BANCA INTESA

Consolidated Financial Statements

For the Year Ended 31 December 2020
and Independent Auditors' Report

Contents

Independent Auditors' Report

To the Shareholders and Board of Directors of BANCA INTESA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of BANCA INTESA (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated 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 (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) *(IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 of findings from procedures performed in accordance with the requirements of Federal Law No. 395-1, dated 2 December 1990, On Banks and Banking Activity

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No. 395-1, dated 2 December 1990, On Banks and Banking Activity (the "Federal Law"), we have performed procedures to examine:

— the Group's compliance with mandatory ratios as at 1 January 2021 established by the Bank of Russia; and

— whether the elements of the Group's internal control and organisation of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

— Based on our procedures with respect to the Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios as at 1 January 2021 were within the limits established by the Bank of Russia.

  We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

— Based on our procedures with respect to whether the elements of the Group's internal control and organisation of its risk management systems comply with the requirements established by the Bank of Russia, we found that:

  - as at 31 December 2020, the Bank's Internal Audit function was subordinated to, and reported to, the Board of Directors, and the Risk Management function was not subordinated to, and did not report to, divisions taking relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;

  - the Bank's internal documentation, effective on 31 December 2020, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, strategy, country, concentration and liquidity risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;

- as at 31 December 2020, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, strategy, country, concentration and liquidity risks, and on the Group's capital;
- the frequency and consistency of reports prepared by the Bank's Risk Management and Internal Audit functions during 2020, which cover the Group's credit, operational, market, interest rate, legal, strategy, country, concentration and liquidity risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's Risk Management and Internal Audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
- as at 31 December 2020, the Board of Directors and the Management Board of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2020, the Board of Directors and the Management Board of the Bank periodically discussed the reports prepared by the Risk Management and Internal Audit functions, and considered the proposed corrective actions.

Procedures with respect to elements of the Group's internal control and organisation of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
МОСКВА

Shevarenkov E.V.

JSC "KPMG"

Moscow, Russia

1 March 2021

(Thousands of Russian Roubles)

	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	5	5 389 058	4 009 397
Mandatory cash balances with the Central Bank of the Russian Federation		668 863	456 035
Amounts due from credit institutions	6	13 889 596	10 769 894
Investment securities	7	3 058 205	4 100 334
Derivative financial assets	8	112	40 009
Loans to customers:		47 712 058	41 173 529
- loans to large corporate customers	*9*	*31 665 176*	*25 061 258*
- loans to small and medium corporate customers	*9*	*14 513 418*	*14 453 529*
- loans to retail customers	*9*	*1 533 464*	*1 658 742*
Net investments in finance leases	10	1 234 309	1 200 286
Property and equipment, including right-of-use assets	11	1 368 839	1 572 159
Intangible assets	12	474 335	386 597
Deferred income tax assets	13	409 773	306 207
Other assets	14	1 229 874	1 174 243
Total assets		**75 435 022**	**65 188 690**
Liabilities			
Amounts due to credit institutions	15	28 509 974	13 006 561
Derivative financial liabilities	8	1 423	1 347
Amounts due to customers:		29 506 974	35 157 410
- legal entities, state and non-profit organizations	*16*	*17 578 265*	*19 889 609*
- individuals	*16*	*11 928 709*	*15 267 801*
Subordinated loan	17	3 015 172	2 523 507
Lease liabilities	17	502 884	620 560
Other liabilities	14	532 961	539 419
Total liabilities		**62 069 388**	**51 848 804**
Equity	18		
Share capital		10 820 181	10 820 181
Other capital reserves		1 803 914	1 803 914
Revaluation reserve for debt investment securities		(9 630)	15 342
Revaluation reserve for buildings		411 595	402 377
Retained earnings		339 574	298 072
Total equity		**13 365 634**	**13 339 886**
Total equity and liabilities		**75 435 022**	**65 188 690**

Signed and authorised for release on behalf of the Management Board of the Bank:

Giuseppe Giampietro — Chairman of the Management Board

Tatyana Pavlycheva — Member of the Management Board / Head of Accounting, Planning and Control Group / Chief accountant

Акционерное общество «Банк Интеза» (АО «Банк Интеза») ОГРН 1027739177377 ИНН 7708022300 Москва
«Банк Интеза»
Banca Intesa

(Thousands of Russian Roubles)

	Notes	2020	2019
Interest income, calculated using effective interest rate method			
Loans to customers		3 229 808	3 287 506
Amounts due from credit institutions		258 849	364 259
Debt investment securities		199 497	280 616
		3 688 154	**3 932 381**
Other interest income			
Net investments in finance leases		193 356	225 826
		3 881 510	**4 158 207**
Interest expense			
Amounts due to customers		(641 789)	(816 026)
Amounts due to credit institutions		(443 540)	(377 876)
Debt securities issued		-	(231 550)
Subordinated loan		(193 944)	(170 386)
Lease liabilities	17	(44 575)	(55 856)
		(1 323 848)	**(1 651 694)**
Net interest income		**2 557 662**	**2 506 513**
Changes in allowance for credit losses on interest-bearing financial assets	19	(282 425)	(189 966)
Net interest income after allowance for credit losses for interest-bearing financial assets		**2 275 237**	**2 316 547**
Fee and commission income	20	1 071 518	1 397 304
Fee and commission expense	20	(148 608)	(126 352)
Net fee and commission income		**922 910**	**1 270 952**
Net losses from investment securities		(142)	(640)
Net gains from foreign currencies:			
- dealing		(148 792)	595 453
- translation differences		281 603	(298 329)
Net income (losses) from other operating activities	21	8 498	4 479
Operating income		**3 339 314**	**3 888 462**
Personnel expenses	22	(1 638 871)	(1 623 778)
Other general administrative expenses	22	(1 081 084)	(1 160 710)
Depreciation and amortization	11,12	(603 346)	(585 926)
Other allowance for credit losses	14	40 465	18 374
Profit before income tax		**56 478**	**536 422**
Income tax expense	13	(14 976)	(106 427)
Profit for the year		**41 502**	**429 995**
Other comprehensive (loss) income for the year			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for debt investment securities:			
- net change in fair value		(25 091)	29 591
- net amount transferred to profit or loss		119	534
		(24 972)	**30 125**
Items that will not be reclassified to profit or loss:			
Revaluation of buildings		9 218	267 653
Total other comprehensive (loss) income for the year, net of income tax		**(15 754)**	**297 778**
Total comprehensive income for the year		**25 748**	**727 773**

Signed and authorised for release on behalf of the Management Board of the Bank:

Giuseppe Giampietro — Chairman of the Management Board

Tatyana Pavlycheva — Member of the Management Board / Head of Accounting, Planning and Control Group / Chief accountant

ОГРН 1027739177377
«Банк Интеза»
Banca Intesa
ИНН 7708022300
МОСКВА

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

	Share capital	Other capital reserves	Revaluation reserve for debt investment securities	Revaluation reserve for buildings	Retained earnings (Accumulated losses)	Total equity
Balance as at 1 January 2019	**10 820 181**	**1 803 914**	**(14 783)**	**134 724**	**(131 923)**	**12 612 113**
Total comprehensive income						
Profit for the year	-	-	-	-	429 995	429 995
Other comprehensive income						
Items that are or may be reclassified subsequently to profit or loss:						
Revaluation of debt investment securities:						
- Net change in fair value, net of deferred tax of RUB 7 398 thousand	-	-	29 591	-	-	29 591
- Net amount transferred to profit or loss, net of deferred tax of RUB 134 thousand	-	-	534	-	-	534
	-	**-**	**30 125**	**-**	**-**	**30 125**
Items that will not be reclassified to profit or loss:						
Revaluation of buildings, net of deferred tax of RUB 66 913 thousand	-	-	-	267 653	-	267 653
Total other comprehensive income	-	-	**30 125**	**267 653**	-	**297 778**
Total comprehensive income for the year	-	-	**30 125**	**267 653**	**429 995**	**727 773**
Balance as at 31 December 2019	**10 820 181**	**1 803 914**	**15 342**	**402 377**	**298 072**	**13 339 886**
Total comprehensive income						
Profit for the year	-	-	-	-	41 502	41 502
Other comprehensive loss						
Items that are or may be reclassified subsequently to profit or loss						
Revaluation of debt investment securities:						
- Net change in fair value, net of deferred tax of RUB 6 273 thousand	-	-	(25 091)	-	-	(25 091)
- Net amount transferred to profit or loss, net of deferred tax of RUB 30 thousand	-	-	119	-	-	119
	-	**-**	**(24 972)**	**-**	**-**	**(24 972)**
Items that will not be reclassified to profit or loss						
Revaluation of buildings, net of deferred tax of RUB 2 304 thousand	-	-	-	9 218	-	9 218
Total other comprehensive loss	-	-	**(24 972)**	**9 218**	-	**(15 754)**
Total comprehensive income for the year	-	-	**(24 972)**	**9 218**	**41 502**	**25 748**
Balance as at 31 December 2020	**10 820 181**	**1 803 914**	**(9 630)**	**411 595**	**339 574**	**13 365 634**

Signed and authorised for release on behalf of the Management Board of the Bank:

Giuseppe Giampietro — Chairman of the Management Board

Tatyana Pavlycheva — Member of the Management Board / Head of Accounting, Planning and Control Group / Chief accountant

«Банк Интеза» Banca Intesa
Акционерное общество «Банк Интеза» (АО) * ОГРН 1027739177377 * ИНН 7708022300 * МОСКВА

(Thousands of Russian Roubles)

	Note	2020	2019
Cash flows from operating activities			
Interest received		3 747 498	4 017 947
Interest paid		(1 373 707)	(1 570 558)
Fees and commissions received		1 229 439	2 263 066
Fees and commissions paid		(148 608)	(126 352)
Net receipts (payments) for dealing in foreign currencies		(108 819)	562 145
Net receipts for other operating activities		10 585	11 023
Personnel expenses paid		(1 658 870)	(1 627 919)
Other general administrative expenses paid		(1 051 149)	(1 123 453)
Cash flows from operating activities before changes in operating assets and liabilities		**646 369**	**2 405 899**
Net (increase) decrease in operating assets			
Mandatory cash balances with the Central Bank of the Russian Federation		(212 828)	(68 852)
Amounts due from credit institutions		(2 016 589)	(1 745 551)
Loans to customers		(2 139 347)	(7 823 805)
Net investments in finance leases		(37 936)	160 257
Other assets		(46 908)	(253 545)
Net increase(decrease) in operating liabilities			
Amounts due to credit institutions		13 318 880	3 176 835
Amounts due to customers		(8 600 197)	6 704 960
Other liabilities		(68 209)	97 897
Net cash provided from operating activities before income tax paid		**843 235**	**2 654 095**
Income tax paid		(133 655)	(61 859)
Net cash flows provided from operating activities		**709 580**	**2 592 236**
Cash flows from investing activities			
Purchase of property and equipment		(86 339)	(105 311)
Proceeds from sale of property and equipment		1 114	1 650
Purchase of intangible assets		(317 815)	(154 205)
Purchase of investment securities		(3 364 079)	(7 391 954)
Proceeds from sale and redemption of investment securities		4 366 171	7 400 980
Net cash flows provided from (used in) investing activities		**599 052**	**(248 840)**
Cash flows from financing activities			
Repayment of lease liabilities		(236 835)	(213 640)
Repayment of debt securities issued	17	-	(3 000 000)
Net cash flows used in financing activities		**(236 835)**	**(3 213 640)**
Effect of exchange rates changes on cash and cash equivalents		307 864	(220 909)
Net increase (decrease) in cash and cash equivalents		**1 379 661**	**(1 091 153)**
Cash and cash equivalents as at the beginning of the year	5	4 009 397	5 100 550
Cash and cash equivalents as at the end of the year	5	**5 389 058**	**4 009 397**

Signed and authorised for release on behalf of the Management Board of the Bank:

Giuseppe Giampietro — Chairman of the Management Board

Tatyana Pavlycheva — Member of the Management Board / Head of Accounting, Planning and Control Group / Chief accountant

«Банк Интеза» Banca Intesa Москва

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of Banca Intesa and its subsidiary, AO "Intesa Leasing", together referred to as the "Bank" and were authorised for release on behalf of the Management Board of the Bank on1 March 2021.

Banca Intesa is a commercial bank organized in the form of a joint-stock company under the laws of the Russian Federation.

The Bank, formerly known as KMB Bank (Closed Joint-Stock Company), changed its name following the merger with ZAO Banca Intesa, 100% Russian banking subsidiary of Intesa Sanpaolo S.p.A. (Italy), on 11 January 2010.

The activities of the Bank are regulated by the Central Bank of Russia (the 'CBR'). The Bank operates under General Banking License № 2216. The Bank is a member of the state deposit insurance system in the Russian Federation.

The Bank's principal business activities are corporate banking products to large, medium and small businesses and retail banking products and services, including a premium banking segment. The Bank is engaged in a program of the Corporation MSP, the Ministry of Economic Development of the Russian Federation and the CBR to support the businesses of small to medium sized companies by providing them with lending facilities.

The Bank's registered office is located at the following address: 2, Petroverigsky pereulok, Moscow, Russian Federation, 101000.

As at 31 December 2020 and 31 December 2019 the Bank has 6 branches within the Russian Federation in the cities of Saint Petersburg, Nizhniy Novgorod, Ekaterinburg, Novosibirsk, Vladivostok and Rostov-on-Don. The Bank has 28 offices selling banking products in different cities within the Russian Federation. One office was closed during 2020 (2019: three offices) in course of network optimisation.

As at 31 December 2020, the Bank employed 1 057 people (2019: 1 111 people).

The Bank has a wholly owned and controlled subsidiary, AO "Intesa Leasing", former ZAO "KMB-Leasing". It is primarily engaged in the provision of finance leases to the Bank's clients and other companies.

The shareholders of the Bank as at 31 December are:

Shareholder	*31 December 2020*	*31 December 2019*
Intesa Sanpaolo S.p.A. (Italy)	46.9772%	46.9772%
Intesa Sanpaolo Holding International SA (Luxembourg)	53.0228%	53.0228%
Total	**100.0000%**	**100.0000%**

The ultimate controlling party of the Bank is Intesa Sanpaolo S.p.A. (Italy) ("ISP").

Russian business environment

The Bank's operations are primarily located in the Russian Federation. Consequently, the Bank is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a fluctuation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

In the first months of 2020, there were significant shocks in the global market due to the outbreak of coronavirus infection. Together with other factors, this led to a sharp decline in oil prices and stock indexes as well as to the depreciation of the Russian rouble.

In March 2020, the Russian government announced a package of measures to support industries most heavily affected with the spread of coronavirus infection. The program includes, among other, deferral of tax and fee payments for small and medium-sized businesses, postponement of loans repayment, suspension of lease payments on federal and municipal property, state support on loans refinancing and restructuring for businesses in hard-hit industries. Besides, social contribution tax rate was lowered for all small and medium-sized businesses.

The reduction in industrial production and activity in many sectors of the economy as a result of government restrictions related to the development of coronavirus infection, high volatility in prices for various commodities, significant volatility in stock prices and other changes in the economic environment may affect the Bank's operations.

The Bank operates in a financial sector. During the 2020 the Bank’s business remained stable and its operations were not interrupted. Based on the publicly available information at the date consolidated financial statements were authorized for issue, management has considered the potential development of the situation and its expected impact on the Bank and economic environment, in which the Bank operates, including the measures already taken by the Russian government and governments in other countries, where the Bank’s major business partners and customers are located.

The Bank of Russia takes various measures to support the banking system, which facilitate the compliance of banks with prudential requirements. As at 31 December 2020 when calculating prudential reserves for possible losses on loans and other reserves for possible losses, which are taken into account for the purpose of calculating mandatory ratios, the Bank uses the measures indicated in a series of newsletters from the Bank of Russia, in particular, for the above purposes, the Bank decides not to deteriorate the assessment of financial position , and (or) the quality of debt service, and (or) the category of loans, other assets and contingent liabilities for counterparties whose financial position and (or) the quality of debt service has deteriorated due to the spread of coronavirus infection.

In the current economic situation, the Bank has implemented a number of measures to support customers. In particular, the Bank has restructured loans to customers under government support programs, restructured loans to customers not subject to the terms of government support programs, and other restructuring measures mainly involved deferral of payments on principal debt and/or interest for a short-term period without changing the interest rate as support measures.

The impact of the effects of the coronavirus outbreak on the estimate of expected credit losses is described in more detail in Note 3.

Taking into account the Bank's current operating and financial results, as well as the currently publicly available information, management does not expect a significant negative impact of the coronavirus pandemic on the Bank's financial position in the short term. At the same time, it is possible that the further application of measures to prevent the further spread of infection or the adverse impact of such measures on the economic conditions in which the Bank operates will have a negative impact on the Bank's activities in the medium and long term. In addition, the Bank analyzes possible negative scenarios of the situation and is ready to adapt its operational plans accordingly. Management continues to closely monitor the development of the situation and will take the necessary measures to mitigate the consequences of possible negative events and circumstances as they arise.

The accompanying consolidated financial statements reflect management's assessment of the potential impact of the current business environment on the Bank's results of operations and financial position. The subsequent development of the financial and business environment may differ from management's assessment.

(Thousands of Russian Roubles)

2. Basis of preparation

Statement of compliance

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

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Roubles in accordance with the Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investment securities, derivative financial instruments stated at fair value and buildings stated at revalued amount.

Functional and presentation currency

The functional currency of the Bank is the Russian Rouble ("RUB") as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

All financial information presented in RUB is rounded to the nearest thousand, except where indicated.

Changes in accounting policies and comparative information

Accounting policies applied by the Bank in these consolidated financial statements are consistent with those, applied in the consolidated financial statements as at and for the year ended 31 December 2019.

A number of amendments and interpretations to standards are effective from 1 January 2020 but do not have a material effect on the consolidated financial statements.

Comparative information

The Bank changed presentation of certain captions in the consolidated statement of profit or loss and other comprehensive income.

Comparative information is reclassified to conform to the changes in presentation in 2020.

The effect of the above changes in presentation of the consolidated financial statements for 2019 is as follows:

	Before reclassification	**Amount reclassified**	**After reclassify-cation**
Consolidated statement of profit or loss and other comprehensive income			
Net (losses) gains from other operating activities	(102 247)	106 726	4 479
Other general administrative expenses	(1 053 984)	(106 726)	(1 160 710)
Consolidated statement of cash flows			
Net (payments) receipts for other operating activities	(95 703)	106 726	11 023
Other general administrative expenses paid	(1 016 727)	(106 726)	(1 123 453)

The effect of these changes is not significant for presentation of these consolidated financial statements.

3. Significant accounting judgments, estimates and assumptions

When preparing the consolidated financial statements Management uses judgements, assumptions and estimates that affect accounting policy application and the amount of presented assets and liabilities, income and expenses. Actual results may differ from those estimates.

A summary of key accounting judgements most significantly affecting recognized amounts in the consolidated financial statements and estimates that may lead to a significant adjustments of carrying amounts of assets and liabilities in the year ended 31 December 2020 include the following:

- estimation of allowances for expected credit losses (ECL) on financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information
- estimates of fair values of buildings - Note 11

Estimation of allowances for expected credit losses (ECL) on financial instruments

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

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

Credit risk grades

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

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

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

Corporate exposure	Corporate and retail exposures
▪ Regularly reviewed information about the borrower, including financial statements, management accounts, budgets and projections	▪ Payment discipline and overdue status
▪ Information provided by credit rating agencies, mass media, changes in external credit ratings	▪ Renegotiated loans' terms
▪ Quoted bond and credit default swap (CDS) prices for the borrower where available	▪ Existing and expected changes in business, financial and economic environment
▪ Actual and expected significant changes in borrower's political, legal and technological environment or its operating activities	

Generating the term structure of PD

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

The Bank employs statistical models, including developed with the participation of the Intesa Sanpaolo Banking Group, to analyses the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The Bank uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by client and include quantitative and qualitative factors.

The Bank will deem the credit risk of a particular exposure to have increased significantly since initial recognition if, based on the Bank's modelling, financial position of a client deteriorated significantly or early warning signals occurred.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

The Bank considers that a credit risk significantly increased when an asset is more than 30 days past due and the overdue amount exceeds 5% threshold of total exposure on the counterparty. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. The effect of the 5% threshold application is insignificant for the size of allowance for expected credit losses (ECL).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 4.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

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

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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

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

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

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- the market's assessment of creditworthiness as reflected in the bond yields.
- the rating agencies' assessments of creditworthiness.
- the country's ability to access the capital markets for new debt issuance.

- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Incorporating of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, such as the European Central Bank and European Banking Authority statistics.

The European Banking Authority (EBA) EU-wide stress testing exercise requires banks to use the outcome of the adverse macro-financial scenario for variables such as GDP, inflation, unemployment, asset prices and interest rates in order to estimate the potential adverse impact on profit generation and capital. The Bank as part of Intesa Sanpaolo Group uses coefficients determined for Russia by EBA to account for different scenarios and to include forward looking information by means of calculation of add-ons for PD, LGD and allowance in general.

Measurement of ECL

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data as well as on the data of the Intesa Sanpaolo Banking Group, comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the type of counterparty and collateral and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and for financial assets in Stage 1 and measured using 12-month PD, the Bank measures ECL considering the risk of default over the period, which does not exceed contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grades;
- collateral type;
- collateral coverage;
- LTV ratio for retail mortgages;
- annual turnover and type of business.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data the estimates provided by Intesa Sanpaolo Group (‘ISP’) are taken to calculate PD and LGD. In the model developed by ISP for Sovereign counterparties PD is determined using a two-stage process based on quantitative output (mainly, expected default frequency based on rating migration matrices for S&P, Moody’s and Fitch ratings) and a final qualitative assessment agreed with ISP Research Department. For banks PD calculation is based on matrices that describe transitions between rating classes of counterparties in the ISP portfolio. LGD calculation is based mainly on Moody’s data about defaults and recoveries.

For credit-impaired loans and net investments in finance leases the Bank estimates loan impairment based on an analysis of the future cash flows. In determining the impairment allowance management assumes a delay in obtaining proceeds from the foreclosure of collateral and discounts the estimated fair value of collateral based on the type of asset.

During 2020, the Bank modified the estimation approach for allowance for expected credit losses and the data used for the estimation considering currently available information. Also, the estimation process and the amount of allowance for expected credit losses were affected by a number of factors related to the consequences of the coronavirus infection outbreak. The most significant were the following:

- The Bank identified significant increase in credit risk and transferred certain loans from Stage 1 to Stage 2, including some loans subject to supporting measures (short-term deferral of payments) (Note 1).

  The Bank identified credit impairment and transferred certain loans to Stage 3, including where the deterioration had resulted from the coronavirus infection outbreak.

  In accordance with the recommendations of the Intesa Sanpaolo Banking Group and the European regulatory authorities (in particular the EBA) during 2020 the Bank performed periodic additional analysis of the loans to the borrowers, whom it has granted supporting measures (short-term deferral of payments) and that had no any other signs of a significant increase in credit risk, to ensure that the coronavirus infection outbreak had no longer-term impacts on the activities and creditworthiness of these borrowers (the Bank also monitors financial standing of these borrowers and timely payments on such loans when the deferred payment period is over).

- The Bank cooperated with Intesa Sanpaolo Banking Group and updated add-on value for PD and LGD based on the updated forecasts upwards, considering the deterioration of the forecasts compared to 2019, which resulted in an increase of ECL allowance on loans to customers.

- The Bank cooperated with Intesa Sanpaolo Banking Group and updated PD values in the ECL model for large corporate clients, including life-time curves. The estimate was based on updated defaults’ level data including newly available accumulated experience. This, respectively, resulted in the update of the rating transition matrices and the calibration of the change in PD thresholds used to determine a significant increase in credit risk.

  The above changes resulted in a decrease of ECL allowance for large corporate clients, partially offset by the update of add-on values to incorporate forward-looking information.

- The Bank regularly updates PD and LGD estimates for the latest available internal statistics to determine the up-to-date probability of default and losses given default on loans issued to small and medium corporate customers. In 2020, a regular update was also made and resulted in a slight decrease in the overall level of the allowance due to some improvement in the indicators of default levels based on available internal statistics.

Revaluation of buildings

After initial recognition buildings are stated at revalued amounts that represent fair value at the date of revaluation, net of subsequent accumulated depreciation and accumulated impairment losses.

The revaluation method according to IAS 16 requires that buildings, whose fair value can be measured reliably, be recognized at the revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluations have to be made regularly enough for the carrying value not to deviate significantly from what would have been determined by using the fair value of the asset at the reporting date. The frequency with which the appraisals are carried out and therefore the value re-determined depends on the building class. In case there are no significant and volatile changes in the fair value the revaluation of buildings of particular value is carried out with every two years, the other owner-occupied buildings - every three years. In case of significant and volatile changes in the fair value (equal to or more than 10%) an additional revaluation is required.

The key valuation assumptions include selection of comparable real estate property; adjustments to fair values of comparative properties to account for differences in their condition and location as compared to the properties being revalued; projected cash flows and discount rates; allocation of part of fair value to land plot if the Bank does not have a title for long-term lease of the land plot.

4. Significant accounting policies

The following accounting policies are consistently applied in preparation of these consolidated financial statements.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the date when control is transferred to the Bank.

The Bank measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Bank elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular the Bank consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank and its subsidiary at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are generally recognised in profit or loss.

Interest income and expense

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

The “Amortised cost” of a financial asset or liability is the amount at which the financial asset or liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any allowance for credit losses.

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

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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

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

Information on when financial assets are credit-impaired is provided further.

Presentation

Interest income and expense presented include interest on financial assets and liabilities measured at amortised cost calculated using the effective interest method and interest on debt instruments measured at FVOCI calculated on an effective interest basis.

Other interest income includes interest on net investment in finance leases.

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer recognition of the difference between the fair value at initial recognition and the transaction price. Subsequently, is amortized in profit or loss over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a “Day 1” profit) in profit or loss. In cases where data used is not observable, the difference between the transaction price and model value is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

Financial assets and liabilities

Classification of financial instruments

On initial recognition, a financial asset is classified as measured at:

- amortised cost or
- FVOCI or
- FVTPL.

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

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

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

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

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

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. The Bank should reclassify financial assets if the Bank changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Accordingly, a change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

Modification of financial assets and liabilities

Financial assets

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

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

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

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

The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

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

- change the currency of the financial asset;
- change of counterparty, unless the new counterparty is a company belonging to the same economic group of the original borrower;
- debt-equity swap;
- datium in solutum (i.e. when repayment depends on the fair value of an asset);
- clauses "pay if you can", i.e. contractual terms that allow the borrower to repay if and when he can, without constraints. The concept of "pay if you can" does not concern situations such as delay in repayment in accordance with the contractual schedule, or moratorium for the payment of interest for a certain period of time. In fact, such agreements result in contractual conditions that can be considered as being similar, although indirectly, to a reduction of the interest rate;
- other material changes in the nature of the contract such as exposure to new risk components (returns linked to equity components or commodity, leverage, etc.).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

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

As part of credit risk management activities, the Bank renegotiates loans to customers in financial difficulties (referred to as “forbearance activities”). If the Bank plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place. This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Bank concludes that modification of financial assets modified as part of the Bank’s forbearance policy is not substantial, the Bank performs qualitative evaluation of whether the modification is substantial.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Bank applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Bank recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

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

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

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Impairment

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

- loans to customers;
- debt investment securities;
- net investments in financial leases;
- financial guarantee contracts issued; and
- loan commitments issued.

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

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

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of “investment grade”.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

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

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

- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when default has occurred.

Presentation of allowance for ECL

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBR (excluding mandatory cash balances with the CBR) and assets that can be converted into cash within one day and are free from contractual encumbrances. All short-term interbank placements are included in amounts due from other banks. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBR

Credit institutions are required to maintain a non-interest earning cash deposit (mandatory cash balances) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such a deposit is significantly restricted by the statutory legislation. Mandatory cash balances with the CBR 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 consolidated statement of cash flows.

Loans to customers

In the reporting period loans to customers comprise only instruments measured at amortised cost, which are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Investment securities

In the reporting period the investment securities comprise only debt securities measured at FVOCI.

Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

In the reporting period the Bank did not issue loan commitments at a below-market interest rate that are measured at FVTPL.

The Bank recognises loss allowance for loan commitments and issued financial guarantees which are presented within other liabilities as provisions.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within amounts due to credit institutions or amounts due to customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repo transactions within due from banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivative financial instruments

Derivative financial instruments include swaps, forwards, spot transactions in interest rates, foreign exchanges and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to government, amounts due to credit institutions, amounts due to customers, other borrowed funds, subordinated loan and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Net investments in finance leases

Lease receivables are recognized at a value equal to the net investment in the lease, starting from the date of commencement of the lease term.

Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

When the Bank takes possession of the collateral under terminated lease contracts, it measures the assets at the lower of net realisable value and amortised historical cost of the inventory.

Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

As a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using incremental borrowing rate, which corresponds to the Bank's cost of funding. The Bank uses the same interest rate for lease payments with the same maturity periods. In order to calculate the interest rate the Bank calculates weighted average interest rate considering terms and lease payment amounts.

The lease liability is measured at amortised cost using the effective interest method.

Right-of-use assets are reported within 'Property and equipment, including right-of-use assets', lease liability is reported as 'Lease liabilities' in the consolidated statement of financial position. Cumulative cash outflow on lease liabilities is reported within Cash flows from financing activities in the consolidated statement of cash flows.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

In accordance with IFRS 16 variable payments which do not depend on index or rate, e. g. which do not reflect changes in market rental rates, should not be included in the measurement of lease liability. In respect of municipal or federal land leases where lease payments are based on cadastral value of the land plot and do not change until the next revision of that value or the applicable rates (or both) by the authorities, the Bank has determined that, under the current revision mechanism, the land lease payments cannot be considered as either variable that depend on index or rate or in-substance fixed, and therefore these payments are not included in the measurement of the lease liability.

As a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in finance lease.

Property and equipment

Items of property and equipment are stated at cost, excluding costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment losses, except for buildings, which are stated at revalued amounts as described below.

Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(Thousands of Russian Roubles)

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

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Depreciation is calculated on a straight-line basis (calculated by quantity of days of the corresponding month) over the estimated useful lives of the assets using the following rates:

	Annual depreciation rate	Useful life
Buildings	1.3 – 3.3%	30 – 75 years
Office and computer equipment	7 – 33%	3 – 10 years
Intangible assets	14 – 50%	2 – 10 years

The residual values of the assets, useful lives and methods are reviewed, and adjusted as appropriate, at each reporting period.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

The Bank accounts for capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are accumulated until the equipment is ready for use and transferred to the lessee.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost and are subsequently stated at cost less accumulated amortization and accumulated impairment.

Intangible assets may have finite or indefinite useful lives:

- if useful live is finite amortization is charged to profit or loss on a straight-line basis over the useful economic live, not exceeding a period of 10 years. An intangible asset is assessed for impairment whenever there is an indication that the intangible asset may be impaired.
- intangible assets with an indefinite useful life are not amortised. The useful life of such assets is reviewed at each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for such assets.

  The Bank tests intangible assets with an indefinite useful life for impairment by comparing their recoverable amounts with the corresponding carrying amounts annually, and whenever there is an indication that an intangible asset may be impaired.

Intangible assets useful life of which has ended (licenses and computer software), should be written-off twice a year, in the end of the second and the fourth quarter or based on the order of IT Department.

Repossessed collateral

Repossessed collateral represents non-financial assets obtained by the Bank in the course of settlement of overdue loans. These assets are initially recognised at fair value when obtained and can be included in property and equipment, inventories or investment property or other assets depending on their nature and the Bank's intention and are subsequently remeasured and accounted for in accordance with the accounting policies for the respective categories.

Non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

Provisions

A provision is recognised if as a result of a past event the Bank has a present legal or constructive obligation based on an existing practice, which can be estimated reliably and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The provision amount is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Amortization of discount, which represents a time value of money, is recognized as an interest expense.

Contingencies and credit related commitments

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

In the normal course of business, the Bank enters into credit related commitments including undrawn loan commitments, guarantees and letters of credit. Guarantees are initially recognised in the consolidated statement of financial position at fair value net of associated transaction costs within other liabilities, and subsequently are measured at the higher of the amortised premium or the amount of provision for losses under the guarantee.

Provision for credit losses for undrawn loan commitments, guarantees and letters of credit issued is estimated in the same way as for loans to customers.

The premium received is recognised in profit or loss on a straight-line basis over the life of the guarantee.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares, other than on a business combination, are recognised as a deduction from equity, net of any tax effects.

Share premium represents the excess of contributions over the nominal value of the shares issued.

Funds provided by the Bank's shareholders in the form of debt free financing are classified as other capital reserves.

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

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

Current tax expense is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the Bank is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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

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

Fee and commission income

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

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

The Bank earns other fee and commission income at a point in time or over the time with consideration to how performance obligation is satisfied by providing services to the customers.

Segment reporting

An operating segment is a component of the Bank that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Substantially all of the Bank's activities relate to provision of financial services mostly to corporate customers (small, medium and large business). Therefore, management concluded that the Bank has a single reportable segment.

New standards issued but not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2020, with the possibility of early application. However, the Bank did not make an early transition to the new and amended standards in the preparation of these consolidated financial statements.

a. Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

– changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and

– hedge accounting.

Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas.

– Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.

– When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

– When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.

– If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

Due to absence of hedge accounting the Bank does not expect an effect because of IBOR transition.

Disclosure

The amendments will require the Bank to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

Transition

The Bank plans to apply the amendments from 1 January 2021. Application will not impact amounts reported for 2020 or prior periods.

b. Other standards

The following new and amended standards are not expected to have a significant impact on the Bank's consolidated financial statements.

- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 *Insurance Contracts and amendments* to IFRS 17 *Insurance Contracts*.

Although new or amended standards that will have no or no material effect on the financial statements need not be provided, the Bank has included all new or amended standards and their possible impact on the consolidated financial statements for illustrative purposes only.

(Thousands of Russian Roubles)

5. Cash and cash equivalents

Cash and cash equivalents as at 31 December comprise:

	31 December 2020	*31 December 2019*
Cash on hand	618 924	630 856
Correspondent accounts with the CBR	3 210 803	1 497 872
Correspondent accounts and overnight placements with other banks		
- rated from AA- to AA+	78 043	-
- rated from A- to A+	461 410	618 871
- rated from BBB- to BBB+	1 016 082	1 261 570
- rated from BB- to BB+	2 793	15
- not rated	1 003	213
Cash and cash equivalents	**5 389 058**	**4 009 397**

The credit rating is disclosed above using credit scale of international rating agencies Standard& Poor's and Fitch.

As at 31 December 2020, the Bank has one bank (2019: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 is RUB 3 210 803 thousand (2019: RUB 1 497 872 thousand).

As at 31 December 2020 cash and cash equivalents include balances with related parties totalling RUB 1 016 035 thousand bearing annual interest rates -0.50% for EUR, and 0.35% for other currencies. As at 31 December 2019 these balances total RUB 1 262 120 thousand and bear -0.50% for EUR, and -1.50% for other currencies. More information is disclosed in Note 27.

No cash and cash equivalents are past due or credit-impaired and are included into Stage 1.

6. Amounts due from credit institutions

Amounts due from credit institutions as at 31 December comprise:

	31 December 2020	*31 December 2019*
Time deposit with the CBR	-	800 000
Time deposits with other banks		
- rated from BBB- to BBB+	7 430 592	9 969 997
- rated from BB- to BB+	3 757 428	-
- rated B	2 743 098	-
- not rated	2 064	1 480
Gross amounts due from credit institutions	**13 933 182**	**10 771 477**
Less: allowance for credit losses	(43 586)	(1 583)
Net amounts due from credit institutions	**13 889 596**	**10 769 894**

The following table shows reconciliations from the opening to the closing balances of the allowance for credit losses for amounts due from credit institutions, measured at amortised cost:

	2020	*2019*
Balance as at 1 January	1 583	11 199
Net change of allowance for credit losses (Note 19)	42 003	(9 616)
Balance as at 31 December	**43 586**	**1 583**

The credit rating above is disclosed using credit scale of international rating agencies Standard& Poor's and Fitch.

As at 31 December 2020, the Bank has four banks (2019: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 is RUB 9 355 696 thousand (2019: RUB 9 924 194 thousand).

Amounts due from credit institutions include loans placed with related parties, which are disclosed in Note 27. The gross value of these balances as at 31 December 2020 is RUB 4 655 297 thousand (2019: RUB 8 324 194 thousand). They bear annual interest rates varying from 0.90% to 1.10% for USD and 5.20% for RUB (2019: from 1.81% to 2.75% - USD, 6.40% - RUB respectively).

As at 31 December 2020, no amounts due from credit institutions are past due or credit-impaired. The allowance is measured as 12-months ECL.

(Thousands of Russian Roubles)

7. Investment securities

Investment securities comprise:

Measured at fair value through other comprehensive income	*31 December 2020*	*31 December 2019*
Russian State bonds ("OFZ"), issued by the Ministry of Finance of the Russian Federation	3 058 205	2 587 704
The CBR bonds ("KOBR")	-	1 512 630
Investment securities	**3 058 205**	**4 100 334**

The following table shows the main terms of investment securities:

	31 December 2020	*31 December 2019*
Russian State bonds ('OFZ')		
Currency	Roubles	Roubles
Maturity	From 20 July 2022 to 7 December 2022	From 29 January 2020 to 16 November 2022
Annual coupon rates	from 4.8% to 7.6%	from 7.5% to 8.5%
Annual yields to maturity	from 4.2% to 4.7%	from 4.7% to 6.7%
CBR's bonds ('KOBR')		
Currency	-	Roubles
Maturity	-	12 February 2020
Annual coupon rates	-	6.3%
Annual yields to maturity	-	6.6%

As at 31 December 2020 and 2019, the Bank has no transactions to sell securities under agreements to purchase.

As at 31 December 2020 and 2019 investment securities are included in the CBR Lombard list and are eligible for pledge under refinancing from the CBR.

No investment securities are past due or credit-impaired. The allowance is measured as 12-months ECL.

The following table shows reconciliations from the opening to the closing balances of the allowance for credit losses for investment securities, measured at fair value through other comprehensive income:

	2020	*2019*
Balance as at 1 January	2 509	3 611
Net change of allowance for credit losses (Note 19)	956	(1 102)
Balance as at 31 December	**3 465**	**2 509**

8. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The notional amount, recorded gross, is the amount of a derivative's underlying asset, and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts as at 31 December 2020:

	Notional amount	*Fair values*	
		Asset	*Liability*
Swap deals – domestic counterparties	996 300	104	(1 207)
Spot deals – foreign counterparties	369 379	-	(216)
Swap deals – domestic counterparties	734	8	-

(Thousands of Russian Roubles)

9. Loans to customers

An analysis of loans to customers is provided in the table below:

	31 December 2020	*31 December 2019*
Loans to customers measured at amortised cost		
- Large corporate customers	33 424 768	27 317 757
- Small and medium corporate customers	15 588 765	15 844 924
- Retail customers	1 683 391	1 808 220
Total before allowance for credit losses	**50 696 924**	**44 970 901**
Less: allowance for credit losses	(2 984 866)	(3 797 372)
Total loans to retail customers	**47 712 058**	**41 173 529**

An analysis of loans to customers measured at amortised cost by credit rating and risk grade as at 31 December 2020 is provided in the table below:

			Credit-impaired loans		**Total**
	Stage 1	***Stage 2***	***Stage 3***	***Upon initial recognition***	**loans to customers**
Large corporate customers					
Performing	31 424 032	98 606	-	-	31 522 638
Good quality	*18 081 552*	-	-	-	*18 081 552*
Average quality	*13 342 480*	-	-	-	*13 342 480*
Below average quality	-	*98 606*	-	-	*98 606*
Unlikely to pay	-	-	26 123	476 689	502 812
Doubtful	-	-	1 315 935	83 383	1 399 318
Total before allowance for credit losses	**31 424 032**	**98 606**	**1 342 058**	**560 072**	**33 424 768**
Less: allowance for credit losses	(282 523)	(393)	(1 254 975)	(221 701)	(1 759 592)
Total loans to large corporate customers	**31 141 509**	**98 213**	**87 083**	**338 371**	**31 665 176**
Small and medium corporate customers					
Performing	12 999 156	1 355 577	-	-	14 354 733
Good quality	*10 343 202*	*512 448*	-	-	*10 855 650*
Average quality	*2 647 867*	*566 432*	-	-	*3 214 299*
Below average quality	*8 087*	*276 697*	-	-	*284 784*
Unlikely to pay	-	-	96 586	-	96 586
Doubtful	-	-	1 137 446	-	1 137 446
Total before allowance for credit losses	**12 999 156**	**1 355 577**	**1 234 032**	**-**	**15 588 765**
Less: allowance for credit losses	(94 943)	(93 808)	(886 596)	-	(1 075 347)
Total loans to small and medium corporate customers	**12 904 213**	**1 261 769**	**347 436**	**-**	**14 513 418**
Retail customers					
Performing	1 492 274	57 723	-	-	1 549 997
Unlikely to pay	-	-	13 254	-	13 254
Doubtful	-	-	120 140	-	120 140
Total before allowance for credit losses	**1 492 274**	**57 723**	**133 394**	**-**	**1 683 391**
Less: allowance for credit losses	(23 722)	(11 253)	(114 952)	-	(149 927)
Total loans to retail customers	**1 468 552**	**46 470**	**18 442**	**-**	**1 533 464**
Total loans to customers					
Performing	45 915 462	1 511 906	-	-	47 427 368
Unlikely to pay	-	-	135 963	476 689	612 652
Doubtful	-	-	2 573 521	83 383	2 656 904
Total before allowance for credit losses	**45 915 462**	**1 511 906**	**2 709 484**	**560 072**	**50 696 924**
Less: allowance for credit losses	(401 188)	(105 454)	(2 256 523)	(221 701)	(2 984 866)
Total loans to customers	**45 514 274**	**1 406 452**	**452 961**	**338 371**	**47 712 058**

Expected credit losses are assessed for a 12-month period for Stage 1 exposures and for a life-time period for Stage 2 and 3 and credit-impaired loans upon initial recognition.

Credit quality, disclosed in the table above, represents Bank's assessment of borrowers' financial position and performance based on an analysis of financial and non-financial information.

(Thousands of Russian Roubles)

The information on the credit quality of loans to customers as at 31 December 2019 is provided below:

			Credit-impaired loans		**Total**
	Stage 1	***Stage 2***	***Stage 3***	***Upon initial recognition***	**loans to customers**
Large corporate customers					
Performing	24 333 132	-	-	-	24 333 132
Good quality	*21 865 336*	-	-	-	*21 865 336*
Average quality	*2 358 815*	-	-	-	*2 358 815*
Below average quality	*108 981*	-	-	-	*108 981*
Unlikely to pay	-	-	635 748	451 513	1 087 261
Doubtful	-	-	1 803 554	93 810	1 897 364
Total before allowance for credit losses	**24 333 132**	**-**	**2 439 302**	**545 323**	**27 317 757**
Less: allowance for credit losses	(252 672)	-	(1 988 658)	(15 169)	(2 256 499)
Total loans to large corporate customers	**24 080 460**	**-**	**450 644**	**530 154**	**25 061 258**
Small and medium corporate customers					
Performing	13 604 103	407 265	-	-	14 011 368
Good quality	*11 353 236*	*123 534*	-	-	*11 476 770*
Average quality	*2 250 867*	*32 075*	-	-	*2 282 942*
Below average quality	-	*251 656*	-	-	*251 656*
Unlikely to pay	-	-	133 567	-	133 567
Doubtful	-	-	1 699 989	-	1 699 989
Total before allowance for credit losses	**13 604 103**	**407 265**	**1 833 556**	**-**	**15 844 924**
Less: allowance for credit losses	(125 492)	(23 514)	(1 242 389)	-	(1 391 395)
Total loans to small and medium corporate customers	**13 478 611**	**383 751**	**591 167**	**-**	**14 453 529**
Retail customers					
Performing	1 603 116	70 140	-	-	1 673 256
Unlikely to pay	-	-	13 989	-	13 989
Doubtful	-	-	120 975	-	120 975
Total before allowance for credit losses	**1 603 116**	**70 140**	**134 964**	**-**	**1 808 220**
Less: allowance for credit losses	(30 017)	(14 496)	(104 965)	-	(149 478)
Total loans to retail customers	**1 573 099**	**55 644**	**29 999**	**-**	**1 658 742**
Total loans to customers					
Performing	39 540 351	477 405	-	-	40 017 756
Unlikely to pay	-	-	783 304	451 513	1 234 817
Doubtful	-	-	3 624 518	93 810	3 718 328
Total before allowance for credit losses	**39 540 351**	**477 405**	**4 407 822**	**545 323**	**44 970 901**
Less: allowance for credit losses	(408 181)	(38 010)	(3 336 012)	(15 169)	(3 797 372)
Total loans to customers	**39 132 170**	**439 395**	**1 071 810**	**530 154**	**41 173 529**

(Thousands of Russian Roubles)

Movements in the allowance for credit losses for loans to customers, measured at amortised cost as for the year ended 31 December 2020 is provided below:

			Credit-impaired loans		
	Stage 1	***Stage 2***	***Stage 3***	***Upon initial recognition***	**Total loans to customers**
Large corporate customers					
Balance as at 1 January	252 672	-	1 988 658	15 169	2 256 499
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of allowance:					
- loans issued to customers	198 386			-	198 386
- loans repaid	(146 847)	-	(38 889)	-	(185 736)
- remeasurement of allowance	(21 688)	393	(23 657)	206 532	161 580
Unwinding of discount	-	-	(18 389)	-	(18 389)
Amounts written-off/sold	-	-	(652 748)	-	(652 748)
Balance as at 31 December 2020	**282 523**	**393**	**1 254 975**	**221 701**	**1 759 592**
Small and medium corporate customers					
Balance as at 1 January	125 492	23 514	1 242 389	-	1 391 395
Transfer to Stage 1	1 745	(1 745)	-	-	-
Transfer to Stage 2	(9 150)	9 150	-	-	-
Transfer to Stage 3	(736)	(964)	1 700	-	-
Net remeasurement of allowance:					
- loans issued to customers	64 604	-	-	-	64 604
- loans repaid	(47 995)	(8 150)	(57 542)	-	(113 687)
- remeasurement of allowance	(39 017)	72 003	51 809	-	84 795
Unwinding of discount	-	-	(64 058)	-	(64 058)
Amounts written-off/sold	-	-	(287 702)	-	(287 702)
Balance as at 31 December 2020	**94 943**	**93 808**	**886 596**	**-**	**1 075 347**
Retail customers					
Balance as at 1 January	30 017	14 496	104 965	-	149 478
Transfer to Stage 1	971	(971)	-	-	-
Transfer to Stage 2	(209)	209	-	-	-
Transfer to Stage 3	(796)	(4 108)	4 904	-	-
Remeasurement of allowance	(6 261)	1 627	27 202	-	22 568
Unwinding of discount	-	-	(2 664)	-	(2 664)
Amounts written-off/sold	-	-	(19 455)	-	(19 455)
Balance as at 30 December 2020	**23 722**	**11 253**	**114 952**	**-**	**149 927**
Total loans to customers					
Balance as at 1 January	408 181	38 010	3 336 012	15 169	3 797 372
Transfer to Stage 1	2 716	(2 716)	-	-	-
Transfer to Stage 2	(9 359)	9 359	-	-	-
Transfer to Stage 3	(1 532)	(5 072)	6 604	-	-
Remeasurement of allowance	1 182	65 873	(41 077)	206 532	232 510
Unwinding of discount	-	-	(85 111)	-	(85 111)
Amounts written-off/sold	-	-	(959 905)	-	(959 905)
Balance as at 31 December 2020	**401 188**	**105 454**	**2 256 523**	**221 701**	**2 984 866**

(Thousands of Russian Roubles)

Movements in the allowance for credit losses for loans to customers, measured at amortised cost as for the year ended 31 December 2019 is as follows:

			Credit-impaired loans		
	Stage 1	***Stage 2***	***Stage 3***	***Upon initial recognition***	**Total loans to customers**
Large corporate customers					
Balance as at 1 January	253 237	12 072	1 739 560	96 008	2 100 877
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of allowance:					
- loans issued to customers	168 406	-	-	-	168 406
- loans repaid	(121 680)	(12 072)	(31 255)	-	(165 007)
- remeasurement of allowance	(47 291)	-	341 183	(80 839)	213 053
Unwinding of discount	-	-	(18 044)	-	(18 044)
Amounts written-off/sold	-	-	(42 786)	-	(42 786)
Balance as at 31 December 2019	**252 672**	**-**	**1 988 658**	**15 169**	**2 256 499**
Small and medium corporate customers					
Balance as at 1 January	203 412	76 686	1 284 658	-	1 564 756
Transfer to Stage 1	15 255	(15 255)	-	-	-
Transfer to Stage 2	(6 251)	6 251	-	-	-
Transfer to Stage 3	(581)	(12 009)	12 590	-	-
Net remeasurement of allowance:					
- loans issued to customers	138 847	-	-	-	138 847
- loans repaid	(65 305)	(18 774)	-	-	(84 079)
- remeasurement of allowance	(159 885)	(13 385)	86 178	-	(87 092)
Unwinding of discount	-	-	(116 267)	-	(116 267)
Amounts written-off/sold	-	-	(24 770)	-	(24 770)
Balance as at 31 December 2019	**125 492**	**23 514**	**1 242 389**	**-**	**1 391 395**
Retail customers					
Balance as at 1 January	38 872	17 433	104 470	-	160 775
Transfer to Stage 1	1 266	(1 265)	(1)	-	-
Transfer to Stage 2	(607)	607	-	-	-
Transfer to Stage 3	(729)	(2 721)	3 450	-	-
Remeasurement of allowance	(8 785)	442	5 670	-	(2 673)
Unwinding of discount	-	-	(3 428)	-	(3 428)
Amounts written-off/sold	-	-	(5 196)	-	(5 196)
Balance as at 30 December 2019	**30 017**	**14 496**	**104 965**	**-**	**149 478**
Total loans to customers					
Balance as at 1 January	495 522	106 190	3 128 688	96 008	3 826 408
Transfer to Stage 1	16 521	(16 520)	(1)	-	-
Transfer to Stage 2	(6 858)	6 858	-	-	-
Transfer to Stage 3	(1 310)	(14 730)	16 040	-	-
Remeasurement of allowance	(95 694)	(43 788)	401 776	(80 839)	181 455
Unwinding of discount	-	-	(137 739)	-	(137 739)
Amounts written-off/sold	-	-	(72 752)	-	(72 752)
Balance as at 31 December 2019	**408 181**	**38 010**	**3 336 012**	**15 169**	**3 797 372**

Bank's credit risk exposure is further analyzed in Note 25.

The changes in the gross book value of loans to customers during 2020 contributed to the changes in the allowances for credit losses as follows:

- the increase in the gross book value of the loan portfolio to large corporate customers in the amount of RUB 7 090 900 thousand led to the appropriate increase of allowance for credit losses, estimated on a 12-month basis, in amount of RUB 29 851 thousand;

(Thousands of Russian Roubles)

- The write-off and sale of loans to customers with a gross book value of RUB 959 905 thousand resulted in a decrease of allowance for credit losses for Stage 3 loans in the same amount;

- the increase in the gross book value of portfolio of loans to small and medium corporate customers classified into Stage 2, also as a result of coronavirus infection outbreak, amounting to RUB 948 312 thousand led to the increase of allowance for credit losses in the amount of RUB 70 294 thousand.

Concentration of loans to customers

An analysis of loans to customers by economic sector is as follows:

	31 December 2020		***31 December 2019***	
	Amount	***%***	***Amount***	***%***
Manufacturing	18 794 746	37	12 961 745	29
Services	10 903 033	22	9 445 517	21
Trading	9 841 616	19	10 916 262	24
Mining and quarrying	9 047 036	18	9 205 472	20
Individuals	1 683 391	3	1 808 220	4
Other	427 102	1	633 685	2
Total gross loans to customers	**50 696 924**	**100**	**44 970 901**	**100**

As at 31 December 2020, individual gross exposure of each of Bank's 20 largest borrowers exceeds RUB 392 027 thousand (2019: RUB 399 944 thousand). The aggregate exposure on these loans totals RUB 29 319 113 thousand or 57.8% of the gross loan portfolio (2019: RUB 21 737 908 thousand or 48.3%), with the loss allowance for expected credit losses of RUB 1 230 486 thousand (2019: RUB 833 667 thousand).

Loans to customers include loans from related parties, which are disclosed in Note 27.

10. Net investments in finance leases

Net investments in finance leases as at 31 December 2020 comprise:

	Within 1 year	**From 1 to 5 years**	**Total**
Gross investments in finance leases	837 882	600 843	1 438 725
Unearned future finance income on finance leases	(52 711)	(124 366)	(177 077)
	785 171	**476 477**	**1 261 648**
Less: allowance for credit losses	(15 492)	(11 847)	(27 339)
Net investments in finance leases	**769 679**	**464 630**	**1 234 309**

Net investments in finance leases as at 31 December 2019 comprise:

	Within 1 year	**From 1 to 5 years**	**Total**
Gross investments in finance leases	807 612	639 656	1 447 268
Unearned future finance income on finance leases	(66 688)	(137 857)	(204 545)
	740 924	**501 799**	**1 242 723**
Less: allowance for credit losses	(34 645)	(7 792)	(42 437)
Net investments in finance leases	**706 279**	**494 007**	**1 200 286**

The table below shows credit quality of net investments in finance leases:

	31 December 2020				**31 December 2019**			
	Stage 1	***Stage 2***	***Stage 3***	**Total**	***Stage 1***	***Stage 2***	***Stage 3***	**Total**
Performing	1 227 510	1 510	-	1 229 020	1 188 531	18 612	-	1 207 143
Unlikely to pay	-	-	5 611	5 611	-	-	1 112	1 112
Doubtful	-	-	27 017	27 017	-	-	34 468	34 468
	1 227 510	**1 510**	**32 628**	**1 261 648**	**1 188 531**	**18 612**	**35 580**	**1 242 723**
Less: allowance for credit losses	(12 792)	(38)	(14 509)	(27 339)	(17 770)	(1 400)	(23 267)	(42 437)
Net investments in finance leases	**1 214 718**	**1 472**	**18 119**	**1 234 309**	**1 170 761**	**17 212**	**12 313**	**1 200 286**

(Thousands of Russian Roubles)

Expected credit losses are assessed for a 12-month period for Stage 1 exposures and for a life-time period for Stage 2 and 3.

Movements in the allowance for credit losses for net investments in finance leases are provided below:

	2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Balance as at 1 January	17 770	1 400	23 267	42 437
Transfer to Stage 1	731	(731)	-	-
Transfer to Stage 2	(3)	3	-	-
Transfer to Stage 3	(96)	(469)	565	-
Net remeasurement of allowance	(5 610)	(165)	12 731	6 956
Unwinding of discount	-	-	(3 043)	(3 043)
Amounts written-off/sold	-	-	(19 011)	(19 011)
Balance as at 31 December	**12 792**	**38**	**14 509**	**27 339**

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Balance as at 1 January	20 499	920	30 931	52 350
Transfer to Stage 1	772	(772)	-	-
Transfer to Stage 2	(1 018)	1 018	-	-
Transfer to Stage 3	(50)	(499)	549	-
Net remeasurement of allowance	(2 433)	733	20 929	19 229
Unwinding of discount	-	-	(4 001)	(4 001)
Amounts written-off/sold	-	-	(25 141)	(25 141)
Balance as at 31 December	**17 770**	**1 400**	**23 267**	**42 437**

The leased assets are effectively pledged, as the rights for the leased asset revert to the lessor in the event of default. Lease payments are due on a monthly basis. The Bank holds title for the leased property during the lease term. Risks related to the leased property such as damage caused by various reasons, theft and other are generally insured under finance lease agreements.

As at 31 December 2020, individual gross exposure of each of Bank's 20 largest lessees exceeds RUB 9 961 thousand (2019: RUB 11 099 thousand). The aggregate gross investments in these finance leases total RUB 614 184 thousand or 42.7%of the gross net investments in finance leases portfolio (2019: RUB 566 769 thousand or 45.6%), with the loss allowance for expected credit losses of RUB 5 387 thousand (2019: RUB 21 663 thousand).

Lease contracts outstanding as at 31 December 2020 and 31 December 2019 do not have unguaranteed residual value.

(Thousands of Russian Roubles)

11. Property and equipment, including right-of-use assets

The movements in property and equipment for the year ended 31 December are as follows:

	Own assets		*Right-of-use assets*		
	Buildings and improvements	***Office and computer equipment***	***Buildings and improvements***	***Office and computer equipment***	***Total***
Cost as at 1 January 2019	404 605	1 154 093	-	-	1 558 698
Accumulated depreciation as at 1 January 2019	(2 240)	(842 008)	-	-	(844 248)
Carrying amount as at 1 January 2019	**402 365**	**312 085**	**-**	**-**	**714 450**
Impact of adopting IFRS 16	-	-	543 590	43 476	587 066
Additions	-	132 970	282 919	2 155	418 044
Disposals (net of accumulated depreciation)	-	(35 853)	(75 198)	-	(111 051)
Depreciation charge for the year	(15 198)	(170 598)	(176 251)	(8 868)	(370 915)
Revaluation of buildings	334 565	-	-	-	334 565
Cost/revalued amount as at 31 December 2019	732 246	1 198 271	734 215	45 631	2 710 363
Accumulated depreciation as at 31 December 2019	(10 514)	(959 667)	(159 155)	(8 868)	(1 138 204)
Carrying amount as at 31 December 2019	**721 732**	**238 604**	**575 060**	**36 763**	**1 572 159**
Additions	-	86 339	75 291	-	161 630
Disposals/derecognition (net of accumulated depreciation)	(427)	(440)	-	-	(867)
Depreciation charge for the year	(20 182)	(149 506)	(196 914)	(9 003)	(375 605)
Revaluation of buildings	11 522	-	-	-	11 522
Cost/revalued amount as at 31 December 2020	724 540	1 259 851	809 506	45 631	2 839 528
Accumulated depreciation as at 31 December 2020	(11 895)	(1 084 854)	(356 069)	(17 871)	(1 470 689)
Carrying amount at 31 December 2020	**712 645**	**174 997**	**453 437**	**27 760**	**1 368 839**

The movement of related lease liabilities is disclosed in Note 17.

Capital expenditure commitments related to property and equipment are disclosed in Note 23.

As at 31 December 2020 the building in Nizhniy Novgorod was valued by an independent professional valuation firm with appropriate qualifications and experience. As at 31 December 2019 the revaluation of the building in Nizhniy Novgorod was not performed due to the insignificant changes in value.

The combination of market comparison and income capitalization approaches with 50% and 50% weights assigned to each correspondingly was used.

The market comparison approach comprises an analysis of sale offers for comparable buildings. The following key assumptions were made as part of market comparison approach for the revaluation of the building in Nizhniy Novgorod:

- the price for one square meter is within RUB 71 - 82 thousand for comparable buildings before adjustments for location and condition;
- sale discount of 12.7%.

The income capitalization approach consists of analyzing income and expenses related to the buildings and estimating fair value by capitalizing them. The base-year income is based on the expected rental income less repair and maintenance expenses for relevant buildings calculated on the basis of current market rental rates and average costs for repair and maintenance. Losses from underutilization were estimated as insignificant. Capitalization rate of 12.4% was used.

Changes in the above estimates may affect the fair value of the building. For example, decrease in capitalization rate by 100 b.p. would result in an increase of fair value of the building as at 31 December 2020 by RUB 200 thousand (increase in capitalization rate by 100 b.p. would result in a decrease in fair value of the buildings by RUB 100 thousand).

(Thousands of Russian Roubles)

As at 31 December 2020, revaluation of the building in Nizhniy Novgorod resulted in an increase of carrying amount of the building by RUB 11 522 thousand, which was recorded within other comprehensive income in the amount of RUB 9 218 thousand net of income tax.

As at 31 December 2020 the management analysed the key factors affecting the value of office buildings in Moscow, using information about market trends prepared by a firm of professional appraisers with the appropriate qualifications and experience. Based on the analysis the management concluded that the carrying value (net of accumulated depreciation) of the building in Moscow is not significantly different from its fair value (deviation is less than 10%) as at 31 December 2020. As a result, the management concluded that in accordance with the accounting policy revaluation of the building in Moscow is not to be performed.

As at 31 December 2019 the building in Moscow was revalued by an independent professional valuation firm with appropriate qualifications and experience.

The combination of market comparison and income capitalization approaches with 80% and 20% weights assigned to each correspondingly was used.

The market comparison approach comprises an analysis of sale offers for comparable buildings. The following key assumptions were made as part of market comparison approach:

- the price for one square meter is within RUB 258 - 351 thousand for comparable buildings before adjustments for location and condition;
- sale discount of 10.5%.

The income capitalization approach consists of analyzing income and expenses related to the buildings and estimating fair value by capitalizing them. The base-year income is based on the expected rental income less repair and maintenance expenses for relevant buildings calculated on the basis of current market rental rates and average costs for repair and maintenance. Losses from underutilization were estimated as insignificant. Capitalization rate of 9.5% (2018 год: 10.0%) was used.

As at 31 December 2020 and 2019, the carrying amount of buildings measured at fair value, have they been measured at cost less accumulated depreciation, would be RUB 231 351 thousand and 238 353 thousand respectively.

As at 31 December 2020 and 2019, the buildings are classified to Level 3 of fair value measurement hierarchy.

12. Intangible assets

As at 31 December 2020 and 2019 intangible assets include licenses and computer software. The movements in intangible assets for the year ended 31 December are as follows:

	31 December 2020	*31 December 2019*
Cost as at 1 January	2 251 575	2 103 420
Accumulated amortization as at 1 January	(1 864 978)	(1 656 018)
Carrying amount as at 1 January	**386 597**	**447 402**
Additions	317 815	154 206
Disposals (net of accumulated amortization)	(2 336)	-
Amortization for the year	(227 741)	(215 011)
Cost as at 31 December	2 557 639	2 251 575
Accumulated amortization as at 31 December	(2 083 304)	(1 864 978)
Carrying amount as at 31 December	**474 335**	**386 597**

Capital expenditure commitments related to intangible assets are disclosed in Note 23.

13. Taxation

The corporate income tax expense for the year ended 31 December comprises:

	2020	*2019*
Current tax	114 603	113 520
Deferred tax – origination and reversal of temporary differences	(99 627)	(7 093)
Total income tax expense	**14 976**	**106 427**

The rate of tax applicable for current income and deferred taxes is 20% and is a tax rate applicable for income of Russian companies. Income on certain types of securities is subject to income tax at a rate of 15%, 10% or nil.

(Thousands of Russian Roubles)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual for the year ended 31 December is as follows:

	2020	*2019*
Profit before income tax	**56 478**	**536 422**
Income tax expense at the applicable tax rate	11 296	107 284
Income on government securities taxed at different rates	(11 135)	(15 210)
Non-deductible expenses	14 815	14 353
Total income tax expense	**14 976**	**106 427**
Effective tax rate	**26.52%**	**19.84%**

Temporary differences between the carrying amounts of assets for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2020 and 2019.

The deductible temporary differences do not expire under the current Russian tax legislation.

As at 31 December 2020, the Banca Intesa has the recognised tax loss carry-forward of RUB 403 668 thousand (2019: RUB 483 784 thousand), that could be utilized against the future income tax base.

As at 31 December 2020, AO “Intesa Leasing” has tax loss carry-forward of RUB 7 880 thousand (2019: RUB 13 504 thousand), that could be utilized against the future income tax base.

The accumulated tax loss carry-forward not utilized in the current year can be transferred for the future years without time limitation. Starting from 1 January 2017 till 31 December 2020 the income tax base can’t be decreased by utilization of tax loss carry-forward for more than 50%.

Banca Intesa (Joint-Stock Company) and AO “Intesa Leasing” calculate net deferred tax assets and liabilities separately and cannot offset them.

Movements in temporary differences during the year ended 31 December 2020 are as follows:

	1 January 2020	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*31 December 2020*
Tax effect of temporary differences				
Investment securities	(3 334)	(397)	6 243	2 512
Loans to customers	(247 446)	212 345	-	(35 101)
Net investments in finance leases	65 181	969	-	66 150
Property, equipment and intangible assets	(229 761)	(20 391)	(2 304)	(252 456)
Subordinated loan	9 456	2 573	-	12 029
Other assets	66 550	12 939	-	79 489
Other liabilities	24 161	864	-	25 025
Lease liabilities	124 112	(23 535)	-	100 577
Tax loss carry-forward	497 288	(85 740)	-	411 548
Net deferred tax assets	**306 207**	**99 627**	**3 939**	**409 773**

Movements in temporary differences during the year ended 31 December 2019 are as follows:

	1 January 2019	*Impact of adopting IFRS 16*	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*31 December 2019*
Tax effect of temporary differences					
Investment securities	4 417	-	(219)	(7 532)	(3 334)
Loans to customers	(348 435)	-	100 989	-	(247 446)
Net investments in finance leases	66 309	-	(1 128)	-	65 181
Property, equipment and intangible assets	(46 089)	(117 413)	654	(66 913)	(229 761)
Subordinated loan	9 956	-	(500)	-	9 456
Other assets	62 422	-	4 128	-	66 550
Other liabilities	60 343	-	(36 182)	-	24 161
Lease liabilities	-	117 413	6 699	-	124 112
Tax loss carry-forward	564 636	-	(67 348)		497 288
Net deferred tax assets	**373 559**	**-**	**7 093**	**(74 445)**	**306 207**

(Thousands of Russian Roubles)

14. Other assets and liabilities

Other assets as at 31 December comprise:

	31 December 2020	*31 December 2019*
Other financial assets		
Settlements on currency conversion operations	373 071	184 954
Settlements with suppliers and customers	217 158	135 890
Settlements on commission for participation in credit facilities origination	-	174 045
Other financial assets before allowance for credit losses	**590 229**	**494 889**
Less: allowance for credit losses	(64 123)	(69 370)
Total other financial assets	**526 106**	**425 519**
Other non-financial assets		
Prepayments	356 988	383 249
Repossessed collateral	179 873	202 070
Construction in progress	123 715	118 335
Settlements on guarantees	22 236	19 725
Current income tax and other tax assets	12 848	9 608
Other	8 108	15 737
Total other non-financial assets	**703 768**	**748 724**
Total other assets	**1 229 874**	**1 174 243**

As at 31 December 2020 and 31 December 2019, settlements on currency conversion operations are due from the counterparty which has external credit rating from BBB- to BBB+ (using credit scale of international rating agencies Standard&Poor's and Fitch).

As of 31 December 2020 other settlements with suppliers and customers in the amount of RUB 153 477 thousand are allocated to Stage 1 (not past due or credit-impaired) (2019: RUB 66 794 thousand), RUB 63 681 thousand are allocated to Stage 3 (2019: RUB 69 096 thousand).

Other liabilities as at 31 December comprise:

	31 December 2020	*31 December 2019*
Other financial liabilities		
Settlements with suppliers and customers	256 354	235 446
Other non-financial liabilities		
Tax liabilities other than income tax	66 059	80 910
Provision for credit related commitments	67 634	77 541
Settlements with employees	82 155	82 567
Provision for other risks	7 455	11 216
Other	53 304	51 739
Other non-financial liabilities	**276 607**	**303 973**
Other liabilities	**532 961**	**539 419**

Movements in the allowance for credit losses for other financial assets and credit related commitments and other provisions for the period is as follows:

	Other assets	*Credit related commitments*	*Provisions for other risks*	*Total*
Balance as at 1 January 2019	**64 501**	**107 133**	**12 015**	**183 649**
Net charge (recovery)	12 017	(29 592)	(799)	(18 374)
Amounts written-off	(7 148)	-	-	(7 148)
Balance as at 31 December 2019	**69 370**	**77 541**	**11 216**	**158 127**
Net recovery	(26 797)	(9 907)	(3 761)	(40 465)
Recovery of written-off amounts	21 550	-	-	21 550
Balance as at 31 December 2020	**64 123**	**67 634**	**7 455**	**139 212**

The allowance for credit losses is deducted from the carrying amount of specified assets. Provisions for claims, guarantees and contractual obligations are included in other liabilities.

(Thousands of Russian Roubles)

15. Amounts due to credit institutions

Amounts due to credit institutions as at 31 December comprise:

	31 December 2020	*31 December 2019*
Time deposits and loans	28 244 152	12 822 311
Current accounts	265 822	184 250
Amounts due to credit institutions	**28 509 974**	**13 006 561**

As at 31 December 2020, the Bank has four counterparties (2019: two counterparties), whose balances individually exceed 10% of equity. The gross value of these balances as at 31 December 2020 is RUB 27 201 658 thousand (2019: RUB 12 831 104 thousand).

Amounts due to credit institutions include loans from related parties, which are disclosed in Note 27. The gross value of these balances as at 31 December 2020 is RUB 21 308 898 thousand with annual interest rate for USD, varying from 0.51% to 1.12%, annual interest rate for EUR, varying from -0.15% to 1.17% and annual interest rate for RUB 6.20% (2019: RUB 9 470 282 thousand, from 2.69% to 3.08% - USD, from 0.19% to 1.17% - EUR).

At 31 December 2020, the Bank obtained financing from credit institutions to facilitate origination of loans to customers in the amount of RUB 4 499 839 thousand (2019: RUB 3 521 864 thousand). The financing is provided under the Small and Medium Business Loan Promotion Program developed by Small and Medium Business Corporation in collaboration with the Ministry of Economic Development of the Russian Federation and the CBR.

16. Amounts due to customers

The amounts due to customers include the following:

	31 December 2020	*31 December 2019*
Legal entities	**17 510 253**	**19 821 420**
- current accounts	10 673 995	11 678 483
- term deposits	6 836 258	8 142 937
Individuals	**11 928 709**	**15 267 801**
- current accounts	3 304 549	2 253 305
- term deposits	8 624 160	13 014 496
State and non-profit organizations	**68 012**	**68 189**
- current accounts	44 470	45 110
- term deposits	23 542	23 079
Amounts due to customers	**29 506 974**	**35 157 410**

State and non-profit organisations exclude government-owned profit oriented organisations. Amounts received from individual entrepreneurs are classified as amounts due to legal entities.

As at 31 December 2020, the Bank has one customer (2019: two customers), whose balance exceed 10% of equity. The gross value of this balance as at 31 December 2020 is RUB 2 289 142 thousand or 7.8% of total amounts due to customers (2019: RUB 6 631 053 thousand or 18.9% of total amounts due to customers).

As at 31 December 2020, included in term deposits are deposits of individuals of RUB 8 624 160 thousand (2019: RUB 13 014 496 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include current accounts and term deposits due to related parties, which are disclosed in Note 27.

(Thousands of Russian Roubles)

17. Debt securities issued, subordinated loan, lease liabilities and reconciliation of changes in liabilities and cash flows from finance activities

As at 31 December 2020 and 2019, subordinated loan is represented by the loan from Intesa Sanpaolo Bank Luxembourg. This subordinated loan is denominated in US dollars and bears fixed annual interest rate of 6.58%. In May 2018 the term of subordinated loan was changed from 7 to 10 years and the maturity date was changed from December 2022 to December 2025.

The claims of the Bank's creditors on subordinated loan shall only be satisfied after all claims of other creditors of the Bank are satisfied in full.

Reconciliation of movements of liabilities to cash flows arising from financing activities is provided below:

	Debt securities issued	Subordinated loan	Lease liabilities	Total
Balance as at 1 January 2019	**3 059 954**	**2 828 605**	**-**	**5 888 559**
Cash flows from financing activities			-	
Repayment of lease liabilities	-	-	(213 640)	(213 640)
Repayment of debt securities issued	(3 000 000)	-	-	(3 000 000)
Net cash flows used in financing activities	**(3 000 000)**	**-**	**(213 640)**	**(3 213 640)**
Impact of adopting IFRS 16	-	-	537 848	537 848
Lease liabilities recognized during the year	-	-	240 496	240 496
The effect of changes in foreign exchange rates	-	(302 596)	-	(302 596)
Interest expense accrued	231 550	170 386	55 856	457 792
Interest expense paid	(291 504)	(172 888)	-	(464 392)
Balance at 31 December 2019	**-**	**2 523 507**	**620 560**	**3 144 067**
Balance as at 1 January 2020	-	2 523 507	620 560	3 144 067
Cash flows from financing activities				
Repayment of lease liabilities	-	-	(236 835)	(236 835)
Net cash flows used in financing activities	**-**	**-**	**(236 835)**	**(236 835)**
The effect of changes in foreign exchange rates	-	488 040	-	488 040
Lease liabilities recognized during the year	-	-	74 584	74 584
Interest expense accrued	-	193 944	44 575	238 519
Interest expense paid	-	(189 305)	-	(189 305)
Other changes		(1 014)	-	(1 014)
Balance at 31 December 2020	**-**	**3 015 172**	**502 884**	**3 518 056**

18. Equity

As at 31 December 2020 and 2019, the share capital of Banca Intesa is represented by 876 128 ordinary shares with a nominal value of 12 350 RUB per share. Share capital did not change in 2020 and 2019.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

As at 31 December 2020 and 2019, other capital reserves of RUB 1 803 914 thousand are represented by funds provided in June 2009 to the Bank by its shareholder Intesa Sanpaolo Holding International SA in the form of debt free financing. These funds are not repayable to the Bank's shareholder.

The Bank did not declare nor pay dividends during 2020.

(Thousands of Russian Roubles)

19. Change of allowance for credit losses on interest-bearing financial assets

	2020	*2019*
Loans to large corporate customers	174 230	216 452
Loans to small and medium corporate customers	35 712	(32 324)
Loans to retail customers	22 568	(2 673)
Net investments in finance leases	6 956	19 229
Investment securities	956	(1 102)
Amounts due from credit institutions	42 003	(9 616)
Total change of allowance for credit losses on interest-bearing financial assets	**282 425**	**189 966**

20. Fee and commission income and expense

Analysis of fee and commission income and expense is as follows:

	2020	*2019*
Fee and commission income		
Settlement transactions	346 089	431 102
Guarantees and letters of credit issued	320 333	162 559
Participation in credit facilities' origination and lending transactions	226 853	571 505
Remote administration of accounts	84 457	110 952
Currency control	43 588	50 531
Depositing and withdrawal cash operations	32 786	50 527
Other	17 412	20 128
Total fee and commission income	**1 071 518**	**1 397 304**
Including income that is revenue in accordance with IFRS 15:		
- recognized over time	116 973	96 472
- recognized at a point of time when services are provided	751 185	1 234 744
	868 158	**1 331 216**
Fee and commission expense		
Services on issuance and maintenance of plastic cards	50 338	60 331
Settlement transactions	34 398	37 950
Guarantees and letters of credit received	23 659	10 075
Stock exchange and brokerage services	6 964	5 824
Other	33 249	12 172
Fee and commission expense	**148 608**	**126 352**
Net fee and commission income	**922 910**	**1 270 952**

Depending on the type of the service commission income when not an integral part of the effective interest rate on a financial asset or liability is recognized either at a point of time or over time according to the pattern the Bank fulfills a performance obligation under the contract:

- commission fee for settlement transactions and cash transfers is charged for the execution of payment order in accordance with tariffs depending on the type of the transaction and recognized as income at the moment of the transaction execution;
- commission fee on guarantees and letters of credit issued is paid in advance and is recognized as income over the time of the relevant guarantee or letter of credit;
- fees for asset management, custody and other management and consulting services are recognized over the time of service provision;
- success fees paid on meeting certain profitability targets are recognized after the relevant target is met;
- fees for conducting or participating in negotiations on a transaction on behalf of the third party (for example, entering into an agreement when purchasing shares or other securities; buying or selling a company; obtaining a syndicated loan) are recognized at the moment the transaction is performed by the third party;
- credit operations commission fees are charged, for example, for changing and supplementing the original terms and conditions of the loan agreement, early repayment of a loan and preparation of information letters to borrowers and are recognized at the moment the Bank provides the relevant service.

Net commission income for 2020 comprise income of RUB 69 706 thousand (2019: RUB 66 418 thousand) that relate to financial assets and liabilities not measured at fair value. These amounts exclude commission fees included in the effective interest rate of relevant financial assets and liabilities.

(Thousands of Russian Roubles)

21. Net income (losses) from other operating activities

	2020	*2019*
Lessor income	15 048	19 842
Notarial and state duties expenses	(7 315)	(8 482)
Net other operating income	765	(6 881)
Net income (losses) from other operating activities	**8 498**	**4 479**

22. Personnel and other general administrative expenses

Personnel expenses and other general administrative expenses comprise:

	2020	*2019*
Salaries and bonuses	1 320 220	1 319 713
Social security costs	318 651	304 065
Personnel expenses	**1 638 871**	**1 623 778**
Data processing	581 613	542 012
Communications	121 086	112 568
Repair and maintenance of property and equipment	117 290	114 134
Obligatory deposit insurance system contributions	84 559	106 726
Marketing and advertising	32 462	40 085
Security	26 248	29 020
Operating taxes	25 960	25 272
Audit and other consulting services	25 441	31 302
Insurance	13 225	12 654
Other lease expense	7 033	72 389
Business travel and related expenses	2 599	10 483
Other	43 568	64 065
Other general administrative expenses	**1 081 084**	**1 160 710**

23. Commitments and contingencies

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints.

As of 30 September 2020 and 30 June 2020 in the interim condensed consolidated financial statements other contingencies of non-credit nature were represented by the risk of the potential liability in the amount of RUB 613 227 thousand being the result of past events in the Bank's activities. There was a lawsuit against the Bank claiming the return the loans payments made by the Bank's borrower under the loan agreement to the insolvency estate. Subsequently after the repayments of the loans the borrower was admitted bankrupt, and the insolvency proceedings were started. In case the claims were confirmed by the court the Bank would be requested to return the repayments of the loans. In the fourth quarter of 2020 the Bank has won the first and the second instances of court proceedings for this case. In the first quarter of 2021 a cassation appeal was prepared by the bankruptcy creditor. The Bank considered the facts included in the cassation appeal and did not reveal additional circumstances, not considered by the courts of the first and the second instances. As of the date of the present consolidated financial statements taking into consideration all known facts and circumstances the Management of the Bank assesses the probability of losses as remote in relation to this court case.

Management believes that the ultimate liability, if any, arising from any other actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

The tax authorities have the power to impose fines and penalties for tax arrears. A tax year is generally open for review by the tax authorities during three subsequent calendar years. Currently the tax authorities are taking a more assertive and substance-based approach to their interpretation and enforcement of tax legislation.

(Thousands of Russian Roubles)

Current Russian transfer pricing legislation requires transfer pricing analysis for the majority of cross-border intercompany and major domestic intercompany transactions. Starting from 2019, transfer pricing control, as a general rule, is applied to domestic transactions only if both criteria are met: the parties apply different tax rates, and the annual turnover of transactions between them exceeds RUB 1 billion.

The Russian transfer pricing rules are close to OECD guidelines, but have certain differences that create uncertainty in practical application of tax legislation in specific circumstances. A very limited number of publicly available transfer pricing court cases in Russia does not provide enough certainty as to the approach to applying transfer pricing rules in Russia. The impact of any transfer pricing assessment may be material to the consolidated financial statements of the Bank, however, the probability of such impact cannot be reliably assessed.

Russian tax authorities may review prices used in intra-group transactions, in addition to transfer pricing audits. They may assess additional taxes if they conclude that taxpayers have received unjustified tax benefits as a result of those transactions.

Russian tax authorities continue to exchange transfer pricing as well as other tax related information with tax authorities of other countries. This information may be used by the tax authorities to identify transactions for additional in-depth analysis.

In addition, changes aimed at regulating tax consequences of transactions with foreign companies have been introduced, such as concept of beneficial ownership of income, taxation of controlled foreign companies, tax residency rules, etc. These changes may potentially impact the Bank's tax position and create additional tax risks.

All these circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for the tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts could differ and the effect on these consolidated financial statements, if the tax authorities are successful in enforcing their interpretations, could be significant.

Commitments

As at 31 December the Bank's commitments and contingencies comprise the following:

	31 December 2020	*31 December 2019*
Credit related commitments		
Guarantees issued	29 522 117	25 817 041
Undrawn credit line commitments	5 693 850	3 564 811
Undrawn overdraft loan commitments	633 348	570 554
Letters of credit	413 536	423 356
Credit related commitments	**36 262 851**	**30 375 762**
Allowance for credit losses for credit related commitments (Note 14)	67 634	77 541
Operating lease commitments		
Less than 1 year	1 822	6 931
From 1 to 5 years	6 792	10 996
Above 5 years	37 087	-
	45 701	**17 927**
Capital expenditure commitments		
Property and equipment	4 612	1 922
Intangible assets	29 507	124 984
	34 119	**126 906**

Credit related commitments represent Bank's liability to provide credit facility to the customers on demand. Guarantees and letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. As of 31 December 2020 the gross value of credit related commitments provided to customers which have external credit rating from BBB- to BBB+ is RUB 14 238 401 thousand, from BB-to BB+ - RUB 3 102 779 thousand. The credit related commitments in the amount of RUB 18 860 802 thousand are not past due or credit-impaired and have good and average credit quality. As of 31 December 2020 credit related commitments in the amount of RUB 60 174 thousand are included to Stage 2, RUB 696 thousand are included to Stage 3. As of 31 December 2019 the gross value of credit related commitments provided to customers which have external credit rating from BBB- to BBB+ is RUB 11 808 410 thousand, from BB-to BB+ - RUB 2 726 822 thousand. The credit related commitments in the amount of RUB 15 782 467 thousand are not past due or credit-impaired and have good and average credit quality. As of 31 December 2019 credit related commitments in the amount of RUB 57 707 thousand are included to Stage 2, RUB 356 thousand are included to Stage 3.

The credit rating above is disclosed using credit scale of international rating agencies Standard&Poor's and Fitch.

24. Corporate governance and risk management

Corporate governance

Corporate governance framework

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

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

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

As at 31 December 2020, the Board of Directors includes:

- Professor Antonio Fallico – Chairman of the Board of Directors;
- Mr. Gianluca Cugno
- Mr. Salvatore Catalano;
- Mr. Armando Selva;
- Mr. Lolla Elio;
- Mr. Christophe, Jean-Paul Velle;
- Mr. Stefano Favale;
- Mr. Andrea Mascetti;
- Mr. Torchiana Massimo.

During 2020 there were no changes in the composition of the Board of Directors.

General activities of the Bank are managed by the sole executive body of the Bank - the Chairman of the Management Board and the collective executive body – the Management Board of the Bank. The general shareholders meeting elects the Chairman of the Management Board. The executive bodies of the Bank are responsible for implementation of decisions of the general meeting of shareholders and the Board of Directors of the Bank. Executive bodies of the Bank report to the Board of Directors of the Bank and to the general meeting of shareholders.

As at 31 December 2020, the Management Board includes:

- Mr. Giuseppe Giampietro –Chairman of the Management Board ;
- Mrs. Olga Lein – Deputy Chairman of the Management Board ;
- Mrs. Tatyana Pavlycheva;
- Mrs. Irina Vasina;
- Mr. Oleg Dzhus;
- Mrs. Elena Grimaylo.

During 2020 there were no changes in the composition of the Management Board.

Internal control policies and procedures

Internal Control System ("ICS") consists of the set of rules, functions, organizational units, resources, processes and procedures aimed at ensuring that the following activities are performed, in accordance with the principles of sound and prudent management.

The purpose of internal controls is to ensure:

- effectiveness and efficiency of financial and economic activities in banking operations and other transactions, effectiveness of asset and liability management, including the safeguarding of assets;
- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- reliability, completeness, accuracy and timeliness of financial, accounting, statistical and other reporting, management information;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations, including anti-money laundering and anti-corruption.

Internal control in the Bank is implemented via following bodies:

- the general meeting of shareholders;

- the Board of Directors and its committees, including the Audit Committee;
- the Management Board and the Chairman of the Management Board;
- the Chief Accountant;
- the Risk Management function;
- the Compliance and Financial Monitoring Department
- the Legal Department;
- the Internal Audit function.
- Unit of methodology, projects and control of management and financial reporting
- Other structural units and (or) responsible employees of the Bank, as may be determined by internal documents of the Bank in accordance with the requirements of the legislation of the Russian Federation and the Bank of Russia.

The Board of Directors is responsible for strategic supervision and control.

Bearing in mind the proposals of the Management Board, the Board of Directors establishes and approves:

- the business model, taking into account the risks to which this model exposes the Bank and the procedures for identifying and measuring these risks;
- the Bank's overall governance structure;
- the strategic guidelines which are periodically reviewed due to changes in business activities and the external context, in order to ensure their ongoing effectiveness;
- the risk appetite, risk tolerance and risk governance policies;
- the guidelines of the internal control system, ensuring that it is in line with the stated strategic choices and risk appetite, and that it is able to take account of risk evolution and interaction;
- the criteria for identifying the significant transactions to be subject to prior approval by the Risk Management function;
- the main points of the ICAAP (Internal Capital Adequacy Assessment Process), its coherence with the RAF (Risk Appetite Framework) and its prompt adaptation to significant changes in strategic policies, organizational arrangements and the business environment; taking steps to ensure the full use of the results of the ICAAP for strategic and decision-making purposes.

The Board of Directors establishes and approves:

- the Bank's organizational structure;
- the establishment of the corporate control functions, their tasks and responsibilities, the methods of coordination and collaboration, and information flows between these functions and between them and the corporate bodies;
- the risk management process, and assesses its compatibility with the strategic guidelines and risk governance policies;
- the accounting and reporting systems;
- the policies and processes for evaluating the Bank’s assets, and in particular its financial instruments, ensuring their ongoing adequacy; it also establishes the Bank’s maximum exposure limits to financial instruments or products whose valuation is uncertain or difficult;
- adoption of the internal risk measurement systems for the calculation of capital requirements. Specifically, it approves the selection of the system deemed suitable and a plan of activities for setting it up and implementing it, identifying responsibilities, specifying the timetable for implementation and the planned investment of human, financial and technological resources;
- the annual declaration of compliance with the requirements for using internal evaluation systems, taking a reasoned decision and examining all information from the validation function;
- the process for the development and validation of internal risk management systems not used for regulatory purposes, and periodically assessing their proper functioning.

The Board of Directors and the Management Board have responsibility for development, implementation and monitoring of internal control system.

The Board of Directors is responsible for strategic supervision and management. The Management Board contributes to strategic supervision functions regarding the internal control system, in line with the ISP Group Policy. The Management Board provides the Board of Directors with proposals on the appointment and removal of the managers of internal control functions.

The Management Board ensures integrated management of all business risks, evaluating the internal and external factors from which these risks may derive and their mutual interrelations. It is responsible for taking all necessary actions to ensure that the Bank and the internal control system comply with regulatory standards and requirements, monitoring their ongoing compliance. The Management Board provides the implementation of all strategic decisions; plans and manages implementation of the risk management process as well as implementation of processes relating to the praxis for the approval of new products or services; establishes the internal information flows necessary to ensure that the business units and control functions are fully apprised of and are able to manage risk factors and can verify compliance with the RAF; takes the necessary actions to ensure the ongoing comprehensiveness, adequacy, functionality and reliability of the internal control system; ensures that the risk management process is coherent with the risk appetite and risk governance policies and ensures correct, prompt and secure management of information for accounting, management and reporting purposes; ensures the comprehensiveness, adequacy, functionality and reliability of the IT systems, including supervision of the level of risk of the system, and business continuity; approves the action plan in this direction.

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

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective;
- rules on protection and confidentiality of information and control over compliance with the requirements of the Federal law on the insider information and market manipulation and procedure of access to the insider information.

The CBR sets out the specific requirements for the Internal Audit function and the Internal Control function. Based on above legal requirements the Internal Control function conducts compliance activities focused primarily on regulatory risks faced by the Bank.

The main functions of the Internal Control function (Compliance division of the compliance and financial monitoring Department) include the following:

- identification of compliance risks and regulatory risks;
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences;
- monitoring of regulatory risk;
- preparation of recommendations on regulatory risk management;
- coordination and participation of design of measures to decrease regulatory risk;
- monitoring of efficiency of regulatory risk management;
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behavior rules, code of professional ethics and minimization of conflicts of interest;
- analysis of dynamics of clients' complaints;
- monitoring of compliance with the Russian legislation, the CBR requirements, self-regulated organizations, internal regulations, and correct accounting of securities transactions within dealer, broker, depository activity;
- maintaining the list of insiders;
- analysis of economic reasonableness of outsourcing agreements of Bank's services;
- participation in interaction with authorities, self-organized organizations, associations and financial market participants.

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

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures;
- audit of efficiency of methodology of assessment of banking risks and risk management procedures;
- audit of reliability of internal control system over automated information systems;
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information;
- audit of applicable methods of safekeeping the Bank's property;
- assessment of economic reasonability and efficiency of operations and other deals;
- audit of internal control processes and procedures;
- audit of the Internal Control function and the Risk Management function.

Compliance with ISP Group standards is supported by periodic reviews undertaken by the Internal Audit Division (further, “the Internal Audit function”). The Internal Audit function is independent from business operations and is subordinated to and reports to the Board of Directors. The results of the Internal Audit function reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee, the Board of Directors and senior management of the Bank and the ISP Group.

Russian legislation establishes the professional qualification, business reputation and other requirements for the members of the Board of Directors, the Management Board, the Head of the Internal Audit function, Head of Compliance and financial monitoring Department (the Internal Control function) and the Risk Management function and other key management personnel. All members of the Bank’s governing and management bodies of the Bank comply with these requirements.

There is a hierarchy of requirements for the authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank has a system of automated controls to minimize risks.

Management believes that the Bank complies with the CBR requirements in respect of risk management and internal control systems, including requirements covering the Internal Audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of Bank’s operations.

The Bank’s internal documentation, establishing the procedures and methodologies for identifying and managing the Bank’s significant credit, operational, market, interest rate, legal, strategy, country, concentration and liquidity risk , and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The Bank maintained a system for reporting on the Banks’s significant credit, operational, market, interest rate, legal, strategy, country, concentration and liquidity risk, and on the Bank’s capital.

The frequency and consistency of reports prepared by the Bank’s Risk management and Internal Audit functions during 2020, which cover the Banks’s credit, operational, market, interest rate, legal, strategy, country, concentration and liquidity risk, was in compliance with the Bank’s internal documentation. The reports included observations made by the Bank’s Risk Management, Compliance and financial monitoring Department and Internal Audit functions as to their assessment of the effectiveness of the Bank’s procedures and methodologies, and recommendations for improvement.

The Board of Directors and the Management Board of the Bank had responsibility for monitoring the Bank’s compliance with risk limits and capital adequacy ratios as established by the Bank’s internal documentation. With the objective of monitoring effectiveness of the Bank’s risk management procedures and their consistent application during 2020 the Board of Directors and the Management Board of the Bank periodically discussed reports prepared by the risk management and Internal Audit functions, and considered proposed corrective actions.

Risk management

General information

Risk is inherent in the Bank’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is essential to the Bank’s continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. Operational, business and other non-financial risks are also inherent in the Bank’s activities.

Risk management is the process of identification, measurement and monitoring of risks faced by the Bank, conducted in accordance with its particular organizational and functional structure and established for the appropriate management of the risk appetite expressed by the shareholders.

The independent risk control process does not cover business risks such as changes in the environment, technology and industry. They are monitored through the Bank’s strategic planning process.

The Bank has the Risk Management function which performs centralized risk management to preserve and enhance value for the shareholders. Risk management function is not subordinated to and does not report to divisions accepting relevant risks.

The Risk Management function is based on the following general principles:

- independence from the business lines;
- coherence at all aggregation levels through the use of consistent measuring models;
- timing in providing the data to support the decision-making and control processes;
- timely analysis and identification of potential possibilities of excess of risk thresholds along with the establishment of the corresponding measures to minimize such possibilities;
- transparency in assessment methodologies and criteria on acceptable thresholds for each risk type in accordance with the established levels of decision making process;
- segregation of duties between the Board of Directors, Chief Executive Officer, divisions and departments.

The Bank calculates mandatory ratios on a daily basis in accordance with the requirement of the CBR.

Risk management structure

There is a multilevel system established in the Bank for making decisions related to risk management. The Board of Directors performs a strategic risk management; however, tactical functions are performed by collegiate authorities and specific independent bodies responsible for managing and monitoring risks.

The Board of Directors is responsible for the overall risk management process and for approving risk strategies, principles, methodologies for identifying and managing significant risks, as well as identifying risk appetite and setting the overall risk framework for limits and monitoring capital adequacy and stress-testing.

The Management Board has the responsibility to define and monitor the risk management process within the Bank, including monitoring of risk appetite adherence, monitoring of risk limits and capital adequacy as established by the Bank's approved internal documentation. The Management Board also approved the methodologies for identifying and managing significant risks.

The Financial Risks Committee is responsible for the protection and allocation of the Bank's equity, it ensures the criteria and methods on risks' evaluation and control procedures to be compliant with ISP Group guidelines. It also manages the Bank's portfolio, regularly monitors and evaluates the structure of assets and liabilities, as well as off-balance sheet items, performs the approval of the terms of the new financial products or changes in the existing ones, performs the monitoring of established risk limits compliance (internal and external). The Financial Risks Committee ensures the decision making is performed in accordance with the Banks' policies and other internal documentation.

The Credit Committee is the superior credit approval authority in the Bank. It is responsible for the credit issuance and reapproval of lending conditions within the established limits by counterparty. It makes decisions on proposals made by business units taking into account risks evaluation on each of them. For credit exposures above certain limit the final approval has to be provided by the Credit Committee taking into consideration an opinion provided by the Credit Department of ISP Group.

The Problem Asset Committee assesses the quality of the credit portfolio and its trends, approves assets' classification, level of impairment allowance, performs an analysis of settlement strategies for impaired loans, and monitors collection process and its results.

The Risk Management function is responsible for implementing and maintaining significant and other risk management procedures, for maintenance of acceptable risk level limited by risk appetite to ensure an independent control process, including preparation of reports which include observations made as to its assessment of the effectiveness of Bank's procedures and methodologies, and recommendations for improvement. The frequency and consistency of these reports is in compliance with the Bank's internal documentation.

The Treasury Division is responsible for managing the structure of the Bank's assets and liabilities in terms of the established limits in order to minimize market risks which may arise. It is also primarily responsible for payment position and liquidity risk management.

The Internal Audit function audits annually risk management processes. It reviews risk management policies and procedures and reports its findings, including the assessment of the effectiveness of the Bank's procedures and methodologies and recommendations for improvement, to the Audit Committee. The frequency and consistency of the reports is in compliance with the internal documentation. Based on the recommendations of the Audit Committee, the Board of Directors considers proposed corrective actions.

Risk measurement and reporting systems

Risk monitoring and controlling are primarily performed based on the established limits. These limits reflect the business strategy and market environment as well as the level of the risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank maintains the system for reporting related to the capital of the Bank, and monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types such as credit, operational, market, interest rate, legal, liquidity and reputational risks.

Information compiled from all business units is examined and processed in order to analyse, control and identify risks. This information is reported to the Board of Directors, the Management Board, the Financial Risks Committee and the Credit Committee. The report is prepared quarterly and includes aggregate credit exposures, credit metric forecasts, hold limit exceptions, market risk exposures, liquidity ratios and risk profile changes. The Management Board analyses risk reports and where necessary reallocates risk limits to achieve target strategic risk profile. The reports of the Risk Management function are periodically discussed by the Board of Directors and the Management Board and proposed corrective actions are considered. The Risk Management function also is involved in process of Homogeneous Credit Risk Monitoring and Risk Appetite Framework leading by the International Subsidiaries Banks Division of the ISP Group.

Risk mitigation

As part of its overall risk management process, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, and exposures arising from forecasted transactions.

Risk concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes of the same economic factors.

The Bank's policies and procedures include specific guidelines to focus on maintaining diversified portfolios. The Bank takes measures to correct the excess of the established limits of identified concentrations of credit risks accordingly.

(Thousands of Russian Roubles)

25. Analysis of financial risks

Credit risk

Credit risk is the risk of a financial loss to the Bank if a counterparty of a financial instrument fails to meet its contractual obligations.

The basic principles of credit risk management include:

- close connection between credit risk management system and strategic aims and tasks of the Bank;
- involvement of the Board of Directors and governing bodies of the Bank into credit risk management issues;
- overall identification, analysis and establishment of credit risk minimization system;
- follow-up control, regular monitoring and reporting.

The policies of the Bank within the credit procedures determine:

- procedures for review and approval of loan applications;
- methodology for the credit assessment of the borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Credit processes comprise the assessment of credit quality of counterparty and structuring the deal in terms of issued product; credit administration process and further control, including regular analysis of creditworthiness of customers, covenants check, analysis of contractual obligations, planned use of funds, etc.; management of portfolio of homogeneous credit products.

Functions of the deal's initiation and evaluation of credit risks are separated. The Underwriting Department, being an independent division, performs primary and secondary analysis of a client in terms his business, financial situation, operational market, deal structure and compliance with the Bank's and ISP Group's policy. The Credit Committee makes the decision on the loan application on the basis of submissions by the Underwriting Department.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the customer, or otherwise obtained by the Bank. Apart from planned activities, the Bank also performs additional monitoring in case of any negative signs towards clients' business and financial situation. The credit portfolio is assessed by the Risk Management function with the reports being provided to executive bodies of the Bank and to the Board of Directors.

Maximum exposure to credit risk

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

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates (mitigates) the Bank's credit risk in respect of a borrower or group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2020 and 2019, the maximum level of N6 ratio set by the CBR was 25.0%. The N6 ratio calculated by the Bank as at 31 December 2020 was 22.7% (2019: 18.7%) and was in compliance with limits set by the CBR.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

The Bank provides financial guarantees and letters of credit to its customers which may require the Bank to make payments on their behalf. Such payments are further collected from customers based on the terms of financial guarantees and letters of credit. They expose the Bank to credit risk and are mitigated by the same credit risk management policies and procedures.

Analysis of sensitivity

The most significant assumptions affecting the ECL allowance relate to calculation of add-on adjustment, applied to PD, LGD and allowance in general to account for different scenarios and to include a forward looking information.

As at 31 December 2020 and as at 31 December 2019 a sensitivity analysis of allowance for credit losses on loans to customers to changes of these assumptions is presented in the table below.

	31 December 2020		*31 December 2019*	
(Increase) decrease in allowance for credit losses on loans to customers, measured at amortized cost	*30% increase in Add-on*	*30% decrease in Add-on*	*30% increase in Add-on*	*30% decrease in Add-on*
- large corporate customers	(84 875)	84 875	(75 802)	75 802
- small and medium corporate customers	(56 625)	56 625	(44 702)	44 702
- retail customers	(10 493)	10 493	(13 354)	13 354
Total increase (decrease) in allowance for credit losses	**(151 993)**	**151 993**	**(133 858)**	**133 858**
Impact on profit before taxation and equity:				
Increase (decrease) in profit before taxation	(151 993)	151 993	(133 858)	133 858
Increase (decrease) in equity	(121 594)	121 594	(107 086)	107 086

(Thousands of Russian Roubles)

Information on quality of debt servicing on loans to customers

Information on delinquencies on loans to customers as at 31 December 2020 is presented in the table below:

			Credit-impaired loans		Total
	Stage 1	***Stage 2***	***Stage 3***	***Upon initial recognition***	**loans to customers**
Large corporate customers					
- not past due	31 424 032	98 606	26 123	295 351	31 844 112
- past due less than 30 days	-	-	-	-	-
- past due from 31 to 90 days	-	-	-	-	-
- past due from 91 to 365 days	-	-	-	181 338	181 338
- past due more than 1 year	-	-	1 315 935	83 383	1 399 318
Total before loss allowance	**31 424 032**	**98 606**	**1 342 058**	**560 072**	**33 424 768**
Allowance for credit losses	(282 523)	(393)	(1 254 975)	(221 701)	(1 759 592)
Total loans to large corporate customers	**31 141 509**	**98 213**	**87 083**	**338 371**	**31 665 176**
Allowance for credit losses to gross amount of loans, %	*0.90%*	*0.40%*	*93.51%*	*39.58%*	*5.26%*
Small and medium corporate customers					
- not past due	12 991 610	1 279 431	54 335	-	14 325 376
- past due less than 30 days	7 546	76 146	20 025	-	103 717
- past due from 31 to 90 days	-		19 567	-	19 567
- past due from 91 to 365 days	-	-	27 395	-	27 395
- past due more than 1 year	-	-	1 112 710	-	1 112 710
Total before loss allowance	**12 999 156**	**1 355 577**	**1 234 032**	**-**	**15 588 765**
Allowance for credit losses	(94 943)	(93 808)	(886 596)	-	(1 075 347)
Total loans to small and medium corporate customers	**12 904 213**	**1 261 769**	**347 436**	**-**	**14 513 418**
Allowance for credit losses to gross amount of loans, %	*0.73%*	*6.92%*	*71.85%*	-	*6.90%*
Retail customers					
- not past due	1 480 843	52 291	4 185	-	1 537 319
- past due less than 30 days	11 265	2 179	5 565	-	19 009
- past due from 31 to 90 days	166	3 253	4 617	-	8 036
- past due from 91 to 365 days	-	-	38 740	-	38 740
- past due more than 1 year	-	-	80 287	-	80 287
Total before loss allowance	**1 492 274**	**57 723**	**133 394**	**-**	**1 683 391**
Allowance for credit losses	(23 722)	(11 253)	(114 952)	-	(149 927)
Total loans to retail customers	**1 468 552**	**46 470**	**18 442**	**-**	**1 533 464**
Allowance for credit losses to gross amount of loans, %	*1.59%*	*19.49%*	*86.17%*	-	*8.91%*
Total loans to customers					
- not past due	45 896 485	1 430 328	84 643	-	47 411 456
- past due less than 30 days	18 811	16 012	25 590	-	60 413
- past due from 31 to 90 days	166	65 566	24 184	-	89 916
- past due from 91 to 365 days	-	-	66 135	476 689	542 824
- past due more than 1 year	-	-	2 508 932	83 383	2 592 315
Total before loss allowance	**45 915 462**	**1 511 906**	**2 709 484**	**560 072**	**50 696 924**
Allowance for credit losses	(401 188)	(105 454)	(2 256 523)	(221 701)	(2 984 866)
Total loans to customers	**45 514 274**	**1 406 452**	**452 961**	**338 371**	**47 712 058**
Allowance for credit losses to gross amount of loans, %	*0.87%*	*6.97%*	*83.28%*	*39.58%*	*5.89%*

(Thousands of Russian Roubles)

The following table provides information on the credit quality of loans to customers and net investments in finance leases as at 31 December 2019:

			Credit-impaired loans		
	Stage 1	***Stage 2***	***Stage 3***	***Upon initial recognition***	**Total loans to customers**
Large corporate customers					
- not past due	24 333 132	-	600 750	451 513	25 385 395
- past due less than 30 days	-	-	-	-	-
- past due from 31 to 90 days	-	-	-	-	-
- past due from 91 to 365 days	-	-	70 149	-	70 149
- past due more than 1 year	-	-	1 768 403	93 810	1 862 213
Total before loss allowance	**24 333 132**	**-**	**2 439 302**	**545 323**	**27 317 757**
Allowance for credit losses	(252 672)	-	(1 988 658)	(15 169)	(2 256 499)
Total loans to large corporate customers	**24 080 460**	**-**	**450 644**	**530 154**	**25 061 258**
Allowance for credit losses to gross amount of loans, %	*1.04%*	-	*81.53%*	*2.78%*	*8.26%*
Small and medium corporate customers					
- not past due	13 524 419	406 512	46 815	-	13 977 746
- past due less than 30 days	79 684	753	13 790	-	94 227
- past due from 31 to 90 days	-	-	12 217	-	12 217
- past due from 91 to 365 days	-	-	83 766	-	83 766
- past due more than 1 year	-	-	1 676 968	-	1 676 968
Total before loss allowance	**13 604 103**	**407 265**	**1 833 556**	**-**	**15 844 924**
Allowance for credit losses	(125 492)	(23 514)	(1 242 389)	-	(1 391 395)
Total loans to small and medium corporate customers	**13 478 611**	**383 751**	**591 167**	**-**	**14 453 529**
Allowance for credit losses to gross amount of loans, %	*0.92%*	*5.77%*	*67.76%*	-	*8.78%*
Retail customers					
- not past due	1 589 144	61 287	3 354	-	1 653 785
- past due less than 30 days	13 356	3 956	5 460	-	22 772
- past due from 31 to 90 days	579	4 840	8 747	-	14 166
- past due from 91 to 365 days	37	57	25 956	-	26 050
- past due more than 1 year	-	-	91 447	-	91 447
Total before loss allowance	**1 603 116**	**70 140**	**134 964**	**-**	**1 808 220**
Allowance for credit losses	(30 017)	(14 496)	(104 965)	-	(149 478)
Total loans to retail customers	**1 573 099**	**55 644**	**29 999**	**-**	**1 658 742**
Allowance for credit losses to gross amount of loans, %	*1.87%*	*20.67%*	*77.77%*	-	*8.27%*
Total loans to customers					
- not past due	39 446 695	467 799	650 919	451 513	41 016 926
- past due less than 30 days	93 040	4 709	19 250	-	116 999
- past due from 31 to 90 days	579	4 840	20 964	-	26 383
- past due from 91 to 365 days	37	57	179 871	-	179 965
- past due more than 1 year	-	-	3 536 818	93 810	3 630 628
Total before loss allowance	**39 540 351**	**477 405**	**4 407 822**	**545 323**	**44 970 901**
Allowance for credit losses	(408 181)	(38 010)	(3 336 012)	(15 169)	(3 797 372)
Total loans to customers	**39 132 170**	**439 395**	**1 071 810**	**530 154**	**41 173 529**
Allowance for credit losses to gross amount of loans, %	*1.03%*	*7.96%*	*75.68%*	*2.78%*	*8.44%*

(Thousands of Russian Roubles)

Analysis of collateral and other credit enhancements

The probability of loans repayment to the Bank mainly depends on creditworthiness of a client rather than on a collateral value. Nevertheless, an existence of additional repayment sources is an important part of credit risks minimization.

The Bank accepts different types of assets as collateral for loans to customers in order to minimize its' credit risks. The Bank takes collateral classified as being the 1st class (e.g. guarantees) and standard, depending on its quality and liquidity.

The Bank has procedures for monitoring the fair value of collateral, including additional collateral request when collateral's current value declines. Fair value of the collateral is reviewed within the periodicity determined in the Collateral Policy of the Bank.

During 2020, the Bank obtained certain assets by taking possession of collateral for loans to customers and net investments in finance leases. As at 31 December 2020, the carrying amount of such assets is RUB 92 387 thousand (2019: RUB 92 884 thousand), which consisted of real estate of RUB 91 047 thousand (2019: RUB 92 554 thousand) and other assets of RUB 1 340 thousand (2019: RUB 330 thousand). The Bank's policy is to dispose of these assets as soon as it is practicable.

The following tables provide information on collateral and other credit enhancements securing loans to customers, net of allowance for credit losses, as at 31 December 2020.

	Real estate	Motor vehicles	Equipment	Guarantees	Total secured loans	Unsecured loans	Total loans to customers
Loans to customers							
Large corporate customers							
Stage 1	546 656	2 451 306	514 888	241 644	3 754 494	27 387 015	31 141 509
Stage 2	-	-	-	98 213	98 213	-	98 213
Stage 3	416 212	9 242	-	-	425 454	-	425 454
	962 868	**2 460 548**	**514 888**	**339 857**	**4 278 161**	**27 387 015**	**31 665 176**
Small and medium customers							
Stage 1	9 745 749	853 757	583 913	-	11 183 419	1 720 794	12 904 213
Stage 2	1 053 390	113 206	23 400	-	1 189 996	71 773	1 261 769
Stage 3	289 042	26 724	13 847	-	329 613	17 823	347 436
	11 088 181	**993 687**	**621 160**	**-**	**12 703 028**	**1 810 390**	**14 513 418**
Retail customers							
Stage 1	593 601	-	-	-	593 601	874 951	1 468 552
Stage 2	38 501	-	-	-	38 501	7 969	46 470
Stage 3	16 142	-	-	-	16 142	2 300	18 442
	648 244	**-**	**-**	**-**	**648 244**	**885 220**	**1 533 464**
Total loans to customers	**12 699 293**	**3 454 235**	**1 136 048**	**339 857**	**17 629 433**	**30 082 625**	**47 712 058**
Net investments in finance lease							
Stage 1	5 534	458 295	720 594	-	1 184 423	30 295	1 214 718
Stage 2	-	1 472	-	-	1 472	-	1 472
Stage 3	-	10 886	5 966	-	16 852	1 267	18 119
Total net investments in finance leases	**5 534**	**470 653**	**726 560**	-	1 202 747	31 562	**1 234 309**

(Thousands of Russian Roubles)

The following tables provide information on collateral and other credit enhancements securing loans to customers, net of allowance for credit losses, as at 31 December 2019.

	Real estate	Motor vehicles	Equipment	Guarantees	Total secured loans	Unsecured loans	Total loans to customers
Loans to customers							
Large corporate customers							
Stage 1	184 895	1 499 447	355 797	339 919	2 380 058	21 700 402	24 080 460
Stage 2	-	-	-	-	-	-	-
Stage 3	738 556	11 880	-	-	750 436	230 362	980 798
	923 451	**1 511 327**	**355 797**	**339 919**	**3 130 494**	**21 930 764**	**25 061 258**
Small and medium customers							
Stage 1	10 242 159	712 612	614 863	-	11 569 634	1 908 977	13 478 611
Stage 2	300 576	35 518	35 964	-	372 058	11 693	383 751
Stage 3	527 185	24 348	16 754	-	568 287	22 880	591 167
	11 069 920	**772 478**	**667 581**	**-**	**12 509 979**	**1 943 550**	**14 453 529**
Retail customers							
Stage 1	495 382	-	-	-	495 382	1 077 717	1 573 099
Stage 2	41 644	-	-	-	41 644	14 000	55 644
Stage 3	25 709	-	-	-	25 709	4 290	29 999
	562 735	**-**	**-**	**-**	**562 735**	**1 096 007**	**1 658 742**
Total loans to customers	**12 556 106**	**2 283 805**	**1 023 378**	**339 919**	**16 203 208**	**24 970 321**	**41 173 529**
Net investments in finance lease							
Stage 1	5 734	438 219	704 227	-	1 148 180	22 581	1 170 761
Stage 2	-	8 459	8 753	-	17 212	-	17 212
Stage 3	-	4 592	6 460	-	11 052	1 261	12 313
Total net investments in finance leases	**5 734**	**451 270**	**719 440**	**-**	**1 176 444**	**23 842**	**1 200 286**

The tables above are presented on the basis of fair value of collateral as described below excluding over collateralization.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes.

For impaired, past due and other certain loans the fair value of collateral is updated with frequency defined in the Collateral Policy.

Mortgage loans to individuals are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 85%.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Bank may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

(Thousands of Russian Roubles)

Geographical concentration

The geographical concentration of assets and liabilities as at 31 December 2020 is as follows:

	Russia	OECD	CIS and other countries	Total
Assets				
Cash and cash equivalents	3 834 720	1 554 258	80	5 389 058
Mandatory cash balances with the Central Bank of the Russian Federation	668 863	-	-	668 863
Amounts due from credit institutions	4 455 042	4 654 304	4 780 250	13 889 596
Investment securities	3 058 205	-	-	3 058 205
Derivative financial assets	112	-	-	112
Loans to customers:	46 052 220	332 430	1 327 408	47 712 058
- corporate customers	*30 142 132*	*203 255*	*1 319 789*	*31 665 176*
- small and medium customers	*14 513 418*	-	-	*14 513 418*
- retail customers	*1 396 670*	*129 175*	*7 619*	*1 533 464*
Net investments in finance leases	1 234 309	-	-	1 234 309
Property and equipment	1 368 839	-	-	1 368 839
Intangible assets	474 335	-	-	474 335
Deferred income tax assets	409 773	-	-	409 773
Other assets	1 168 283	60 076	1 515	1 229 874
Total assets	**62 724 701**	**6 601 068**	**6 109 253**	**75 435 022**
Liabilities				
Amounts due to credit institutions	7 201 076	21 308 898	-	28 509 974
Derivative financial liabilities	1 207	216	-	1 423
Amounts due to customers:	27 204 164	2 072 032	230 778	29 506 974
- legal entities, state and non-profit organizations	*16 865 189*	*671 502*	*41 574*	*17 578 265*
- individuals	*10 338 975*	*1 400 530*	*189 204*	*11 928 709*
Lease liabilities	502 884	-	-	502 884
Other liabilities	457 974	73 985	1 002	532 961
Subordinated loan	-	3 015 172	-	3 015 172
Total liabilities	**35 367 305**	**26 470 303**	**231 780**	**62 069 388**
Net position	**27 357 396**	**(19 869 235)**	**5 877 473**	**13 365 634**
Credit related commitments	**32 663 530**	**1 752 427**	**1 846 894**	**36 262 851**

Assets, liabilities and credit related commitments are allocated based on the country in which the counterparty performs its business activities. Cash on hand and property and equipment are allocated based on the country in which they are physically held. The Bank's operations include transactions with counterparties that operate in OECD countries, primarily Italy, Luxemburg, Germany, United States and United Kingdom.

The geographical concentration of assets and liabilities as at 31 December 2019 is as follows:

	Russia	OECD	CIS and other countries	Total
Net position	**15 957 290**	**(3 918 519)**	**1 301 115**	**13 339 886**
Credit related commitments	**27 075 121**	**1 318 992**	**1 981 649**	**30 375 762**

(Thousands of Russian Roubles)

Liquidity risk

Liquidity risk is the risk of a potential loss arising in case the Bank is unable to meet its financial obligations as they fall due.

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

The Bank maintains liquidity management with the objective to ensure that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Board of Directors.

The Treasury Division performs the daily liquidity management in line with the Policy on liquidity risk management established in the Bank. It performs its' activity to comply with the structured ratios and liquidity ratios of the CBR and ISP Group. When performing operating activity on liquidity management, the Treasury Division maintains the volume of liquid assets portfolio of the Bank at the required level, and uses the interbank instruments to optimize the structure of the Bank's balance.

The Risk Management function performs daily monitoring of liquidity position and performs stress-testing on a regular basis, taking into consideration possible scenarios of market conditions, both at normal and unfavorable level.

The liquidity position is also assessed and managed by the Bank, based on certain liquidity ratios calculated on a daily basis in accordance with the requirements of the CBR. As at 31 December, these ratios are as follows:

	Requirement	*2020, %*	*2019, %*
Instant Liquidity Ratio (N2)	Not less than 15%	55.8	56.9
Current Liquidity Ratio (N3)	Not less than 50%	75.5	94.6
Long-Term Liquidity Ratio (N4)	Not more than 120%	80.0	91.9

The Bank also regularly monitors Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), established by the requirements of the Basel III.

The table below shows the structure of assets and liabilities as at 31 December 2020 in accordance with their contractual maturity.

	On demand	*Less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Overdue or no stated maturity*	*Total*
Assets								
Cash and cash equivalents	5 389 058	-	-	-	-	-	-	5 389 058
Mandatory cash balances with the Central Bank of the Russian Federation	318 001	116 797	88 525	131 188	14 352	-	-	668 863
Amounts due from credit institutions	77 108	7 354 065	814 761	4 182 776	1 460 886	-	-	13 889 596
Investment securities	-	3 058 205	-	-	-	-	-	3 058 205
Derivative financial assets	-	112	-	-	-	-	-	112
Loans to customers	-	1 742 835	3 975 358	13 862 646	26 233 561	1 197 999	699 659	47 712 058
Net investments in finance leases	-	68 405	134 406	485 370	523 533	-	22 595	1 234 309
Property and equipment	-	-	-	-	-	-	1 368 839	1 368 839
Intangible assets	-	-	-	-	-	-	474 335	474 335
Deferred income tax assets	-	-	-	-	-	-	409 773	409 773
Other assets	373 106	71 468	305 222	272 436	10 660	13 281	183 701	1 229 874
Total assets	6 157 273	12 411 887	5 318 272	18 934 416	28 242 992	1 211 280	3 158 902	75 435 022
Liabilities								
Amounts due to credit institutions	265 822	2 754 445	244 777	6 025 003	19 219 927	-	-	28 509 974
Derivative financial liabilities	-	1 423	-	-	-	-	-	1 423
Amounts due to customers	14 028 645	5 152 523	3 905 296	5 787 390	633 120	-	-	29 506 974
incl. amounts due to individuals	*3 310 021*	*946 957*	*2 320 555*	*4 787 233*	*563 943*	-	-	11 928 709
Lease liabilities	-	-	49 222	144 685	308 977	-	-	502 884
Subordinated loan	-	-	-	-	3 015 172	-	-	3 015 172
Other liabilities	25 155	49 883	100 978	271 485	65 779	9 915	9 766	532 961
Total liabilities	14 319 622	7 958 274	4 300 273	12 228 563	23 242 975	9 915	9 766	62 069 388
Net position	(8 162 349)	4 453 613	1 017 999	6 705 853	5 000 016	1 201 365	3 149 137	13 365 634
Cumulative liquidity gap:								
as at 31 December 2020	(8 162 349)	(3 708 736)	(2 690 737)	4 015 116	9 015 132	10 216 497	13 365 634	
as at 31 December 2019	**(9 779 036)**	**1 493 750**	**(1 741 570)**	**163 545**	**11 514 857**	**9 990 221**	**13 339 886**	

(Thousands of Russian Roubles)

Overdue loans to customers include loans that are overdue in full and overdue payments on loans that are partially overdue.

In the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

Investment securities represented by Russian State bonds (OFZ) are classified in the category “Less than 1 month” as they are considered to be highly liquid financial instruments.

Term deposits not withdrawn by the customers, are classified within the “On demand” category.

Unused vacations in the amount of RUB 19 031 thousand are classified into the category “from 3 months to 1 year” in accordance with the Bank’s judgement based on historical pattern.

Mandatory cash balances with the CBR are allocated between the different maturities categories in accordance with the maturities of the liabilities to which they relate.

When necessary accumulated gap in the category “on demand” could be managed by attracting funds from ISP Group.

The maturity profile of financial liabilities and credit related commitments as at 31 December 2020 based on contractual undiscounted repayment obligations is as follows:

	On demand	*Less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*	*Carrying amount*
Financial liabilities								
Amounts due to credit institutions	265 822	2 776 441	298 650	6 331 390	19 597 731	-	**29 270 034**	**28 509 974**
Amounts due to customers	14 028 645	5 157 510	3 923 235	5 873 531	651 157	-	**29 634 078**	**29 506 974**
incl. amounts due to individuals	*3 310 021*	*948 620*	*2 332 844*	*4 859 298*	*581 266*	-	***12 032 049***	***11 928 709***
Subordinated loan	-	-	-	194 441	3 792 935	-	**3 987 376**	**3 015 172**
Lease liabilities	-	-	57 906	165 592	336 679	-	**560 177**	**502 884**
Other liabilities	34 921	49 883	100 978	271 485	65 779	9 915	**532 961**	**532 961**
Derivative financial instruments								
- inflow	-	(1 366 412)	-	-	-	-	**(1 366 412)**	**(112)**
-outflow	-	1 367 723	-	-	-	-	**1 367 723**	**1 423**
Total financial liabilities	**14 329 388**	**7 985 145**	**4 380 769**	**12 836 439**	**24 444 281**	**9 915**	**63 985 937**	**62 069 276**
Credit related commitments	**36 262 851**	**-**	**-**	**-**	**-**	**-**	**36 262 851**	**36 262 851**

The maturity profile of financial liabilities and credit related commitments as at 31 December 2019 based on contractual undiscounted repayment obligations is as follows:

	On demand	*Less than 1 month*	*From 1 to 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*	*Carrying amount*
Financial liabilities								
Amounts due to credit institutions	184 250	34 850	231 027	914 166	12 414 517	-	**13 778 810**	**13 006 561**
Amounts due to customers	13 977 518	3 983 304	5 918 369	10 773 163	846 331	-	**35 498 685**	**35 157 410**
incl. amounts due to individuals	*2 253 925*	*1 129 033*	*1 870 831*	*9 515 649*	*783 611*	-	**15 553 049**	***15 267 801***
Lease liabilities	-	20 613	40 036	175 975	478 775	2 762	**718 161**	**620 560**
Subordinated loan	-	13 578	27 156	122 202	651 743	2 686 889	**3 501 568**	**2 523 507**
Other liabilities	50 397	71 000	168 656	160 998	78 113	10 255	**539 419**	**539 419**
Derivative financial instruments								
- inflow	-	(1 980 025)	(361 163)	(325 832)	-		**(2 667 020)**	**(40 009)**
-outflow	-	1 969 030	346 947	312 381	-	-	**2 628 358**	**1 347**
Total financial liabilities	**14 212 165**	**4 112 350**	**6 371 028**	**12 133 053**	**14 469 479**	**2 699 906**	**53 997 981**	**51 808 795**
Credit related commitments	**30 375 762**	**-**	**-**	**-**	**-**	**-**	**30 375 762**	**30 375 762**

The total gross inflow and outflow disclosed in the tables above is the contractual, undiscounted cash flow on the financial liability or commitment.

In accordance with the Russian Civil Code, the Bank is obliged to repay time deposits to individuals upon demand of a depositor. In the tables above these deposits are classified in accordance with their stated maturity and are disclosed by each time band.

Market risk

Market risk is the risk that the fair value of assets or future cash flows of financial instruments will diminish due to changes in the interest rates, currency rates and equity prices. Market risk includes currency risk, interest rate risk and other price risks.

Market risks arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return of risk.

Overall authority for market risk is vested in the Financial Risks Committee. Market risk limits are approved by the Board of Directors based on recommendations of the Risk Management function and the Financial Risks Committee.

The Bank manages its market risk by setting open positions and other limits in relation to financial instruments, which include acceptable level of positions (nominal and market ones), Value at Risk (“VaR”), PV100 and stop-loss limits, limits on open positions. These are monitored on a regular basis and reviewed and approved by the Management Board and the Board of Directors.

VaR – Investment securities

The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 1-day holding period.

For the purposes of interest rate risk calculations for fixed income securities the information on interest rates volatility and correlation is received from the ISP Group on a daily basis.

Although VaR is a valuable tool in measuring risk exposures, it has a number of limitations:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature;
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate;
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day;
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

To determine the reliability of the VaR model, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR model. Market risk positions are also subject to regular stress tests to ensure that the Bank would withstand an extreme market event.

VaR limits have been established for investment securities portfolio, and exposure is calculated and monitored daily against the limits set by the Board of Directors. As at 31 December 2020, VaR for investment securities portfolio is RUB 699 thousand (2019: RUB 430 thousand).

(Thousands of Russian Roubles)

Interest rate risk for non-trading positions

Interest rate risk is the risk of a potential loss due to adverse changes in the market interest rates affecting the assets, liabilities and unrecognized positions sensitive to such changes.

Interest rate risk includes the following:

- Repricing Risk - the risk linked to the time differences in maturities (for fixed rate positions) and in the repricing dates (for floating rate positions);
- Yield Curve Risk - the risk linked to changes in the slope and shape of the yield curve;
- Basis Risk - the risk linked to the mismatch in the rates to be received and paid on different instruments, with similar repricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and interest margins for assets, liabilities and unrecognized positions with similar maturities or repricing frequencies.

The Bank uses the following methods to measure interest rate risk:

Fair value sensitivity measures the changes in the fair value of assets, liabilities and unrecognized positions resulting from a parallel rise in the discount curves by 100 b.p. To calculate the fair value, the discount curves which are suitable for measuring individual financial instruments are applied.

An analysis of sensitivity of the fair value as at 31 December is as follows:

Currency	***31 December 2020***	***31 December 2019***
RUB	(198 974)	(197 718)
USD	55 214	58 634
EUR	3 328	(11 366)
Total	**(140 432)**	**(150 450)**

A parallel fall in the discount curves by 100 b.p. would have had the equal but opposite effect on the fair value of assets, liabilities and unrecognized positions.

Sensitivity of the Interest Margin measures a one-year impact on the interest margin resulting from a parallel rise of the interest rate curves by 100 b.p. This measure highlights the effect of changes in interest rates on the portfolio being divided into current and term products excluding assumptions on future changes in the structure of assets and liabilities. Therefore, it cannot be considered as a predictor of the future levels of the interest margin.

An analysis of sensitivity of the interest margin as at 31 December is as follows.

Currency	***31 December 2020***	***31 December 2019***
RUB	35 136	55 288
USD	47 076	36 579
EUR	26 289	12 551
Total	**108 501**	**104 418**

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at floating interest rates. In practice, interest rates are generally fixed on a short-term horizon. To reduce the interest rate risk the Bank includes in its loan contracts a clause providing for a change in the interest rate in the event of a significant change in the market interest rates. Additionally, interest rates for long-term loans in foreign currencies are linked to LIBOR and EURIBOR.

The Board of Directors sets limits on the potential loss from interest rate risk that may be undertaken. These limits are regularly monitored.

(Thousands of Russian Roubles)

Currency risks

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Open currency positions limits, set by the CBR, are monitored on a daily basis The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2020:

	RUB	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	3 537 748	618 811	1 223 519	8 980	5 389 058
Mandatory cash balances with the Central Bank of the Russian Federation	668 863	-	-	-	668 863
Amounts due from credit institutions	4 477 090	5 518 286	3 894 220	-	13 889 596
Investment securities	3 058 205	-	-	-	3 058 205
Derivative financial assets	8	-	104	-	112
Loans to customers	25 301 109	13 743 164	8 667 785	-	47 712 058
Net investments in finance leases	1 234 309	-	-	-	1 234 309
Property and equipment	1 368 839	-	-	-	1 368 839
Intangible assets	474 335	-	-	-	474 335
Deferred income tax assets	409 773	-	-	-	409 773
Other assets	732 071	423 131	70 440	4 232	1 229 874
Total assets	**41 262 350**	**20 303 392**	**13 856 068**	**13 212**	**75 435 022**
Liabilities					
Amounts due to credit institutions	9 379 344	10 139 165	8 991 465	-	28 509 974
Derivative financial liabilities	216	-	1 207	-	1 423
Amounts due to customers	17 694 967	7 557 015	4 253 366	1 626	29 506 974
Lease liabilities	502 884	-	-	-	502 884
Subordinated loan	-	3 015 172	-	-	3 015 172
Other liabilities	293 640	53 711	181 912	3 698	532 961
Total liabilities	**27 871 051**	**20 765 063**	**13 427 950**	**5 324**	**62 069 388**
Net recognised position	**13 391 299**	**(461 671)**	**428 118**	**7 888**	**13 365 634**
Net unrecognized position	(460 061)	369 379	90 682	-	-
Cumulative currency gap	**12 931 238**	**(92 292)**	**518 800**	**7 888**	**13 365 634**
Credit related commitments	**9 112 636**	**8 852 609**	**11 871 190**	**6 426 416**	**36 262 851**

The exposure to currency risk as at 31 December 2019 is as follows:

	RUB	*USD*	*EUR*	*Other currencies*	*Total*
Net recognised and accumulated position	**13 538 847**	**(152 091)**	**(49 517)**	**2 647**	**13 339 886**
Credit related commitments	**6 815 970**	**10 590 616**	**8 074 792**	**4 894 384**	**30 375 762**

The Bank has loans to customers denominated in foreign currencies. Depending on the revenue sources of the borrower, the appreciation of the currencies against the RUB may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

The following table analyses the effect of the reasonably possible movement in the currency rates against the RUB on the profit or loss and equity before income tax for the currencies to which the Bank has significant exposure as at 31 December 2020 and 2019 on its non-trading positions and foreign currency derivatives.

Currency	***31 December 2020***	***31 December 2019***
10% appreciation of USD against RUB	(9 229)	(15 209)
10% appreciation of EUR against RUB	51 880	(4 952)
Total	**42 651**	**(20 161)**

(Thousands of Russian Roubles)

Operational risk

Operational risk is the risk of direct or indirect losses arising from failures in internal processes, human errors, IT systems and technical failures or external events. This definition includes legal risk but does not include strategic and reputation risks.

For managing operational risk the Bank follows operational risk guidelines and methodology of the CBR and ISP Group in compliance with Basel recommendations as well as locally-developed methodologies and tools. The Bank, in accordance with the ISP Group's requirements and the regulatory suggestions, developed an operational risk framework consisting of operational risk policy, self-testing and the process of monitoring of key operational risk indicators in order to perform an effective operational risk management and support the Bank's business.

Operational risk management is a structured system of processes, functions, responsibilities and resources aimed at detection and monitoring, assessment, minimization and control of operational risks, as well as providing their effective prevention in accordance with the requirements of the ISP Group and external legislation. Operational risk management is directly connected with the level of corporate governance and corporate ethics of the Bank.

The calculation of operational risk level is maintained in accordance with the CBR requirements.

The Bank applies the following methods to minimize the risk:

- establishing regulations of performing all key operations in terms of internal documentation;
- accounting and documenting the operations, including the data checks in initial documentation with operation accounts;
- segregation of duties, double check principle, setting of limits on operations;
- automation of operations;
- control over the access to the information, multi-level security of data;
- taking measures on ensuring going concern when doing banking operations and deals;
- hedging of operational risks;
- minimization of risks related to personnel by means of establishing criteria on its' screening and examination, carrying out necessary events on personnel training.

The usage of the above methods leads to minimization of operational risks and allows to keep the loss from the operational risks occurrence at the level which does not influence the execution of Bank's obligations.

26. Fair value of financial instruments

Fair value hierarchy

The Bank uses the following fair value hierarchy for measuring fair values of financial instruments:

- Level 1: quoted market prices (unadjusted) in an active market for an identical instrument;
- Level 2: valuation techniques for which all significant inputs are observable, either directly or indirectly;
- Level 3: valuation techniques which use significant unobservable inputs.

The table below analyses financial instruments measured at fair value at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorized.

	Level 1	*Level 2*	*Total*
Financial assets			
Derivative financial assets	-	112	112
Investment securities	3 058 205	-	3 058 205
	3 058 205	**112**	**3 058 317**
Financial liabilities			
Derivative financial liabilities	-	1 423	1 423

The table below analyses financial instruments measured at fair value at 31 December 2019:

	Level 1	*Level 2*	*Total*
Financial assets			
Derivative financial assets	-	40 009	40 009
Investment securities	4 100 334	-	4 100 334
	4 100 334	**40 009**	**4 140 343**
Financial liabilities			
Derivative financial liabilities	-	1 347	1 347

The estimated fair value of financial instruments carried at amortized cost as at 31 December 2020 and 2019 approximates their carrying values.

(Thousands of Russian Roubles)

27. Related party transactions

In accordance with IAS 24 '*Related Party Disclosures*', parties are considered to be related if one party directly, or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the entity; has an interest in the entity that gives it significant influence over the entity; the party is an associate of the entity; the party is a member of the key management personnel of the entity or its parent.

Banking transactions are entered into in the normal course of business with the Bank's shareholders and key management personnel. These transactions include loans, deposits and other transactions, and are performed at market conditions.

Starting from 2005 the Bank is a member of ISP Group. ISP Group members are entities comprising a banking group which has a leading position on the Italian market and a strong international presence, mainly in Central-Eastern Europe and the Mediterranean region.

As at 31 December 2020 and 31 December 2019 Intesa Sanpaolo Holding International SA (Luxembourg) is a parent entity of the Bank owning 53.0228% of shares.

As at 31 December 2020 and 31 December 2019 Intesa Sanpaolo S.p.A. (Italy) is the ultimate controlling party of the Bank. Transactions with foreign branches of Intesa Sanpaolo S.p.A. (Italy), which are located in different countries, are disclosed in the category named 'Intesa Sanpaolo Group members'.

The outstanding balances with the related parties are as follows:

	31 December 2020			*31 December 2019*		
	Intesa Sanpaolo S.p.A.	*Intesa Sanpaolo Group members*	*Key management personnel*	*Intesa Sanpaolo S.p.A.*	*Intesa Sanpaolo Group members*	*Key management personnel*
Cash and cash equivalents						
Correspondent accounts and overnight placements with other credit institutions	1 015 116	919	-	1 261 345	775	-
Amounts due from credit institutions						
Time deposits	4 655 297	-	-	8 324 194	-	-
Allowance for credit losses	(893)	-	-	(627)	-	-
Loans to customers						
Movements in gross carrying amount:						
- opening balance as at 1 January	-	-	11 900	-	-	14 113
- repayments during the period	-	-	(7 449)	-	-	(2 030)
- closing balance as at reporting date	-	-	4 451	-	-	12 083
Allowance for credit losses	-	-	(107)	-	-	(184)
Net carrying amount	-	-	4 344	-	-	11 900
Amounts due to credit institutions						
Current accounts	253 271	11 479	-	149 370	20 466	-
Term deposits	5 171 755	15 872 393	-	-	9 300 447	-
Amounts due to customers						
Current accounts	-	-	53 219	-	-	35 421
Term deposits	-	-	33 342	-	-	39 476
Subordinated loan	-	3 015 172	-	-	2 523 507	-
Other assets	-	-	-	-	174 045	-
Other liabilities		57 290	-	-	33 127	-
Guarantees on loans and credit lines to customers and counter-guarantees						

	31 December 2020			*31 December 2019*		
	Intesa Sanpaolo S.p.A.	***Intesa Sanpaolo Group members***	***Key management personnel***	***Intesa Sanpaolo S.p.A.***	***Intesa Sanpaolo Group members***	***Key management personnel***
Received by the Bank	1 357 011	1 913 827	-	2 943 281	19 000	-
Issued by the Bank	8 943 189	12 905 097	-	2 882 186	16 654 290	-

The related profit or loss amounts of transactions with the related parties are as follows:

	2020			*2019*		
	Intesa Sanpaolo S.p.A.	***Intesa Sanpaolo Group companies***	***Key management personnel***	***Intesa Sanpaolo S.p.A.***	***Intesa Sanpaolo Group companies***	***Key management personnel***
Interest income						
Amounts due from credit institutions	58 607	1	-	195 954	14	-
Loans to customers	-	-	788	-	-	1 369
Interest expense						
Amounts due to credit institutions	(25 263)	(224 375)	-	(294)	(117 855)	
Amounts due to customers	-	-	(2 188)	-	-	(2 463)
Subordinated loan	-	(193 944)	-	-	(170 386)	-
Changes in allowance for credit losses	(266)	-	77	(627)	-	(184)
Net gains from foreign currencies	22 727	-	-	3 669	-	-
Fee and commission income	15 518	201 965	-	7 879	613 717	-
Fee and commission expense	(9 643)	(18 606)	-	(7 689)	(645)	-
Other general administrative expenses	-	(63 584)	-	-	(36 783)	-

Remuneration of the Management Board for 2020 and 2019 presented within personnel expenses totals RUB 83 535 thousand and RUB 67 734 thousand respectively, including social contributions of RUB 7 161 thousand and RUB 7 022 thousand respectively.

Remuneration of the Board of Directors for 2020 and 2019 totals RUB 22 963 thousand and RUB 17 994 thousand respectively.

As at 31 December 2020, guarantees and counter-guarantees received presented in the tables above comprise of:

- Guarantees issued by Intesa Sanpaolo S.p.A. and Intesa Sanpaolo Group members on loans and credit lines issued by the Bank and the Bank being a beneficiary, for the total amount of RUB 838 812 thousand (2019: RUB 1 230 082 thousand); the guarantees have the same term as the underlying credit facilities. Commission is paid by the borrower.
- counter guarantees for guarantees issued by Intesa Sanpaolo S.p.A. and Intesa Sanpaolo Group members totaling RUB 2 432 026 thousand maturing from 31 January 2021 to 18 December 2022 and bearing commission rates from 0.15% to 0.6% (2019: RUB 1 732 199 thousand, maturing from 31 January 2020 to 1 March 2022, commission rates from 0.15% to 0.6%).

As at 31 December 2020, guarantees and counter-guarantees issued presented in the tables above comprise of:

- guarantees issued by the Bank to Intesa Sanpaolo S.p.A. and Intesa Sanpaolo Group members for the total amount of RUB 18 708 771 thousand (2019: RUB 17 130 836 thousand); these guarantees have the same term as the underlying credit facilities; commission varies from 0.3% to 1.5%.
- counter guarantees issued by the Bank for guarantees issued by Intesa Sanpaolo S.p.A. and Intesa Sanpaolo Group members in the amount of RUB 3 139 515 thousand maturing 14 November 2027 and bearing commission rate 1.6% (2019: RUB 2 405 640 thousand, maturing from 24 March 2020 to 14 November 2027, commission rate from 1% to 1.6%).

(Thousands of Russian Roubles)

28. Capital adequacy

The primary objectives of the Bank's capital management are the following:

- full compliance with the capital requirements imposed by the CBR and Russian legislation;
- maintaining the Bank's ability to continue as a going concern in order to maximize shareholder value and provide economic benefits to other parties;
- ensuring that the amount of capital is sufficient for business expansion and development.

The Bank's equity management process are in line with the requirements of Directive of CBR № 4482-U "On the form and procedure of disclosure by credit organizations of information on incurred risks, procedures for assessment of risks, management of risks and capital", as well as the part of Component 2 of the Basel Committee on Banking Supervision (Basel III), establishing the requirements for the existence of own process of assessing capital adequacy in Banks:

- existence of appropriate corporate governance mechanisms;
- existence of organizational structure with clear responsibilities;
- existence of clear and effective internal control systems.

On a regular basis, the Bank develops the structured report (VPODK Report) describing the main features of the capital adequacy assessment process, the Bank's exposure to risks and the risk-based capital adequacy decision. VPODK Report also contains self-assessment of VPODK indicating direction for improvement, process weaknesses and corrective measures to be taken.

The Bank monitors its capital adequacy using, among other measures, the ratios established by the Basel Capital Accord 1988, with subsequent amendments ("Basel Capital Accord"), and the ratios established by the CBR.

The Bank has complied with all externally imposed by the CBR capital requirements as at 31 December 2020 and 2019.

The Bank manages its capital structure and makes adjustments to reflect changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to the shareholders, return on capital to the shareholders or issue equity securities. No changes were made in the objectives, policies and processes from the previous year.

Capital adequacy under Russian Legislation

The Bank calculates amount of capital in accordance with Provision of the CBR dated 4 July 2018 No. 646–P '*On Methodology of Calculation of Own Funds (Capital) of the Credit Organizations (Basel III)'*.

As at 31 December 2020 and 31 December 2019, minimum levels of basic capital ratio (ratio N1.1), main capital ratio (ratio N1.2), own funds (capital) ratio (ratio N1.0) are 4.5%, 6.0% and 8.0%, accordingly, if adding capital conservation buffer of 2.5% they are 7.0%, 8.5% and 10.5%, accordingly.

As at 31 December 2020 and 31 December 2019, the Bank's unconsolidated (excluding AO 'Intesa Leasing') CBR-defined capital adequacy ratios exceed the required statutory minimums and are as follows:

	31 December 2020	*31 December 2019*
Base capital	10 575 038	9 875 431
Additional capital	-	-
Main capital	**10 575 038**	**9 875 431**
Supplementary capital	3 656 827	3 365 860
Own funds (capital)	**14 231 865**	**13 241 291**
Risk-weighted assets (for basicbase and main capital ratios)	**101 655 514**	**82 791 168**
Risk-weighted assets (for own funds (capital) ratio)	**102 035 502**	**82 973 594**
Ratio of base capital adequacy N1.1 (%)	**10.4%**	**11.9%**
Ratio of main capital adequacy N1.2 (%)	**10.4%**	**11.9%**
Ratio of own funds (capital) adequacy N1.0 (%)	**13.9%**	**16.0%**

(Thousands of Russian Roubles)

Capital adequacy ratio under the Basel Capital Accord (unaudited)

The Bank applies the Basel II Framework for the purpose of capital adequacy calculation using the simplified standardized approach for credit and market risk measurement and the basic indicator approach for operational risk measurement. The Bank's consolidated (including AO 'Intesa Leasing') capital ratios as computed in accordance with the Basel Capital Accord are as follows:

	31 December 2020	*31 December 2019*
Share capital	10 820 181	10 820 181
Accumulated profit (losses) and other capital reserves	2 143 488	2 101 986
Deductions	(474 335)	(386 597)
Tier 1 capital	**12 489 334**	**12 535 570**
Revaluation of buildings	411 595	402 377
Subordinated loan (unamortized portion)	3 015 172	2 523 507
Total capital	**15 916 101**	**15 461 454**
Risk-weighted assets	**102 864 522**	**85 405 868**
Tier 1 capital ratio	**12.1%**	**14.7%**
Total capital ratio	**15.5%**	**18.1%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. When calculating capital under Basel, the Bank assigns 100% risk weights to exposures of counterparties operating in jurisdictions with country risk rating below '3' in accordance with the OECD classification (including Russian Federation) or with external credit rating assigned by international credit agencies of less than 'BBB'. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

Giuseppe Giampietro — Chairman of the Management Board

Tatyana Pavlycheva — Member of the Management Board / Head of Accounting, Planning and Control Group / Chief accountant