Net fee and commission expense	**(6 413)**	**(11 059)**

The specifics of the business is that the main activity of the Bank is the issuance of car loans to individuals that bring interest income, while the Bank bears commission costs in connection with attracting customer data and information and analytical servicing of loans that exceed commission income.

(in thousands of Russian Rubles, unless otherwise indicated)

17. Change in allowance for impairment losses on other assets and other liabilities

	Year ended 31 December 2020	Year ended 31 December 2019
Change in allowance for impairment of financial assets	(5 637)	(4 628)
Change in allowance for loan commitments	(2 877)	(1 639)
Change in allowance for impairment losses on other assets and other liabilities	**(8 514)**	**(6 267)**

See Note 9 for information on the change in the ECL allowance on other assets. See Note 12 for information on the change in the ECL allowance for loan commitments.

18. Other operating income

Other operating income comprises:

	Year ended 31 December 2020	Year ended 31 December 2019
Penalties for overdue payments and lack of insurance	46 270	29 043
Insurance premiums from insurance institutions	27 991	23 565
Software licensing fees	7 059	12 027
Other	3 954	4 245
Total other operating income	**85 274**	**68 880**

19. Operating expense

Operating expense comprise:

	Year ended 31 December 2020	Year ended 31 December 2019
Payroll and bonuses	412 376	393 941
Taxes other than income tax	153 428	213 341
Expense on software programs	131 621	115 422
Social contributions	96 464	88 686
Depreciation and amortization, including:	56 662	48 497
- amortization of property, plant and equipment	*29 911*	*25 989*
- amortization of intangible assets	*26 751*	*22 508*
Recruitment costs	47 458	45 109
Debt collection expense	32 282	25 222
Depreciation of right-of-use-assets	30 313	3 979
Telecommunications	26 626	19 213
Short-term lease	21 376	52 396
Professional services	20 027	17 254
Impairment of intangible assets	20 000	-
Borrower check services	11 942	11 072
Advertising and marketing expense	11 671	22 943
Audit expense	10 612	9 800
Administrative and office expense	8 775	9 048
Business travel	5 548	14 584
Property, plant and equipment maintenance	4 962	5 459
Insurance	3 409	3 819
Write-off of inventory	2 907	6 282
Security	2 741	2 619
Other expense	10 557	18 132
Total operating expense	**1 121 757**	**1 126 818**

(in thousands of Russian Rubles, unless otherwise indicated)

20. Income tax

The Bank measures and records its current income tax payable based on statutory tax accounting records maintained in accordance with tax regulations of the RF, where the Bank operates, which may differ from IFRS.

Some expense items that are not recognized for tax purposes, as well as non-deductible income items result in permanent tax differences.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2020 and 2019 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences assets.

The tax rate used for the reconciliation between the effective tax rate and the profit shown below equals 20% of the taxable profit of legal entities incorporated in the Russian Federation under local tax legislation.

Deferred tax assets/liabilities as at 31 December 2020 and 2019 comprise:

	31 December 2020	**31 December 2019**
Deferred tax assets and liabilities relating to:		
Cash and cash equivalents	353	15
Due from banks	66	-
Loans to customers	(2 290)	98 983
Other assets	34 719	41 021
Property and equipment and intangible assets	(22 532)	(31 429)
Other financial liabilities	34 431	25 031
Net deferred tax assets	**44 747**	**133 621**

Below is the reconciliation between the effective tax rate and profit for the years ended 31 December 2020 and 2019:

	2020	**2019**
Profit before taxation	**855 253**	**742 137**
Tax charge at the statutory tax rate (20%)	(171 051)	(148 427)
Permanent difference	(6 688)	(8 704)
Income tax expense	**(177 739)**	**(157 131)**
Income tax expense	(88 865)	(117 822)
Deferred tax expense recognized in the current year	(88 874)	(39 309)
Income tax expense	**(177 739)**	**(157 131)**

(in thousands of Russian Rubles, unless otherwise indicated)

20. Income tax (continued)

Deferred tax assets	31 December 2020	31 December 2019
As at 1 January - Deferred tax assets	**133 621**	**172 930**
Temporary difference	(88 874)	(39 309)
As at 31 December – deferred tax assets	**44 747**	**133 621**

21. Commitments and contingencies

In the normal course of business, the Bank becomes a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the Statement of Financial Position.

The Bank applies the same credit policy to off-balance sheet commitments as it does to the balance sheet financial instruments.

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial position, credit history and other factors. As at 31 December 2020 and 31 December 2019, such unused credit lines less allowances totaled RUB 796 660 thousand and RUB 332 591 thousand, respectively. As at 31 December 2020 and 31 December 2019, the allowance for such unused credit lines totaled RUB 4 587 thousand and RUB 1 710 thousand, respectively.

Legal proceedings. From time to time and in the normal course of business, customers and counterparties lodge claims against the Bank. Management believes that no material losses will be incurred and, accordingly, no provision has been made in these financial statements.

Operating environment. The Russian Federation displays certain characteristics of an emerging market. Emerging markets including Russia are exposed to economic, political, social, legal and legislative risks which differ from those inherent to more developed markets. Laws and regulations affecting businesses in Russia may change rapidly and are subject to arbitrary interpretations. The future economic direction of the Russian Federation is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. However, compared to other developing countries, Russia has additional reserves and tools to support the economy. For example, if necessary, the Bank of Russia may use the adjustment of interest rates to strengthen the national currency. In addition, in terms of international reserves, Russia ranks second after China among all developing countries.

As far as Russia produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the prices of oil and gas on the world market. In March 2020, oil prices dropped by more than 40%, which immediately resulted in depreciation of the Russian Ruble against major foreign currencies. Oil prices rose in the second half of 2020 amid production cuts and signs of a gradual recovery in demand. The actions of the Bank of Russia to sell foreign currency and the reduction of the key rate from 6.25% to 4.25% contributed to the strengthening of the ruble. The ruble was also supported by the reduction of geopolitical tensions and vaccination of the population. As a result, from 31 December 2020 to the reporting issuing date, the Russian ruble exchange rate determined by the Bank of Russia rate has changed slightly: the decline of exchange rate of the Russian ruble was in the range of 4,9% for the US dollar, at the same time the exchange rate of the Russian ruble fell by 1,5% against.

21. Commitments and contingencies (continued)

The Russian ruble is supported by the CBR in the sale of foreign currency. The Bank Russia began selling foreign currency from state reserves in March 2020 for the first time since the beginning of 2015, when the ruble fell to four-year lows amid the collapse in oil prices and the global spread of the coronavirus. The Bank of Russia made only regular sales of foreign currency as part of the budget rule. Russia's gold and foreign currency reserves are sufficient for future support of the national currency.

Political tensions in the region and new packages of sanctions imposed by the US and the European Union against a number of Russian officials, businessmen and organizations continue to have a negative impact on the Russian economy. In 2020 alone, the United States introduced 47 packages of new restrictions, which continues to make it difficult for Russian businesses to access international capital markets.

There has continued to be increased economic challenges to the Russian consumers and corporates, which have led to higher defaults in the retail and commercial banking sector. This operating environment has a significant impact on the Bank's operations and financial position. Management is taking necessary measures to ensure sustainability of the Bank's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could significantly differ from actual results.

Moreover, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. COVID-19 prevention efforts taken by many countries lead to significant operating straits for many businesses and have a significant impact on international financial markets. COVID-19 has had a significant impact on the operations of many companies in various sectors of the economy, including but not limited to operational disruptions resulting from production interruptions or closings, supply chain disruptions, staff quarantines, declining demand and difficulties in obtaining funding. In addition, the effects of COVID-19 are also evident in the form of its negative impact on the global economy and major financial markets.

At the moment, strict quarantine measures are not applied in Russia. However, estimates of the scale and prospects for the end of the pandemic crisis have changed throughout the year, and today there is a high level of uncertainty. Uncertainty remains high about the speed of the global economic recovery, especially given the reintroduction of restrictive measures by a number of countries to prevent the spread of COVID-19, both due to the newly increasing number of diseases and in connection with the identification of new strains of the virus. The Bank of Russia and the Government of the Russian Federation have adopted a package of anti-crisis measures aimed at maintaining the credit activity of the population, including providing the banking sector with sources of additional liquidity in the form of preferential lending.

In 2020, sales of new passenger and commercial cars in Russia decreased by 9,1% compared to 2019; in January 2021, sales of new passenger and commercial cars in Russia decreased by 4,2% compared to the same period in 2020, according to the Association of European Businesses (AEB). The year 2020 turned out to be one of the most difficult years for the Russian automobile market: new car sales exceeded the previous year's figures for only four months. Since the end of March 2020, car sales and dealership operations have been interrupted due to measures related to the COVID-19 situation. Despite the work of the car dealers, state support measures additionally stimulate sales and the positive impact of deferred demand, the level of sales of new passenger and commercial cars has not yet returned to the level of 2019. According to the AEB forecast, in 2021, the growth of the Russian market will be 2,1%. Further market development will depend on the localization strategy of production and state measures to stimulate and support.

21. Commitments and contingencies (continued)

The Russian government is closely monitoring the situation in the country's automobile industry. The Russian Ministry of Industry and Trade is actively working on measures to stimulate demand for cars, such as preferential loans, family support programs, the first car program, special programs for medical workers, preferential leasing programs and other measures to support demand, which will certainly be an additional incentive for sales of contract products.

According to RosStat estimates, the decrease of GDP in 2020 was 3,1% and took place due to restrictive measures aimed at fighting coronavirus infection and a drop in global demand for energy resources. According to the forecast of the Ministry of Economic Development of Russia for the years 2021-2023, taking into account the impact of negative factors of quarantine restrictions due to the coronavirus pandemic, as well as the successful vaccination of the population, the growth of Russian GDP in 2021 is expected to be 3,3%, in 2022-2023 the economic growth will continue at a rate of at least 3%. According to other estimates, in particular, according to the forecast of the World Bank, Russia's GDP growth will be 2,6%, and according to the forecast of the Organization for Economic Cooperation and Development ("OECD") – 2,7% in 2021.

The Bank's business is largely dependent on the automobile market. According to various estimates, the recovery of the car market in the Russian Federation is expected at the time no earlier than 2022-2023, and will depend on the following factors:

- Complete removal of the restriction regime for companies;
- Vaccination of the population;
- Oil price stabilization;
- Introduction of additional measures of state support for the automobile industry;
- Development of new sales areas, including online.

In the most reliable scenario, the car market is expected to grow by 2,1% next year, according to the AEB. If the situation develops under this scenario, the growth of the Bank's loan portfolio may be comparable to the dynamics of car sales in Russia in 2021.

Taking this situation into account, the Bank has modeled the potential impact of stress scenarios on its operations and financial indicators, which incorporate the possible negative effect of the implementation of the above events. The Bank is taking all the necessary measures to support the sustainability of the business and its development in the current circumstances and taking into account possible risks.

Stress testing. The Bank regularly performs stress testing on the most significant risks and determines the necessary capital reserve to cover these risks.

The Bank performed a stress test of the loan receivables portfolio of individuals based on two scenarios: "Optimistic" and "Pessimistic":

- Change in the share of overdue debt by 81% with a probability of 30%;
- Change in the share of overdue debt by 18% with a probability of 70%.

Based on the results of the credit risk stress testing, it was found out that the capital adequacy ratios are within the acceptable level.

21. Commitments and contingencies (continued)

The Bank conducted a stress testing of the interest rate risk. The applied stress testing showed that the structure of assets and liabilities over a time horizon of up to 1 year is exposed to interest rate risk when the interest rate is reduced by 650 basis points. The results of the stress testing showed that the potential reduction of the Bank's capital in the event of a stress scenario is acceptable, since it is within 5% of the amount of capital to cover this type of risk.

The Bank uses sensitivity analysis as a procedure for stress testing of liquidity risk, testing the Bank's stability in accordance with the change in the asset liquidity parameter and the inclusion in equity of a 15% increase in the maximum position for the last 12 months at the settlement date.

Based on the results of the stress testing, it was found out that in the event of a stressful situation, the Bank is able to restore liquidity without significant costs due to a credit line provided by a related party.

Taxation. Russian business legislation continues to change rapidly. Management's interpretation of such legislation as applied to the activity of the Bank may be challenged by the relevant regional and federal authorities. Recently, the tax authorities have been taking a tougher stance with respect to the interpretation of the laws. As a result, previously used tax calculation methods may be challenged in the process of future tax reviews. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Based on their interpretation of the tax legislation, management of the Bank believes that all of the applicable taxes have been assessed. However, tax authorities may take a different position on the interpretation of the effective tax legislation, which may have a significant impact on financial statements.

22. Fair value of financial instruments

In accordance with IFRS 13 Fair value measurement, fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced sale or liquidation.

Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. The above definition of fair value applies to these financial statements for the purpose of fair value measurement and/or related disclosures.

(in thousands of Russian Rubles, unless otherwise indicated)

22. Fair value of financial instruments (continued)

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3. Levels correspond to the possibility of direct fair value determination on the basis of market data and reflect the significance of the inputs used in course of the fair value measurement in its entirety:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank uses professional judgment when assessing the fair value of financial instruments and allocating them to a hierarchy of levels. If the fair value measurement uses observable inputs that require significant adjustments, this measurement is assigned to Level 3. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Key assumptions used in determining fair value. For financial assets and liabilities with a short-term maturity (up to 30 days), it is assumed that the carrying amount approximates their fair value. This assumption also applies to demand deposits and current/settlement accounts, as well as mandatory cash balances with the Central Bank of the Russian Federation.

The carrying amount of financial instruments with a floating interest rate can be taken as their fair value.

The fair value of amounts due from banks, loans to customers, amounts due from credit institutions and fixed-rate customers has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.

Fair value takes into account the impact that the COVID-19 pandemic had on the estimates as at 31 December 2020, expressed in the form of higher credit spreads used to determine the corresponding fair value of the Bank’s financial instruments.

Average market interest rates used in determining the fair value of financial instruments:

	31 December 2020	31 December 2019
Due from banks	4,6%	-
Loans to individuals – car loans	11,8%	13,0%
Loans to legal entities	6,7%	9,0%
Term deposits of credit institutions	4,2%	-
Term deposits of non-state legal entities	5,8%	6,9%

(in thousands of Russian Rubles, unless otherwise indicated)

22. Fair value of financial instruments (continued)

The following table provides an analysis of fair value by level of the fair value hierarchy and the carrying amount of financial instruments that are not accounted for at fair value on an ongoing basis. The levels correspond to the possibility of directly identifying fair value based on market data:

	31 December 2020				**31 December 2019**			
	Fair value			**Carrying**	**Fair value**			**Carrying**
	Level 1	**Level 2**	**Level 3**	**value**	**Level 1**	**Level 2**	**Level 3**	**value**
Cash and cash equivalents	**570 573**	**2 438 876**	**-**	**3 009 449**	**271 372**	**581 295**	**-**	**852 667**
Cash on hand	570 573	-	-	570 573	271 372	-	-	271 372
Balances with the Central Bank of the Russian Federation (other than minimum reserves)	-	826 702	-	826 702	-	565 321	-	565 321
Correspondent accounts with resident banks	-	1 612 174	-	1 612 174	-	15 974	-	15 974
Mandatory cash balance with the Central Bank of the Russian Federation	**-**	**181 112**	**-**	**181 112**	**-**	**164 225**	**-**	**164 225**
Due from banks	**-**	**299 496**	**-**	**299 704**	**-**	**-**	**-**	**-**
Term deposits	-	299 496	-	299 704	-	-	-	-
Loans to customers	**-**	**-**	**28 128 397**	**27 267 901**	**-**	**-**	**27 347 677**	**26 895 785**
Loans to individuals - car loans	-	-	25 643 325	24 849 522	-	-	26 279 086	25 830 305
Loans to legal entities	-	-	2 485 072	2 418 379	-	-	1 068 591	1 065 480
Other financial assets	**-**	**-**	**108 979**	**108 979**	**-**	**-**	**222 545**	**222 545**
Due to credit institutions	**-**	**57 464**	**-**	**58 036**	**-**	**-**	**-**	**-**
- Funds of the Bank of Russia	-	57 464	-	58 036	-	-	-	-
Due to customers	**-**	**25 527 913**	**-**	**25 424 933**	**-**	**23 465 557**	**-**	**23 398 461**
Due to non-governmental legal entities								
- Term deposits	-	24 294 682	-	24 191 702	-	22 699 875	-	22 632 779
- Current/settlement accounts	-	663 765	-	663 764	-	216 826	-	216 826
Due to individuals								
- Current/settlement accounts	-	569 466	-	569 467	-	548 856	-	548 856
Other financial liabilities	**-**	**-**	**353 683**	**353 683**	**-**	**-**	**395 768**	**395 185**
- Lease liability	-	-	97 405	97 405	-	-	132 587	132 004
- Other financial liabilities	-	-	256 278	256 278	-	-	263 181	263 181

(in thousands of Russian Rubles, unless otherwise indicated)

22. Fair value of financial instruments (continued)

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Financial instruments were not reclassified between fair value levels during 2020.

23. Capital risk management

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Bank, as a credit institution, is subject to the CBR's capital adequacy requirements. The Bank does not have any requirements (covenants based on agreements) to the capital adequacy ratio.

The Bank's capital adequacy ratios are presented below.

	The minimum allowable value, %	31 December 2020	31 December 2019
Capital adequacy ratio:			
Common equity adequacy ratio	4,50%	10,15%	8,65%
Core capital adequacy ratio (Tier 1 capital)	6,00%	11,75%	10,32%
Equity (capital) adequacy ratio	8,00%	13,56%	13,54%

The Bank's equity (capital) is calculated in accordance with Regulation No. 646-P of the Bank of Russia dated 4 July 2019 *"On the Method of Determining the Value of Equity (Capital) of Credit Institutions ("Basel III")"* (hereinafter - "Regulation No. 646-P").

When calculating the mandatory ratios and equity (capital), the Bank takes into account the allowance for losses on financial assets created in accordance with Bank of Russia's Regulation No. 590-P *On the Procedure for Establishing by Credit Institutions Allowance for Losses on Loans, Loan and Equivalent Debts* dated 28 June 2017 (hereinafter, "Regulation No. 590-P Bank of Russia's Regulation No. 611-P *On the Loss Allowance Procedure for Credit Institutions* (hereinafter referred to as "Regulation No. 611-P") dated 23 October 2017. The Bank has used reliefs in the calculation of provisions for the loan debt of individuals experiencing difficulty in meeting their obligations due to a decline in income due to systemic factors caused by the spread of COVID-19 ("repayment holidays").

The requirements of the Bank of Russia for the minimum amount of equity (capital) in accordance with the Federal Law № 395-1, dated 2 December 1990 (revised on 27 December 2019) "On Banks and Banking Activities" are applicable to the Bank. The following table shows the amount of equity (capital) of the Bank and the minimum value for a Bank with a universal license (in accordance with Article 11.2).

	Minimum size	31 December 2020	31 December 2019
Equity (capital), total	**1 000 000**	**4 233 200**	**4 055 518**

23. Capital risk management (continued)

The Bank's management reviews the capital structure on a semi-annual basis. As a part of this review, the Management Board analyzes the cost of capital and the risks associated with each class of capital. The Bank adjusts the capital structure by paying dividends, issuing new shares, raising new debt, or repaying current loans.

24. Risk management policies

Taking into account the existing nature and scale of the Bank's activities, the types of risks inherent to the Bank are distributed by the level of significance (significant and other). Credit risk (including concentration risk), operational risk (including legal risk), interest rate risk of the banking portfolio and liquidity risk are recognized as significant risks. Other risks inherent to banking activities, but not recognized as significant due to the peculiarities of the business model: market risk (in terms of currency risk), compliance (regulatory risk), strategic risk, reputational risk, country risk.

A description of the Bank's objectives, policies and procedures for managing these risks is provided below. The risk management strategy is approved by the Board of Directors of the Bank.

In accordance with the Risk and Capital Management Strategies, the risk and capital management system serves a purpose of:

- Identification of risks inherent in the Bank's activities, including potential and significant ones;
- Assessment, aggregation of significant risks and control over their volumes;
- Assessment of the adequacy of the Bank's available capital to cover significant risks and new types (additional volumes) of risks, the adoption of which is due to the implementation of measures provided for in the Bank's Development Strategy;
- Capital planning based on the results of stress testing, business development guidelines provided for by the Bank's Development Strategy, requirements for capital adequacy established by the Bank of Russia, and the phase of the business cycle;
- Ensuring compliance with the mandatory ratios established by the Bank of Russia and the amount of the Bank's open foreign exchange position.

Risk and capital management is aimed at achieving and solving the following goals and objectives:

- Ensuring the fulfillment of the Bank's objectives, defined by the Bank's business plan and its Development Strategy, while maintaining financial stability, the ability to fulfill timely its commitments;
- Effective mitigation of risks accepted by the Bank to fulfill obligations to creditors and clients of the Bank in a timely manner;
- Efficient capital management of the Bank to ensure business efficiency, taking into account risks and an acceptable level of capital adequacy necessary for the implementation of the Bank's core objectives and its development;
- Receipt of sufficient compensation for the risks accepted by the Bank;
- Contribution to the achievement of optimal risk/profitability ratio for the Bank's operations;
- Ensuring the transparency of the risk and capital management system of the Bank.

Financial risks are managed by way of setting transaction limits which are mandatory for respective divisions and officials authorized to execute such transactions.

24. Risk management policies (continued)

Limits and signal values for the planned period are developed, recommended by the Risk Management Department and specialized committees of the Bank, and approved by the Bank's management bodies within their authority. Actual exposures against limits are monitored on a daily basis.

Specific values of limit parameters are approved by minutes of meetings of the Board of Directors, the Management Board of the Bank, the Credit Committee of the Bank and the Assets and Liabilities Management Committee.

As organizational support for the risk management system, the Bank has an independent structural division - the Risk Management Department, including the Corporate Risk Management Division, the Retail Risk Management Division and the Risk Methodology and Risk Reporting Division. Risk control and management at the Bank are regulated by regulatory documents of the Bank of Russia and the Bank's internal regulatory documents.

The Bank's divisions regularly prepare management accounts containing the data to be used by the Bank's management bodies in the decision making. The Bank continuously manages and assesses the above-mentioned risks.

Credit risk. The Bank is exposed to credit risk, i.e. the risk, arising from the probability of non-fulfillment of contractual liabilities by the borrower or counterparty to the Bank.

The Bank is exposed to credit risk due to its operations:

- Provision (placement) of cash and its return (repayment) (operations on provision of loans),
- Interbank loan and deposit operations,
- Settlements on correspondent accounts for own operations,
- Forward transactions,
- Currency exchange transactions.

Limits on the level of credit risk with respect to the volume of transactions made with one counterparty (counterparties of a particular type of economic activity), as well as restrictions set as part of banking products and activities shall be approved by the management bodies of the Bank. Actual exposures against limits are monitored on a daily basis.

The bank issues collateralized loans as well as guarantees of legal entities and individuals. A significant portion of loans is loans to individuals collateralized by a pledge of the purchased vehicle. Such risks are monitored on a revolving basis and reviewed at least annually.

The Bank's credit Committee manages the Bank's credit risk and performs the following functions:

- Makes decisions on conducting operations that carry credit risk;
- Participates in setting limits for structural divisions to conduct operations that carry credit risk (including limits on credit risk for counterparties, financial organizations, brokerage organizations, securities issuers, etc.) and monitoring compliance with limits (including limits on counterparties);
- Reviews reports on the level of credit risk accepted by the Bank and related concentration risk;
- Reviews draft documents and approves internal regulatory documents regulating credit risk management, including procedures for conducting operations related to the Bank's acceptance of credit risk, and methodology for assessing credit risk for approval by the Bank's management bodies;

24. Risk management policies (continued)

- Making decisions on the settlement of overdue debts of the Bank's borrowers in accordance with the Bank's internal regulatory document;
- Considers and approves for consideration by the Bank's management bodies proposals to improve internal technologies for managing credit risk and related concentration risk, to organize procedures for conducting operations related to the Bank's acceptance of these risks, to improve the work of the Bank's divisions responsible for managing these risks and participating in operations related to the Bank's acceptance of relevant risks.

The Bank applies the methodology of risk assessment, depending on the type of client and the system of taxation (individuals, credit institutions, legal persons on the common system of taxation and the simplified tax system).

This system makes it possible to manage risks and to efficiently control the structure of loan portfolios and manage the risk concentration.

In order to reduce the risk of possible losses, the Bank performs comprehensive assessment of the borrowers and establishes requirements for the property offered as collateral to the Bank by applying approaches approved in the bank's internal documents:

- Rating models for the assessment of the borrower's creditworthiness;
- Analysis of financial position, credit history (including credit histories received from the credit bureau, and obligations in other banks);
- Assessment of the quality of collateral;
- Verification of compliance of all the necessary legal documents of the borrower with the legal requirements.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

The Bank's credit risk management system comprises the following procedures:

- Limiting cash placement transactions;
- Maximizing the share of collateralized credit products;
- Defining authority with respect to decision making on credit product issuance and extension;
- Creating provisions for covering the Bank's credit risk based on the results of the preliminary analysis;
- Preliminary analysis of a borrower's creditworthiness (review of the borrower's credit history, financial position, debt repayment capacity, analysis of the loan collateral and other related factors);
- Administration of previously issued loans;
- Segregation of employee responsibilities, etc.

The Bank pays special attention to monitoring the concentration of large credit risks and complying with the CBR's prudential requirements, analyzing and projecting credit risk levels, currently viewed as acceptable.

24. Risk management policies (continued)

In order to calculate capital requirements used to cover credit risks, the Bank applies standard approach defined in the CBR Regulation No. 180-I, as well as the reserve procedure under the CBR Regulations No. 590-P and No. 611-P and CBR Directive No. 2732-U.

Amid the spread of coronavirus infection (COVID-19) in 2020, the Bank pursued a conservative policy on granting retail loans, due to which the size of the portfolio of individuals decreased.

The performance of MC Bank Rus JSC was influenced by the Bank of Russia's measures to support citizens, the economy and the financial sector in the context of the coronavirus pandemic.

In particular, the Bank used the following reliefs of the Central Bank of the Russian Federation:

- Maintaining the risk assessment of borrowers-individuals whose financial situation deteriorated because of the pandemic,
- Maintaining the assessment of financial position and/or the quality of debt service, and/or the loans quality category on restructured loans when classifying the restructured loans in accordance with the Federal Law No. 106-FZ dated 03 April 2020 or restructured within the frameworks of bank programs on the loans, other assets and contingent liabilities of credit nature resulting from the terms of credit agreements with the borrowers on which there is no overdue debt or continuous overdue debt not exceeding 30 calendar days as at 1 March 2020, by an authorized management body of the credit institution up to 31 December 2020 inclusively on the basis of the decision (collective decision regarding the whole of loans, other assets and contingent liabilities or credit nature) about the borrowers' other assets and contingent liabilities of credit nature.

The impact of the application of these measures on the mandatory standard N1.0 as at 01.01.2021 was 0.076%.

(i) Credit risk management structure

- The decision on granting loans and credit terms is made by authorized persons, management bodies (if necessary) in accordance with the internal regulatory documents and the Charter of the Bank.
- Decisions made by the Credit Committee apply to all the Bank's functions. All loan terms established by the Credit Committee are included in loan agreements between the Bank and the clients.
- The Credit Committee also approves credit limits for borrowers.
- The credit limit for a single borrower is calculated in accordance with maximum permissible norms, the borrower's credit history, the average monthly turnover and the monthly account balances on the borrower's current accounts, the level of the loan collateralization, the borrower's significance for the Bank, the financial position, development prospects and other available information related to the borrower.
- The maximum exposure to a single borrower or a group of related borrowers should not exceed 25 percent of the Bank's capital in accordance with the Order of the Bank of Russia.
- The total amount of loans provided to one borrower or a group of related borrowers in excess of five percent of the Bank's capital is classified as a large credit investment.
- Granting loans to insiders and other related parties is made without involvement of stakeholders in the decision-making process.
- The decision on related party transactions that bear credit risk is made solely by the Bank's Board of Directors, regardless of the value of such transactions.

24. Risk management policies (continued)

- Granting preferential loans (with respect to deadlines for payments, interest rates, collateral requirements) to related parties (undertaking credit-related contingent liabilities) in comparison to other loans (credit-related contingent liabilities) granted to unrelated parties are not permitted.

(ii) Credit risk management

The purpose of credit risk management is to minimize potential losses for the Bank if a borrower defaults on its obligations, as well as to maximize the Bank's profitability based on credit risk.

Credit risk management objectives:

- Analyze and evaluate credit risks.
- Identify risk levels
- Manage credit risks.
- Monitor efficiency of credit risk management The criteria for loan assessment are as follows:
  - the borrower's financial position;
  - the quality of the borrower's debt service;
  - collateral.

Credit risk management includes establishing limits on loan issuance:

- Granting loans to legal entities (to a single borrower or a group of related borrowers);
- Granting loans to individuals;
- Granting interbank loans and performing currency exchange transactions in the interbank market.

Depending on the scale of the above-listed transactions, limits are established by the Management Board or the Bank's Credit Committee.

Prior to granting loans to legal entities and individuals, the Bank's Credit Committee (depending on the loan size) considers the possibility of providing a loan and setting the threshold amount for the loan (credit line). The decision is made based on the expert assessment provided by the Credit Department with respect to a feasibility of granting the loan, availability of data and non-committed cash funds, as well as other relevant information.

Loan limits per issuer (groups of related borrowers) are based on the analysis of their ownership structure, business reputation, credit history, financial condition, financial forecasts, industry situation, etc. Limits for counterparty banks are based on the analysis of their financial condition, bank ratings, capital structure, concentration of transactions, credit history and business reputation. The amount of loans provided to individuals is limited by their solvency, which is calculated individually for each client by applying decreasing ratios to the income, as well as considering the debts relating to previously issued loans. The amount of a loan depends on the amount of the collateral.

For credit risk monitoring purposes, the employees of credit departments produce regular reports based on the business structure analysis and financial position of the client. All information on material risks related to the borrowers whose creditworthiness deteriorates, is regularly reported to and analyzed by the Credit Committee and the Bank's management bodies.

24. Risk management policies (continued)

The quantitative evaluation of credit risk is based on discounting of future cash flows. The procedure for evaluating the financial position is based on the analysis of the first (prior to the date of granting a loan) and latest available financial statements of the borrower and other information, the Credit Departments of the Bank perform maturity analysis of its loans and monitor past due balances.

Credit risk for off-balance sheet financial instruments is defined as the possibility of a loss caused by the failure of another party to the transaction involving this particular financial instrument to abide by the contract. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving deals, using limits, which mitigate the risk, as well as monitoring procedures.

(iii) Key stages of the group’s credit operations

Preliminary stage – credit application acceptance, analysis of the borrower’s financial position, economic justification of the loan, legal implementation.

Loan administration stage – monitoring compliance with loan terms, the borrower’s and guarantor’s (if available) financial positions, availability and status of the collateralized property, etc. the Bank continuously monitors the credit risk. Limits on loans granted to counterparty banks are reviewed on a monthly basis and at least once a year for non-resident banks. The limits can be revised when risks increase. In order to monitor credit risks, the personnel of the Bank evaluates client’s financial position and analyzes repayment dates on a regular basis. Apart from that, past due balances are monitored.

The final stage – ensuring the loan repayment. In case of delayed payments, the Bank takes necessary measures in order to ensure the repayment of the loan. In order to increase the efficiency of collection procedures, the Bank applies measures to verify documents and verify clients. If the measures failed, the overdue debt department prepares documents for legal action, collection of collateral. The decision on uncollectability of the loan is made by the Bank’s management body in accordance with the Bank’s internal documents after providing a report on the uncollectability of the loan.

(iv) Collateral and other ways of loan quality improvement

The credit risk management also involves receiving collateral including guarantees of legal entities and individuals as well as monitoring such a collateral.

Although collaterals are important for mitigating the credit risk, the Bank’s policy establishes the priority of the loan repayment by the borrower over the sale of the collateral.

In some cases, depending on the client’s financial position and the type of the credit product, no collateral is required for the transaction.

The Bank has approved the internal Regulation *On Collateral Review*. The Bank accepts the following major types of collateral:

- Loans to legal entities: vehicles, equipment, property, inventories, securities etc.;
- Loans to individuals: vehicles are the most preferable type of collateral (CASCO insurance is applicable if stipulated by the loan agreement).

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

(v) Allowance for loan impairment

The Bank creates allowance for loan impairment, reflecting the Bank's assessment of potential losses on the loan portfolio.

The Bank writes off a loan (as well as the respective allowance for loan impairment) if the loan is classified as non collectable and when all necessary procedures on loan collection are completed. Such decision is made upon analyzing information on significant changes in the borrower's financial position (such as the lack of possibility to make loan payments), as well as if the proceeds from the sale of the collateral are not sufficient to cover the remaining debt amount. The write-off of bad debt against the allowance for possible losses on loans is made on the basis of the decision made by the Bank's Board of Directors.

The Bank monitors the borrower's financial position and property for five years with the purpose of recovering the debt.

(vi) Maximum exposure to credit risk

The Bank's maximum exposure to credit risk may vary significantly, depending on both individual risks inherent in certain assets and general market risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets less collateral value. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The possibility of an offset between assets and liabilities does not result in a significant decrease in the credit exposure.

	Maximum credit risk exposure	Net exposure after offset	Collateral*	Net exposure
31 December 2020				
Cash and cash equivalents	2 438 876	2 438 876	-	2 438 876
Mandatory cash balance with the Central Bank of the Russian Federation	181 112	181 112	-	181 112
Due from banks	299 704	299 704	-	299 704
Loans to customers	27 267 901	27 267 901	(25 808 851)	1 459 050
Other financial assets	108 982	108 982	-	108 982
Commitments on loans and unused credit lines	796 660	796 660	-	796 660

*Collateral represents the carrying amount of collateralized loans.

	Maximum credit risk exposure	Net exposure after offset	Collateral*	Net exposure
31 December 2019				
Cash and cash equivalents	581 295	581 295	-	581 295
Mandatory cash balance with the Central Bank of the Russian Federation	164 225	164 225	-	164 225
Loans to customers	26 895 785	26 895 785	(26 184 836)	710 949
Other financial assets	222 545	222 545	-	222 545
Commitments on loans and unused credit lines	332 591	332 591	-	332 591

*Collateral represents the carrying amount of collateralized loans.

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets rated below BBB are classed as speculative grade.

The following table provides an analysis of financial assets by credit quality, including internal credit risk ratings for loans and advances to customers, determined based on the Standard & Poors rating scale, as at 31 December 2020.

	BBB-	BB+	BB	BB- and below	Not rated	31 December 2020 Total
Cash and cash equivalents, less cash on hand	2 438 876	-	-	-	-	2 438 876
Mandatory cash balance with the Central Bank of the Russian Federation	181 112	-	-	-	-	181 112
Due from banks	299 704					299 704
Loans to customers	23 783	1 448 405	162 817	783 373	24 849 53	27 267 901
Other financial assets	-	-	-	-	108 979	108 979

The table below shows the analysis of financial assets by credit quality based on rating scales developed by Standard & Poors rating scale as at 31 December 2019:

	BBB-	BB+	BB	BB- and lower	Not rated	31 December 2019 Total
Cash and cash equivalents, less cash on hand	581 175	120	-	-	-	581 295
Mandatory cash balance with the Central Bank of the Russian Federation	164 225	-	-	-	-	164 225
Loans and advances to customers	84 945	605 295	260 799	114 441	25 830 305	26 895 785
Other financial assets	-	-	-	-	222 545	222 545

Significant increase in credit risk. The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

Measurement of ECL. The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

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

24. Risk management policies (continued)

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

Three economic scenarios (in which the impact of the COVID-19 pandemic is taken into account) are used to determine the “probability of default” and “loss given default” indicators at the initial recognition of loans and at subsequent reporting dates:

- “The Economist” – a scenario derived only from the EIU macroeconomic forecast;
- “Average scenario” – a scenario obtained by finding the average value between the forecast of the dollar exchange rate from the Ministry of Economic Development of the Russian Federation (hereinafter referred to as “MED”) and the current rate at the time of modeling;
- “Mixed scenario” – a scenario obtained on the basis of the forecast of the dollar exchange rate from the Ministry of Economic Development and the current rate at the time of modeling by uniform reduction.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank’s modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios.

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk, even if contact extension or renewal is common business practice. However, for financial instruments such as revolving credit facilities that include both a loan and an undrawn commitment component, the Bank’s contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group’s exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

24. Risk management policies (continued)

These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The ECL calculation for accounting purposes is different to the ECL calculation for regulatory purposes, although many inputs used are similar. The Bank has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

Internal credit risk ratings and impairment stages determination. In order to minimize credit risks, the Bank has designed and maintained a system which provides for a counterparty default risk assessment based on internal credit ratings (for legal entities) and overdue status (for individuals). The Bank has adopted clear criteria for being classified among the impairment stages at initial recognition and during the loan service.

With respect to portfolio of car loans to individuals, the Bank applies the following criteria taking into account overdue periods and negative triggers:

- Not overdue loans or loans less than 30 days overdue and having no negative triggers are included in Stage 1;
- Loans that are 31-90 days overdue and/or have negative triggers such as absence of collateral, loan restructuring (including "repayment holidays" as part of support measures in response to the spread of coronavirus infection), as well as incapacity, legal capacity restriction or death of a borrower are included in Stage 2;
- All loans more than 90 days overdue are included in Stage 3.

All loans to legal entities are assessed on a case-by-case basis and are not grouped into portfolios of similar loans. Upon issuance each loan is included in one of the above impairment stages depending on the overdue period and other triggers as compared to initial recognition, in particular:

- Not overdue loans or loans less than 30 days overdue and having no negative triggers are included in Stage 1;
- Stage 2 includes loans that are 31-90 days overdue and/or have negative triggers such as loan restructuring, deterioration in the financial position based on the score against the financial position at the date of initial recognition, as well as individual impairment indicators (more than 30 days overdue debts to other banks, adverse court ruling with regard to the borrower in excess of his/her equity, adverse business changes, downgrade of the borrower’s sovereign rating, etc.);
- Loans that are more than 90 days overdue and/or in case of deterioration in the financial position resulting in insolvency, due to commencement of the bankruptcy proceedings are included in Stage 3.

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

Use of forward looking information. The table below presents the main macroeconomic indicators included in the economic scenarios used as at 31 December 2020 for the period from 2021 to 2025 for Russia, which is the country where the Bank operates, and therefore the country that has significant impact on expected credit losses.

	2021	2022	2023	2024	2025
Unemployment rate	5,4%	4,4%	4,3%	4,1%	3,7%
US dollar to Russian ruble exchange rate	72,3	71,9	71,3	73,5	75,0

These figures are based on the forecast of The Economist.

The predicted relationships between key indicators and default and loss ratios for various portfolios of financial assets were developed based on historical data analysis for the last 10 years for loans to legal entities and for the last 3 years for loans to individuals. As stated in Note 21, the forecasts have changed significantly as at the date of approval of the financial reporting. In its calculations, the Bank will also consider future changes in macroeconomic forecasts.

Individuals. The Bank simulates the impact of the macroeconomic factors on PD indicators related to loans to individuals, in particular: USD/RUB and EUR/RUB exchange rates, RTS price index, future price for 1 barrel of Brent oil, and unemployment rates. The Bank uses official forecast data made available by the CBR and the Ministry of Economic Development of the Russian Federation. Following the analysis of the correlation between macroeconomic factors and PD indicators related to loans to individuals performed within the correlation and regression analysis USD/RUB exchange rate was selected as applicable indicator.

Legal entities. The Bank assesses the impact of the macroeconomic factors on PD indicators related to loans to legal entities depending on the corporate borrower rating, in particular: car market size, USD/RUB exchange rate, Brent oil price in USD, LIBOR (1 month), GDP growth rate, IPI, inflation and unemployment rates. Based on the analysis of the relationship between macroeconomic parameters and PD in the correlation and regression analysis, the level of inflation in Russia was chosen as the applicable parameter.

Instrument Banks based on shared risk characteristics. When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type;
- Date of initial recognition;
- Remaining term to maturity;
- Industry;
- Geographic location of the borrower;
- Income bracket of the borrower; and
- The value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

For example, for the purposes of vintage analysis and homogeneity analysis, the portfolio of loans to individuals for the purchase of a car can be divided into subportfolios according to the following options:

- Depending on the loan payment schedules (equal monthly installment or payment in arrears);
- Depending on the number of documents provided by the borrower (a loan supported by two documents, a loan supported by one document, a loan supported by a full set of documents);
- Depending on the age of the car being purchased on credit (new car, used car).

Auto dealers are the Bank's key borrowers under corporate lending, therefore all loan requirements applicable to them are analyzed on a case-by-case basis.

The Bank's debtor portfolio (short-term, as a rule) includes the following key groups:

- Automobile sector - mainly dealers with license fees;
- High-tech industries - IT service providers, counterparties that receive advance payments for software and infrastructure development;
- Insurance companies - commission obligations and others;
- Sovereign and public finance - government institutions such as the Ministry of Industry and Trade of the Russian Federation;
- Other suppliers supporting principal activity and administrative needs of the Bank.

The analysis of the Bank's credit risk for each class of financial assets, taking into account the stage in accordance with IFRS 9, without taking into account the effect of collateral and other mechanisms to improve the quality of the credit, is presented in the tables below. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments, the amounts in the table represent the amounts committed.

	31 December 2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Cash and cash equivalents				
Gross carrying amount	3 011 212	-	-	3 011 212
Allowance for impairment	(1 763)	-	-	(1 763)
Total cash and cash equivalents after allowance for impairment losses	**3 009 449**	**-**	**-**	**3 009 449**

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

	31 December 2019			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Cash and cash equivalents				
Gross carrying amount	852 683	-	-	852 683
Allowance for impairment	(16)	-	-	(16)
Total cash and cash equivalents after allowance for impairment losses	**852 667**	**-**	**-**	**852 667**

	31 December 2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Due from banks				
Gross carrying amount	300 034	-	-	300034
Allowance for impairment	(330)	-	-	(330)
Total due from banks after allowance for impairment losses	**299 704**	**-**	**-**	**299 704**

As at 31 December 2019 there were no deposits in banks.

	31 December 2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loans to legal entities				
Assessed on an individual basis				
Not past due loans	715 231	1 710 921	-	2 426 152
Past due more than 180 days	-	-	61 744	61 744
Gross carrying amount	**715 231**	**1 710 921**	**61 744**	**2 487 896**
Allowance for impairment	(4 917)	(2 856)	(61 744)	(69 517)
Total corporate loans after allowance for impairment losses	**710 314**	**1 708 065**	**-**	**2 418 379**
Loans to individuals				
Collectively assessed				
Not past due loans	23 894 176	254 419	-	24 148 595
Past due:				
Less than 30 days overdue	396 194	52 098	-	448 292
31 to 60 days overdue	-	157 476	-	157 476
61 to 90 days overdue	-	68 216	-	68 216
91 to 180 days overdue	-	-	164 235	164 235
more than 180 days overdue	-	-	722 317	722 317
Gross carrying amount	**24 290 370**	**532 209**	**886 552**	**25 709 131**
Allowance for impairment	(207 777)	(91 757)	(560 075)	(859 609)
Total retail loans after allowance for impairment losses	**24 082 593**	**440 452**	**326 477**	**24 849 522**
Total loans to customers	**24 792 907**	**2 148 517**	**326 477**	**27 267 901**

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

	31 December 2019			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Loans to legal entities				
Assessed on an individual basis				
Not past due loans	704 311	365 645	-	1 069 956
Past due:				
more than 180 days overdue	-	-	61 744	61 744
Gross carrying amount	**704 311**	**365 645**	**61 744**	**1 131 700**
Allowance for impairment	(3 311)	(1 165)	(61 744)	(66 220)
Total corporate loans after allowance for impairment losses	**701 000**	**364 480**	**-**	**1 065 480**
Loans to individuals				
Collectively assessed				
Not past due loans	25 057 167	129 663	-	25 186 830
Past due:				
Less than 30 days overdue	436 818	67 935	-	504 753
31 to 60 days overdue	-	129 743	-	129 743
61 to 90 days overdue	-	82 290	-	82 290
91 to 180 days overdue	-	-	101 151	101 151
more than 180 days overdue	-	-	378 849	378 849
Gross carrying amount	**25 493 985**	**409 631**	**480 000**	**26 383 616**
Allowance for impairment	(202 463)	(80 809)	(270 039)	(553 311)
Total retail loans after allowance for impairment losses	**25 291 522**	**328 822**	**209 961**	**25 830 305**
Total loans to customers	**25 992 522**	**693 302**	**209 961**	**26 895 785**

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

The table below presents the analysis of significant changes in the gross carrying amount of financial assets during the period that led to changes in the amount of the loss allowance and changes in the allowance for expected credit losses in 2020 and 2019 within asset classes:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Cash and cash equivalents				
Gross carrying amount as at January 1, 2020	**852 683**	**-**	**-**	**852 683**
Changes in the gross carrying amount				
New financial assets originated or purchased	15 458 529	-	-	15 458 529
Financial assets that have been derecognized	(13 300 000)	-	-	(13 300 000)
Gross carrying amount as at 31 December 2020	**3 011 212**	**-**	**-**	**3 011 212**
Loss allowance as at 31 December 2020	**(1 763)**	**-**	**-**	**(1 763)**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Cash and cash equivalents				
Gross carrying amount as at January 1, 2019	**1 212 727**	**-**	**-**	**1 212 727**
Changes in the gross carrying amount				
New financial assets originated or purchased	14 904 109	-	-	14 904 109
Financial assets that have been derecognized	(15 264 153)	-	-	(15 264 153)
Gross carrying amount as at 31 December 2019	**852 683**	**-**	**-**	**852 683**
Loss allowance as at 31 December 2019	**(16)**	**-**	**-**	**(16)**

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – Cash and cash equivalents				
Loss allowance as at 1 January 2020	**16**	**-**	**-**	**16**
Changes in the loss allowance				
- Decreases due to change in credit risk	(13)	-	-	(13)
New financial assets originated or purchased	1 760	-	-	1 760
Loss allowance as at 31 December 2020	**1 763**	**-**	**-**	**1 763**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – Cash and cash equivalents				
Loss allowance as at 1 January 2019	**14**	**-**	**-**	**14**
Changes in the loss allowance				
- Increases due to change in credit risk	2	-	-	2
Loss allowance as at 31 December 2019	**16**	**-**	**-**	**16**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Due from banks				
Gross carrying amount as at January 1, 2020	**-**	**-**	**-**	**-**
Changes in the gross carrying amount				
New financial assets originated or purchased	2 900 034	-	-	2 900 034
Financial assets that have been derecognized	(2 600 000)	-	-	(2 600 000)
Gross carrying amount as at 31 December 2020	**300 034**	**-**	**-**	**300 034**
Loss allowance as at 31 December 2020	**(330)**	**-**	**-**	**(330)**

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance - due from banks				
Loss allowance as at 1 January 2020	**-**	**-**	**-**	**-**
Changes in the loss allowance				
New financial assets originated or purchased	330	-	-	330
Loss allowance as at 31 December 2020	**330**	**-**	**-**	**330**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Corporate loans measured at amortized cost				
Gross carrying amount as at January 1, 2020	**704 311**	**365 645**	**61 744**	**1 131 700**
Changes in the gross carrying amount				
- Transfer to stage 2	(1 708 051)	1 708 051	-	-
New financial assets originated or purchased	4 139 212	-	-	4 139 212
Financial assets that have been derecognized	(2 420 241)	(362 775)	-	(2 783 016)
Gross carrying amount as at 31 December 2020	**715 231**	**1 710 921**	**61 744**	**2 487 896**
Loss allowance as at 31 December 2020	**(4 917)**	**(2 856)**	**(61 744)**	**(69 517)**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Corporate loans measured at amortized cost				
Gross carrying amount as at 1 January 2019	**213 009**	**36 165**	**61 744**	**310 918**
Changes in the gross carrying amount				
- Transfer to stage 2	(365 645)	365 645	-	-
New financial assets originated or purchased	3 669 914	-	-	3 669 914
Financial assets that have been derecognized	(2 812 967)	(36 165)	-	(2 849 132)
Gross carrying amount as at 31 December 2019	**704 311**	**365 645**	**61 744**	**1 131 700**
Loss allowance as at 31 December 2019	**(3 311)**	**(1 165)**	**(61 744)**	**(66 220)**

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – corporate loans at amortized cost				
Loss allowance as at 1 January 2020	**3 311**	**1 165**	**61 744**	**66 220**
Changes in the loss allowance				
- Transfer to stage 2	(5 950)	5 950	-	-
- Increase due to change in credit risk	84	-	-	84
- Decrease due to change in credit risk	-	(1 367)	-	(1 367)
New financial assets originated or purchased	7 702	-	-	7 702
Financial assets that have been derecognized	(230)	(2 892)	-	(3 122)
Loss allowance as at 31 December 2020	**4 917**	**2 856**	**61 744**	**69 517**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – corporate loans at amortized cost				
Loss allowance as at 1 January 2019	**246**	**39**	**61 744**	**62 029**
Changes in the loss allowance				
- Transfer to stage 2	(1 160)	1 160	-	-
- Increase due to change in credit risk	1 890	52	-	1 942
- Decrease due to change in credit risk	-	(47)	-	(47)
New financial assets originated or purchased	2 581	-	-	2 581
Financial assets that have been derecognized	(246)	(39)	-	(285)
Loss allowance as at 31 December 2019	**3 311**	**1 165**	**61 744**	**66 220**

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Retail loans measured at amortized cost				
Gross carrying amount as at January 1, 2020	**25 493 985**	**409 631**	**480 000**	**26 383 616**
Changes in the gross carrying amount				
- Transfer to stage 1	30 886	(30 886)	-	-
- Transfer to stage 2	(418 166)	425 863	(7 697)	-
- Transfer to stage 3	(401 181)	(127 796)	528 977	-
- Write-offs	-	-	(6 754)	(6 754)
New financial assets originated or purchased	16 921 473	-	-	16 921 473
Financial assets that have been derecognized	(17 359 989)	(149 050)	(109 744)	(17 618 783)
Other changes	484 134	4 447	1 770	490 351
Gross carrying amount as at 31 December 2020	**24 290 370**	**532 209**	**886 552**	**25 709 131**
Loss allowance as at 31 December 2020	**(207 777)**	**(91 757)**	**(560 075)**	**(859 609)**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Retail loans measured at amortized cost				
Gross carrying amount as at January 1, 2019	**19 167 160**	**139 417**	**133 166**	**19 439 743**
Changes in the gross carrying amount				
- Transfer to stage 1	16 244	(16 244)	-	-
- Transfer to stage 2	(388 867)	390 608	(1 741)	-
- Transfer to stage 3	(290 923)	(63 760)	354 683	-
Recovery	-	-	19 231	19 231
New financial assets originated or purchased	20 406 280	-	-	20 406 280
Financial assets that have been derecognized	(13 436 504)	(43 441)	(29 820)	(13 509 765)
Other changes	20 595	3 051	4 481	28 127
Gross carrying amount as at 31 December 2019	**25 493 985**	**409 631**	**480 000**	**26 383 616**
Loss allowance as at 31 December 2019	**(202 463)**	**(80 809)**	**(270 039)**	**(553 311)**

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – Loans to individuals at amortized cost				
Loss allowance as at 1 January 2020	**202 463**	**80 809**	**270 039**	**553 311**
Changes in the loss allowance				
- Transfer to stage 1	8 100	(8 100)	-	-
- Transfer to stage 2	(7 649)	15 030	(7 381)	-
- Transfer to stage 3	(6 484)	(29 335)	35 819	-
- Increase due to change in credit risk	8 113	64 451	339 928	412 492
- Decrease due to change in credit risk	(44 661)	(4 787)	(3 103)	(52 551)
- Recovery	-	-	(6 754)	(6 754)
New financial assets originated or purchased	162 918	-	-	162 918
Financial assets that have been derecognized	(115 023)	(26 311)	(68 473)	(209 807)
Loss allowance as at 31 December 2020	**207 777**	**91 757**	**560 075**	**859 609**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – Loans to individuals at amortized cost				
Loss allowance as at 1 January 2019	**120 909**	**35 391**	**92 531**	**248 831**
Changes in the loss allowance				
- Transfer to stage 1	6 087	(6 087)	-	-
- Transfer to stage 2	(4 664)	6 225	(1 561)	-
- Transfer to stage 3	(1 972)	(16 134)	18 106	-
- Increase due to change in credit risk	75 492	73 527	211 522	360 541
- Decrease due to change in credit risk	(49 660)	(2 775)	(50 268)	(102 703)
- Recovery	-	-	19 231	19 231
New financial assets originated or purchased	125 809	-	-	125 809
Financial assets that have been derecognized	(69 538)	(9 338)	(19 522)	(98 398)
Loss allowance as at 31 December 2019	**202 463**	**80 809**	**270 039**	**553 311**

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – Loan commitments				
Loss allowance as at 1 January 2020	**1 590**	**120**	**-**	**1710**
Changes in the loss allowance				
- Transfer to stage 2	(171)	171	-	-
Reversal (due to repayment of credit facility)	(1 590)	(120)	-	(1 710)
New credit commitments assumed or purchased	4 587	-	-	4 587
Loss allowance as at 31 December 2020	**4 416**	**171**	**-**	**4 587**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance – Loan commitments				
Loss allowance as at 1 January 2019	**51**	**20**	**-**	**71**
Changes in the loss allowance				
Reversal (due to repayment of credit facility)	(51)	(20)	-	(71)
New credit commitments assumed or purchased	1 590	120	-	1 710
Loss allowance as at 31 December 2019	**1 590**	**120**	-	**1 710**

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

Geographical risk (as part of concentration risk). Assets and liabilities were classified by counterparty's country. Cash accounts were classified by the country in which they were physically held.

The geographical concentration of assets and liabilities is presented in the tables below:

	Russian Federation	Other countries Non-OECD	OECD countries	31 December 2020 Total
FINANCIAL ASSETS				
Cash and cash equivalents	3 009 449	-	-	3 009 449
Mandatory cash balance with the Central Bank of the Russian Federation	181 112	-	-	181 112
Due from banks	299 704	-	-	299 704
Loans to customers	27 267 901	-	-	27 267 901
Other financial assets	108 283	-	696	108 979
TOTAL FINANCIAL ASSETS	**30 866 449**	**-**	**696**	**30 867 145**
FINANCIAL LIABILITIES				
Due to credit institutions	58 036	-	-	58 036
Customer accounts	4 396 230	-	21 028 703	25 424 933
Other financial liabilities	338 774	280	14 629	353 683
TOTAL FINANCIAL LIABILITIES	**4 793 040**	**280**	**21 043 332**	**25 836 652**

The geographical concentration of the Bank's assets and liabilities at 31 December 2019 is set out below:

	Russian Federation	Other countries Non-OECD	OECD countries	31 December 2019 Total
FINANCIAL ASSETS				
Cash and cash equivalents	852 667	-	-	852 667
Mandatory cash balance with the Central Bank of the Russian Federation	164 225	-	-	164 225
Loans to customers	26 895 785	-	-	26 895 785
Other financial assets	222 545	-	-	222 545
TOTAL FINANCIAL ASSETS	**28 135 222**	**-**	**-**	**28 135 222**
FINANCIAL LIABILITIES				
Customer accounts	2 411 697	17	20 986 747	23 398 461
Other financial liabilities	369 453	220	25 512	395 185
TOTAL FINANCIAL LIABILITIES	**2 781 150**	**237**	**21 012 259**	**23 793 646**

24. Risk management policies (continued)

Liquidity risk

Liquidity risk management. Liquidity risk is a risk of the Bank's inability to finance its activities, that is, ensure the growth of assets and fulfill obligations as they become due without incurring losses in the amount threatening the financial stability of the Bank.

Liquidity risk can be expressed in the following forms:

- The risk of insolvency is also the risk of current liquidity, which means that the Bank is no longer able to meet its current liabilities on time and in full;
- The term mismatch risk is the risk of losses in the event of an unplanned extension of the period in which the capital elements are treated as assets (risk of mismatch between the amounts and dates of cash receipts and debits (incoming and outgoing cash flows);
- The risk of early withdrawal/revocation is the risk of losses in case of early withdrawal of deposits or early repayment by legal entities, unplanned use of approved credit lines (the risk of unforeseen liquidity requirements, i.e. the consequences that unforeseen events in the future may require more resources than anticipated);
- The market liquidity loss risk arises if the asset cannot be sold or can be sold at a reduced value due to low market liquidity (i.e. the probability of losses when selling assets or due to the inability to close an existing position due to insufficient market liquidity or insufficient trading volumes);
- The risk of changes in the cost of funding is the risk of losses associated with an increase in market rates with additional financing (i.e. the risk associated with potential changes in the cost of funding (own and market credit spread) that affect the size of the Bank's future income);
- The risk of concentration on individual sources of liquidity (the Bank's dependence on individual sources of liquidity).

The Asset and Liability Management Committee monitors these risks through maturity analysis of assets and liabilities, determining the Bank's strategy for the next financial period.

Based on the Bank's risk inventory, the liquidity risk in 2020 is identified as significant, and the calculation of the value exposed to liquidity risk is included in the assessment of the current capital requirements required to cover the assumed risks.

Liquidity risk is managed in the Bank by:

- Forecasting payment flows by major currency types in order to determine the amount of liquidity deficit (excess);
- Forecasting the structure of assets and liabilities in order to determine the required level of liquid assets;
- Forecasting and monitoring the values of liquidity indicators, including daily monitoring of signal values;
- Stress testing of the liquidity level.

The procedures for assessing liquidity, including the analysis of the state of liquidity for different time perspectives, determining the Bank's funding needs, including determining the excess (deficit) of liquidity, are carried out by the treasury and the risk management department.

In relation to the liquidity risk, capital requirements are defined in the form of a capital reserve allocated to cover the liquidity risk and indicators that allow controlling the liquidity risk, such as limits (maximum permissible values) of the liquidity deficit and excess, maximum values of mandatory liquidity ratios.

24. Risk management policies (continued)

Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization. The Bank constantly monitors the current level of the Bank's liquidity in relation to the Bank's regulatory and approved indicators (the system of limits and maximum values) and is carried out by the risk management department. The Risk Management Department generates a daily automated report on compliance with mandatory liquidity ratios and their signal values, the capital limit for covering liquidity risk, the results of the Bank's liquidity analysis by maturity and compliance with the limits of the liquidity deficit and surplus.

The Bank's financing features consist in establishing a list of sources of financing by the main shareholder of the Bank.

The concentration of funding sources by counterparty is analysed by the risk management department based on the list of funding sources and reporting f.0409157 "Information about major creditors (depositors)".

Each new major transaction concluded by the Bank with a client (counterparty) is subject to an assessment in terms of the impact on liquidity. For this purpose, the process of concluding a major transaction includes the approval procedure of the Board of Directors and, if necessary, the General Meeting of Shareholders.

The actual indicators of the ratio of assets and liabilities by maturity (demand) are calculated on a monthly basis by the accounting department in accordance with the Bank of Russia's regulatory documents on reporting f.0409125 "Information on assets and liabilities by maturity and maturity".

The Bank sets the following limits: Liquidity risk capital limit (LVar), Maximum values of liquidity ratios. In addition, the Bank establishes liquidity surplus (deficit) limits.

Liquidity limits – maximum permissible values of excess (deficit) of liquidity are set for intervals up to 30 days and up to 1 year by the decision of the asset and liability management Committee at the suggestion of the treasury and the risk management department.

Main methods of Bank liquidity management (recovery) applied by the Bank's assets and liabilities management Committee:

- Setting number of transactions in the structure of the Bank's assets and liabilities (transaction limits, limits on counterparties, etc.);
- Consideration of information on reaching the established maximum values and non-compliance with the established limits in order to develop measures and submit them to the Board of Directors for approval;
- Preliminary consideration of the Bank's liquidity surplus (deficit) limits, capital limits to cover liquidity risk and maximum values;
- Review of draft documents and approval of internal documents regulating credit risk management, including procedures for conducting operations related to the Bank's acceptance of liquidity risk, and methodology for assessing liquidity risk for approval by the Bank's management bodies;
- Consideration and approval for consideration by the Bank's management bodies proposals to improve internal technologies for liquidity risk managing and related concentration risk, to organize procedures for conducting operations related to the Bank's acceptance of the risk, to improve the work of the Bank's divisions responsible for managing the risk and participating in operations related to the Bank's acceptance of relevant risk.

24. Risk management policies (continued)

The Bank's Management Board performs:

- Approval of maximum values to mandatory liquidity ratios and limit values of surplus (deficit) - the Bank's liquidity limits;
- Consideration of the need for changes in risk assessments on a yearly basis;
- Consideration of information on the achievement of targeted results and non-compliance with the established limits as the facts are identified;
- Control over compliance with the established procedures for liquidity risk management, volumes of accepted liquidity risk and compliance with the established limits.
- Approval of internal documents on liquidity risk management, including consideration of the need to amend the Regulation on liquidity risk management and assessment on a yearly basis;
- Reviewing reports from the risk management department.

The Board of Directors performs:

- At least once a year, consideration of the necessity to amend the risk and capital management strategy, including the procedure for managing the most significant risks and capital and amendments (if any) to the Bank's Business Continuity and Disaster Recovery Plan in terms of the Action Plan in case of liquidity crisis and monitor their implementation, including by reviewing reports on significant risks, compliance with mandatory ratios, capital amount and capital adequacy on a regular basis;
- Approval of the liquidity risk capital limit (LVar);
- Consideration of the stress testing results and decision-making on the results (if necessary);
- Approval of transactions in the cases and according to the procedure specified in the Charter;
- Approval of reports on the results of internal procedures implementation for assessing capital adequacy, significant risks, stress testing with the frequency established by the requirements of the CB RF and the Bank's internal documents;
- Consideration of information on the achievement of targeted results and non-compliance with the established limits as part of the reporting.

Relevance Bank's Business Continuity and Disaster Recovery Plan in terms of the Action Plan in case of liquidity crisis and the Plan of Financing Activities in cases of unpredictable decrease in liquidity (anti-crisis liquidity management) shall be reviewed at least once a year by the risk management department.

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

Liquidity risk analysis is presented in the following table, based on the information provided to key management personnel of the Bank.

	Weighted average effective interest rate	Up to 1 month	1-3 months	3 months to 1 year	1 to 5 years	Over 5 years	Maturity undefined	31 December 2020 Total
FINANCIAL ASSETS								
Cash and cash equivalents	4,1%	1 598 376	-	-	-	-	-	1 598 376
Due from banks	4,2%	299 704	-	-	-	-	-	299 704
Loans to customers	13,2%	1 190 832	2 090 071	8 057 643	15 837 729	91 626	-	27 267 901
Total interest-bearing financial assets		**3 088 912**	**2 090 071**	**8 057 643**	**15 837 729**	**91 626**	**-**	**29 165 981**
Cash and cash equivalents		1 411 073	-	-	-	-	-	1 411 073
Mandatory cash balances with the Central Bank of the Russian Federation		-	-	-	-	-	181 112	181 112
Other financial assets		108 979	-	-	-	-	-	108 979
Total non-interest bearing financial assets		**1 520 052**	**-**	**-**	**-**	**-**	**181 112**	**1 701 164**
Total financial assets		**4 608 964**	**2 090 071**	**8 057 643**	**15 837 729**	**91 626**	**181 112**	**30 867 145**
FINANCIAL LIABILITIES								
Due to credit institutions	2,3%	36	-	58 000	-	-	-	58 036
Customer accounts	6,0%	2 556 814	1 845 870	8 026 107	11 762 911	-	-	24 191 702
Lease liabilities	6,9%	2 861	5 687	24 822	64 035	-	-	97 405
Total fixed interest bearing financial liabilities		**2 559 711**	**1 851 557**	**8 108 929**	**11 826 946**	**-**	**-**	**24 347 143**
Customer accounts		1 233 231	-	-	-	-	-	1 233 231
Other financial liabilities		222 605	-	33 673	-	-	-	256 278
Total non-interest bearing financial liabilities		**1 455 836**	**-**	**33 673**	**-**	**-**	**-**	**1 489 509**
Total financial liabilities		**4 015 547**	**1 851 557**	**8 142 602**	**11 826 946**	**-**	**-**	**25 836 652**
Interest sensitivity gap		529 201	238 514	(51 286)	4 010 783	91 626	-	
Cumulative interest sensitivity gap		**529 201**	**767 715**	**716 429**	**4 727 212**	**4 818 838**	-	
Financial assets less financial liabilities (Liquidity gap)		593 417	238 514	(84 959)	4 010 783	91 626	181 112	
Cumulative liquidity gap		**593 417**	**831 931**	**746 972**	**4 757 755**	**4 849 381**	**5 030 493**	

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

	Weighted average effective interest rate	Up to 1 month	1-3 months	3 months to 1 year	1 to 5 years	Over 5 years	Maturity undefined	31 December 2019 Total
FINANCIAL ASSETS								
Loans to customers	14,1%	1 186 927	1 977 886	7 540 817	16 162 710	27 445	-	26 895 785
Total interest-bearing financial assets		**1 186 927**	**1 977 886**	**7 540 817**	**16 162 710**	**27 445**	-	**26 895 785**
Cash and cash equivalents		852 667	-	-	-	-	-	852 667
Mandatory cash balances with the Central Bank of the Russian Federation		-	-	-	-	-	164 225	164 225
Other financial assets		222 545	-	-	-	-	-	222 545
Total non-interest bearing financial assets		**1 075 212**	-	-	-	-	**164 225**	**1 239 437**
Total financial assets		**2 262 139**	**1 977 886**	**7 540 817**	**16 162 710**	**27 445**	**164 225**	**28 135 222**
FINANCIAL LIABILITIES								
Customer accounts	7,0%	858 870	1 483 667	7 773 897	12 516 345	-	-	22 632 779
Lease liabilities	6,2%	2 904	5 987	26 214	96 899	-	-	132 004
Total fixed interest bearing financial liabilities		**861 774**	**1 489 654**	**7 800 111**	**12 613 244**	-	-	**22 764 783**
Customer accounts		765 682	-	-	-	-	-	765 682
Other financial liabilities		232 423	-	30 758	-	-	-	263 181
Total non-interest bearing financial liabilities		**998 105**	**-**	**30 758**	-	-	-	**1 028 863**
Total financial liabilities		**1 859 879**	**1 489 654**	**7 830 869**	**12 613 244**	-	-	**23 793 646**
Interest sensitivity gap		325 153	488 232	(259 294)	3 549 466	27 445	-	
Cumulative interest sensitivity gap		**325 153**	**813 385**	**554 091**	**4 103 557**	**4 131 002**		
Financial assets less financial liabilities (Liquidity gap)		**402 260**	**488 232**	**(290 052)**	**3 549 466**	**27 445**	**164 225**	
Cumulative liquidity gap		**402 260**	**890 492**	**600 440**	**4 149 906**	**4 177 351**	**4 341 576**	

In the tables above, the terms to maturity correspond to the contractual terms. However, in accordance with the current legislation, individuals have the right for premature withdrawal of deposits. The possible effect from such early terminations is insignificant.

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

The following tables detail the Bank's contractual maturities for non-derivative financial liabilities with fixed repayment periods. The data is based on the undiscounted cash flows of the Bank's financial liabilities, given the earliest possible dates on which the Bank can receive respective repayment notices. The tables include both interest and principal cash flows. In the case of the floating interest rate, the undiscounted amount is derived on the basis of interest rate curve as at the reporting date. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

	Weighted average effective interest rate	Up to 1 month	1-3 months	3 months to 1 year	1 - 5 years	Over 5 years	31 December 2020 Total
Fixed interest rate instruments							
Due to credit institutions	2,3%	107	-	58 390	-	-	58 497
Customer accounts	6,0%	2 580 811	2 002 685	8 785 443	12 574 011	-	25 942 950
Lease liabilities	6,9%	2 866	5 744	25 847	73 436	-	107 893
Total fixed interest bearing financial liabilities		**2 583 784**	**2 008 429**	**8 869 680**	**12 647 447**	**-**	**26 109 340**
Non-interest bearing instruments							
Customer accounts		1 233 231	-	-	-	-	1 233 231
Other financial liabilities		222 605	-	33 673	-	-	256 278
Commitments on loans and unused credit lines		796 660	-	-	-	-	796 660
Total non-interest bearing financial liabilities		**2 252 496**	**-**	**33 673**	**-**	**-**	**2 286 169**
Total financial liabilities		**4 836 280**	**2 008 429**	**8 903 353**	**12 647 447**	**-**	**28 395 509**

	Average effective interest, %	Up to 1 month	1-3 months	3 months to 1 year	1 - 5 years	Over 5 years	31 December 2019 Total
Fixed interest rate instruments							
Customer accounts	7,0%	879 062	1 622 386	8 709 506	13 654 066	-	24 865 020
Lease liabilities	6,2%	3 312	6 042	27 189	112 584	112	149 239
Total fixed interest bearing financial liabilities		**882 374**	**1 628 428**	**8 736 695**	**13 766 650**	**112**	**25 014 259**
Non-interest bearing instruments							
Customer accounts		765 682	-	-	-	-	**765 682**
Other financial liabilities		232 423	-	30 758	-	-	**263 181**
Commitments on loans and unused credit lines		332 591	-	-	-	-	**332 591**
Total non-interest bearing financial liabilities		1 330 696	-	30 758	-	-	**1 361 454**
Total financial liabilities		2 213 070	**1 628 428**	**8 767 453**	**13 766 650**	**112**	**26 375 713**

In the tables above, the terms to maturity correspond to the contractual terms. However, in accordance with the current legislation, individuals have the right for premature withdrawal of deposits. The possible effect from such early terminations is insignificant.

24. Risk management policies (continued)

Market risk. Market risk is a risk that the value of financial instruments will change due to market price changes regardless of whether these changes have been caused by factors specific to a particular investment or issuer, or by factors affecting all outstanding securities. The Bank is exposed to market risks insignificantly due to the effect of general and specific market fluctuations on its products.

The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments, the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Due to lack of investment into securities and derivative financial instruments, the market (part of stock market) risk and interest rate risk arising from adverse changes in market prices for securities trading portfolio and derivative financial instruments was remote.

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Identification of currency risk involves an analysis of all operating conditions of the Bank:

- Analysis of the impact of currency exchange rate changes on individual transactions;
- Analysis of the impact of changes in exchange rates on certain areas at banking activity;
- Analysis of the impact of currency positions on the Bank’s open currency positions and the structure of the Bank’s balance sheet as a whole.

The difference in the amounts of the Bank’s claims and liabilities in certain foreign currencies creates the risk of losses (losses) in the event of adverse changes in exchange rates. Exposure to this risk is determined by the degree of mismatch between the amounts of assets and liabilities in a particular currency.

For the currency risk assessment, the structure of assets and liabilities is compared in terms of the currency of transactions performed. Each currency is considered separately.

The main method to measure currency risk is the calculation of open currency positions (OCP).

OCP is calculated as the difference between assets and liabilities for each foreign currency (in physical form and in impersonal form), except for derivative financial instruments the terms of which do not provide for delivery of the underlying asset. Derivative financial instruments, the terms of which do not provide for delivery of the underlying asset are included in the calculation of open currency positions in the amount of the calculated value determined in accordance with paragraph 1.6-1.8 of Instructions No. 178-I of the Bank of Russia "On Establishing the Amount (Limits) of Open Currency Positions, the Method of Their Calculation and Features Oversee Their Compliance by Credit Organizations". A long position (OCP>0) brings potential losses to the Bank if the exchange rate falls, because part of the assets are funded by another (growing) currency and the amount of liabilities, aligned with the base currency (i.e. to the currency for which the OCP is determined), increases. A short position (OCP<O) negatively affects the performance if the exchange rate of the base currency rises because assets in the alternative currency depreciate and do not cover liabilities recorded in the base rising currency as a result.

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

In order to identify the factors of the currency risk increase, the Bank performs daily current analysis of the exchange rates dynamics, which consists of:

- Analysis of statistical models of course changes;
- Collecting and analysing information about factors that can influence the dynamics of exchange rates;
- Analysis of the external factors influence on changes in exchange rates;
- Analysis of market behavior for similar instruments and transactions.

The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of CBR.

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2020 is presented in the table below:

	RUB	**USD** USD 1 = RUB 73,8757	**Euro** EUR 1 = RUB 90,6824.	**31 December 2020 Total**
Financial assets				
Cash and cash equivalents	3 001 793	5 051	2 605	3 009 449
Mandatory cash balances with the Central Bank of the Russian Federation	181 112	-	-	181 112
Due from banks	299 704	-	-	299 704
Loans to customers	27 267 901	-	-	27 267 901
Other financial assets	108 979	-	-	108979
Total financial assets	**30,859,489**	**5,051**	**2,605**	**30,867,145**
Financial liabilities				
Due to credit institutions	58,036	-	-	58 036
Customer accounts	25 421 741	2 088	1 104	25 424 933
Other financial liabilities	353 402	278	3	353 683
Total financial liabilities	**25 833 179**	**2 366**	**1 107**	**25 836 652**
OPEN POSITION	**5 026 310**	**2 685**	**1 498**	**5 030 493**
Undrawn credit lines	796 660	-	-	796 660

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2019 is presented in the table below:

	RUB	USD USD 1 = RUB 61,9057	EUR EUR 1= RUB 69,3406	31 December 2019 Total
Financial assets				
Cash and cash equivalents	831 955	12 213	8 499	852 667
Mandatory cash balances with the Central Bank of the Russian Federation	164 225	-	-	164 225
Loans to customers	26 895 785	-	-	26 895 785
Other financial assets	222 545	-	-	222 545
Total financial assets	**28 114 510**	**12 213**	**8 499**	**28 135 222**
Financial liabilities				
Customer accounts	23 393 089	5 370	2	23 398 461
Other financial liabilities	394 965	220	-	395 185
Total financial liabilities	**23 788 054**	**5 590**	**2**	**23 793 646**
OPEN POSITION	**4 326 456**	**6 623**	**8 497**	**4 341 576**
Undrawn credit lines	332 591	-	-	332 591

The Bank closely monitors its foreign exchange position in the course of its operations, so the share of foreign currency assets and liabilities on the balance sheet is insignificant and sensitivity analysis to changes in exchange rates is not carried out.

Interest rate risk. Interest rate risk is the risk of negative effects on the credit institution's financial position caused by decrease in equity, income, value of assets due to changes in 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 fluctuations may increase the interest margin; however, unexpected changes of interest rates may decrease the margin or cause losses. The Bank considers interest rate risk a significant risk.

The Bank is exposed to interest rate risk primarily as it grants loans at fixed rates in the amount and for the term which differ from those of term borrowings at fixed interest rates.

The impact of interest rate risk only appeared in terms of non-compliance with repayment (options to establish rates on transactions with assets and liabilities by various means, for example, fixed rates against variable rates, and vice versa, were not used).

Within the implementation of internal procedures of assessing capital adequacy, the Bank uses a method to determine the cost subject to interest rate risk (IrVar method), which is defined as the maximum unforeseen loss as a result of change in the interest rates within one year.

The Bank assesses interest rate risk using gap analysis by distributing assets and liabilities by contractual maturities and fixed interest rates, and also by period left until rate review in case of floating interest rates.

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

The Bank regularly holds stress tests for the interest rate risk. In such tests interest income and expenses are assessed from a standpoint of a significant hypothetical change in interest rates, taking into account the risk relating to early (pre-contractual) repayment/revision of loans/interest rates.

In practice, interest rates are usually set for a short period of time. In addition, the interest rates fixed in the contractual terms and conditions with regard to assets and liabilities are often revised based on mutual agreement in accordance with the current market environment.

The Bank limits acceptable divergences between interest rate revision periods and monitors compliance with pre-set limits on a daily basis. When no hedging tools are available, the Bank normally seeks to ensure matching of interest rate positions.

As market conditions change, the Bank has the right to unilaterally revise interest rates for assets/liabilities, if provided for in the respective contracts and the Russian legislation.

As at the reporting date, the impact of changes in interest rate risk on the financial result and capital of credit institution in the context of currencies is immaterial, since the majority of the Bank's assets and liabilities are denominated in rubles.

Interest rate sensitivity. The table below shows sensitivity of the Bank's pre-tax earnings and capital as at respective reporting dates to reasonably possible changes in interest rates, other variables being constant.

Increase/decrease, basis points	Effect on profit before tax	Impact on shareholders' equity
As at 31 December 2020		
+500	33 125	26 500
-500	(33 125)	(26 500)
As at 31 December 2019		
+500	30 773	24 618
-500	(30 773)	(24 618)

Operational risk. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

Legal risk. Legal risk is the risk of losses of a credit institution as a result of a breach by a credit institution and/or its counterparties of the terms of contracts concluded, legal errors made in carrying out its activities (for example, incorrect legal advice or incorrect preparation of documents, including in consideration of disputes in courts), imperfection of the legal system (for example inconsistency of legislation, absence of legal norms regulating individual issues arising in the activities of a credit organization (banking group), violation of regulatory legal acts by counterparties, location of branches of a credit institution, legal entities over which the credit institution exercises control or significant influence, and counterparties of a credit institution under the jurisdiction of different states. Assessed as part of the operational risk.

(in thousands of Russian Rubles, unless otherwise indicated)

24. Risk management policies (continued)

Compliance (regulatory) risk. Regulatory risk is the risk that a credit institution will incur losses due to non-compliance with the legislation of the Russian Federation, internal documents of the credit institution, standards of self-regulatory organizations (if such standards or rules are mandatory for a credit institution), and as a result of sanctions and/or other actions by the regulatory authorities. The procedure for identifying and evaluating is defined in the Bank's internal documents. The risk management process is ensured by the Bank's Internal Control Unit.

25. Related party transactions

For the purposes of this disclosure, "related parties" are defined by the Bank in accordance with IAS 24 "Related Party Disclosures", under which parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In determination of possible related party relationship, attention is directed to the economic substance of the relationship, and not merely the legal form. Related parties may enter into transactions, which unrelated parties might not enter, and transactions between related parties may not be enacted on the same terms, conditions and amounts as transactions between unrelated parties.

There is the information below on the operations and transactions with parties related to the Bank as at 31 December 2020 and 31 December 2019.

	31 December 2020		**31 December 2019**	
	Related party transactions	**Total category as per the financial statement caption**	**Related party transactions**	**Total category as per the financial statement caption**
Loans to customers	1 408	27 267 901	2 222	26 895 785
- key management personnel of the Bank or its parent	*1 408*		*2 222*	
Other assets	53 874	224 580	123 783	257 347
- entities under common control	*53 874*		*123 783*	
Customer accounts	22 760 263	25 424 933	21 185 587	23 398 461
- major shareholder	*219 184*		*194 877*	
- entities under common control	*22 541 079*		*20 990 710*	
Other liabilities	106 038	395 107	141 383	452 543
- major shareholder	*89 715*		*133 127*	
- key management personnel of the Bank or its parent	*16 323*		*8 256*	
Guarantees received	36 000 000	36 000 000	32 000 000	32 000 000
- major shareholder	*36 000 000*		*32 000 000*	
Unused credit lines for loans received	7 127 500	7 127 500	11 225 000	11 225 000
- entities under common control	*7 127 500*		*11 225 000*	

The line "Guarantees Received" in the table above as at 31 December 2020 and 31 December 2019 represents guarantees issued by Mitsubishi Corporation to counterparty banks to assist the Bank in raising deposits and a guarantee to a related party, counterparty for the benefit of the Bank. This guarantee allows the Bank to raise additional funding under the credit line opened for the Bank by Mitsubishi Corporation Finance PLC. The balance of the unused limit at the reporting date amounts to RUB 7 127 500 thousand. (as at 31 December 2019: RUB 11,225,000 thousand).

(in thousands of Russian Rubles, unless otherwise indicated)

25. Related party transactions (continued)

The Bank's statement of profit or loss and other comprehensive income for 2020 and 2019, included the following amounts recorded as transactions with related parties:

	2020		2019	
	Related party transactions	**Total category as per the financial statement caption**	**Related party transactions**	**Total category as per the financial statement caption**
Interest income	970 390	3 927 305	888 030	3 644 625
- entities under common control	970 221		887 896	
- key management personnel of the Bank or its parent	169		134	
Interest expense	(1 573 286)	(1 673 192)	(1 460 573)	(1 537 335)
- major shareholder	(113 704)		(135 992)	
- entities under common control	(1 459 582)		(1 324 581)	
Impairment losses on interest bearing assets	2	(351 502)	-	(291 168)
- key management personnel of the Bank or its parent	2		-	
Net gain on foreign currency transactions	193	1 901	11	2 750
- entities under common control	193		11	
Fee and commission income	3 771	193 770	3 383	187 305
- major shareholder	97		45	
- entities under common control	3 674		3 338	
Other operating income	4	85 274	2 930	68 880
- major shareholder	4		2 930	
Operating expense, excluding compensation of key management personnel	(18 800)	(1 121 757)	(43 039)	(1 126 818)
- major shareholder	(14 000)		(40 425)	
- entities under common control	-		(94)	
- key management personnel of the Bank or its parent	(4 800)		(2 520)	

The remuneration of key management personnel was as follows:

	2020	2019
	Related party transactions	**Related party transactions**
Key management personnel compensation:		
- short-term employee benefits	67 166	56 596
Total remuneration of key management personnel	**67 166**	**56 596**

Key management personnel of the Bank includes members of the Board of Directors and the Management Board of the Bank, the Chief Accountant, members of the Credit Committee, as well as relatives of key management personnel.

26. Subsequent events

There were no material adjusting or non-adjusting events after the balance sheet date.

On behalf of the Bank's Management Board:

Sawaii Norihiro

Acting Chairman of the Management Board

Sezonova S.Y.

Deputy Chief Accountant

13 April 2021
Moscow, Russian Federation