Independent auditor's report
on the financial statements of
Joint Stock Company RN Bank
for the year ended 31 December 2020

March 2021

Translation of the original Russian version

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To the sole shareholder and the Board of Directors of
Joint Stock Company RN Bank

Report on the audit of the financial statements

Opinion

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

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to that matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses	
Estimation of the allowance for expected credit losses is a key area of judgment for the Bank's management. The identification of indications of a significant increase in credit risk, assessment of the probability of a borrower's default and estimation of the allowance require the significant use of professional judgment, the use of assumptions and analysis of various factors. The use of different models and assumptions can significantly affect the level of the allowance for expected credit losses. Due to the significant amounts of loans issued, and because the allowance estimation process involves an extensive use of judgment that is subjective, estimation of the allowance for expected credit losses was a key audit matter. The information on the allowance for expected credit losses on loans to customers, and the Bank's management approach to assessing and managing credit risk is provided in Notes 7 and 18. 2 to the financial statements.	Our audit procedures included the analysis of the methodology for assessing expected credit losses on loans to customers. In testing the allowance for expected credit losses, we analyzed the underlying statistical models, key inputs and assumptions, as well as forecasts used to calculate expected credit losses. For the selected significant loans to legal entities, we tested their classification by stage, credit risk factor and internal credit rating assigned. For loans to individuals, we analyzed their classification by stage, probability of default calculated on the basis of the migration model, loss given default, including the value of collateral, and information on any amounts overdue. We performed procedures in respect of the information on expected credit losses on loans to customers disclosed in the notes to the financial statements.

Other information included in the Bank's 2020 Annual Report

Other information consists of the information included in the 2020 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of management and the Board of Directors for the financial statements

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

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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We communicate with the Board of Directors 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.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, threat mitigation measures or safeguards applied.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report in accordance with the requirements of Article 42 of Federal Law of the Russian Federation No. 395-1 *On Banks and Banking Activities* of 2 December 1990

Management of the Bank is responsible for the compliance of the Bank with the mandatory prudential ratios established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia") and for conformity of the Bank's internal control and organization of the risk management systems with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of Federal Law No. 395-1 of the Russian Federation *On Banks and Banking Activities* dated 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's financial statements for the year ended 31 December 2020, we determined:

1) Whether the Bank complied as at 1 January 2021 with the prudential ratios established by the Bank of Russia;
2) Whether the internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
   - Subordination of the risk management departments;
   - The existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
   - Consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
   - Oversight performed by the Board of Directors and executive management bodies of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

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This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

Compliance by the Bank with the prudential ratios established by the Bank of Russia

We found that the values of the prudential ratios of the Bank as at 1 January 2021 were within the limits established by the Bank of Russia.

We did not perform any procedures in respect of the accounting data of the Bank, except for the procedures we considered necessary to express our opinion on the fair presentation of the Bank's financial statements.

Conformity of the internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2020, the Bank's internal audit function was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- We found that the Bank's internal documents effective as at 31 December 2020 that establish the methodologies for detecting and managing credit risk, market risk, interest rate risk of the banking book, operational risk (including legal risk), liquidity risk and concentration risk that are significant to the Bank and stress-testing had been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2020, the Bank had a reporting system pertaining to credit risk, market risk, operational risk (including legal risk), liquidity risk, concentration risk and interest rate risk of the banking book that were significant to the Bank and pertaining to its capital.
- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit function during the year ended 31 December 2020 with regard to the management of credit risk, market risk, operational risk (including legal risk), interest rate risk of the banking book, liquidity risk and concentration risk of the Bank complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit function in respect of the effectiveness of the relevant risk management methodologies.
- We found that, as at 31 December 2020, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance by the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2020, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit function.

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The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Bank, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

The partner in charge of the audit resulting in this independent auditor's report is A.F. Lapina.

A.F. LAPINA
Partner
Ernst & Young LLC

19 March 2021

Details of the audited entity

Name: Joint Stock Company RN Bank
Record made in the State Register of Legal Entities on 6 November 2002, State Registration Number 1025500003737.
Address: Russia 109028, Moscow, Serebryanicheskaya naberezhnaya, 29.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002; State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Statement of financial position
as at 31 December 2020

(thousands of Russian rubles)

	Notes	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	5	7,149,759	5,843,069
Obligatory reserve with the Bank of Russia		536,204	490,450
Derivative financial assets	6	3,537,339	868,323
Loans to customers	7	92,545,535	97,617,417
Investment securities – debt securities at FVOCI	8	993,084	1,004,477
Property and equipment and right-of-use assets		179,251	224,652
Intangible assets		241,812	146,025
Current income tax asset		–	208,462
Deferred income tax assets	9	738,894	660,193
Other assets	10	333,992	201,519
Total assets		**106,255,870**	**107,264,587**
Liabilities			
Amounts due to the Bank of Russia	13	62,514	–
Amounts due to credit institutions	11	32,164,458	32,994,792
Debt securities issued	14	36,738,461	39,886,928
Derivative financial liabilities	6	65,008	154,064
Amounts due to customers	12	11,756,717	11,850,158
Current income tax liability		58,795	–
Other liabilities	10	2,493,149	2,970,778
Total liabilities		**83,339,102**	**87,856,720**
Equity	15		
Share capital		6,133,091	6,133,091
Share premium		5,780,800	5,780,800
Retained earnings		10,996,267	7,491,534
Unrealized gain on revaluation of investment securities – debt securities at FVOCI		6,610	2,442
Total equity		**22,916,768**	**19,407,867**
Total equity and liabilities		**106,255,870**	**107,264,587**

Signed and authorized for release on behalf of the Management Board of the Bank

АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК» ОГРН 1025500003737 РН Банк Лицензия № 170 ИНН 5503067018 РОССИЯ Г.МОСКВА

Chairman of the Management Board
Derot Xavier Gerard

Chief Accountant
Daria Vladislavovna Dolgorukova

19 March 2021

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

(thousands of Russian rubles)

	Notes	*2020*	*2019*
Interest income calculated using the EIR method			
Loans to customers		11,068,473	12,174,439
Amounts due from credit institutions		403,380	488,235
Gains from securities		55,176	31,663
Total interest income		**11,527,029**	**12,694,337**
Interest expense			
Amounts due to customers		(612,438)	(850,336)
Amounts due to credit institutions		(2,347,904)	(3,008,863)
Debt securities issued		(2,301,221)	(3,405,335)
Total interest expense		**(5,261,563)**	**(7,264,534)**
Net interest income		**6,265,465**	**5,429,803**
Credit loss expense	7	(173,372)	(621,537)
Net interest income after allowance for loan impairment		**6,092,093**	**4,808,266**
Fee and commission income		137,699	146,682
Fee and commission expense		(147,081)	(162,542)
Net fee and commission expense		**(9,382)**	**(15,860)**
Net losses from derivative financial instruments at fair value through profit or loss for the period		(70,001)	812,798
Net gains (losses) from foreign currencies:		7,870	18,523
- Dealing		537	(21)
- Translation differences		7,333	18,544
Other income		5,180	2,734
Non-interest income (expense)		**(56,951)**	**834,055**
Personnel expenses	17	(691,486)	(636,870)
Other administrative expenses	17	(727,334)	(777,126)
Depreciation of property and equipment and right-of-use assets		(124,492)	(91,460)
Amortization of intangible assets		(52,232)	(136,241)
Operating expense		**(1,595,544)**	**(1,641,697)**
Profit before income tax expense		**4,430,216**	**3,984,764**
Income tax expense	9	(925,483)	(816,634)
Total net profit for the year		**3,504,733**	**3,168,130**
Other comprehensive income/(loss)			
Items which may be reclassified to profit or loss in subsequent periods:			
Revaluation reserve for investment securities – debt securities at FVOCI		4,168	3,145
Unrealized gain/(loss) on cash flow hedges	6	–	5,328
Other comprehensive income/(loss), net of tax		**4,168**	**8,473**
Total comprehensive income		**3,508,901**	**3,176,603**

Signed and authorized for release on behalf of the Management Board of the Bank

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19 March 2021

The accompanying notes 1-23 are an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2020

(thousands of Russian rubles)

	Share capital	*Share premium*	*Retained earnings (accumulated deficit)*	*Unrealized gain on securities revaluation*	*Provision for hedges*	*Total equity*
31 December 2018	**6,133,091**	**5,780,800**	**4,323,404**	**(703)**	**(5,328)**	**16,231,264**
Profit for the year	–	–	3,168,130	–	–	**3,168,130**
Other comprehensive income/(loss)	–	–	–	3,145	5,328	**8,473**
Total comprehensive income/(loss) for the year	**–**	**–**	**3,168,130**	**3,145**	**5,328**	**3,176,603**
31 December 2019	**6,133,091**	**5,780,800**	**7,491,534**	**2,442**	**–**	**19,407,867**
Profit for the year	–	–	3,504,733	–	–	**3,504,733**
Other comprehensive income	–	–	–	4,168	–	**4,168**
Total comprehensive income for the year	**–**	**–**	**3,504,733**	**4,168**	**–**	**3,508,901**
31 December 2020	**6,133,091**	**5,780,800**	**10,996,267**	**6,610**	**–**	**22,916,768**

Signed and authorized for release on behalf of the Management Board of the Bank

Chairman of the Management Board
Derot Xavier Gerard

АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК»
ОГРН 1025500003737
РН Банк
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Daria Vladislavovna Dolgorukova

19 March 2021

Statement of cash flows

for the year ended 31 December 2020

(thousands of Russian rubles)

	Notes	31 December 2020	31 December 2019
Cash flows from operating activities			
Interest received		11,326,329	12,331,065
Interest paid		(5,213,882)	(5,445,288)
Fees and commissions received		133,467	144,494
Fees and commissions paid		(147,277)	(162,802)
Results of operations with financial instruments at fair value		(61,183)	(1,089,844)
Realized gains less losses from dealing in foreign currencies		537	(21)
Other income received		5,179	2,734
Personnel expenses paid		(673,588)	(568,071)
Other operating expenses paid		(313,824)	(821,566)
Cash flows from operating activities before changes in operating assets and liabilities		**5,055,758**	**4,390,701**
Net (increase)/decrease in operating assets			
Obligatory reserve with the Bank of Russia		(45,754)	(171,940)
Amounts due from credit institutions		–	–
Loans to customers		4,894,885	(18,982,374)
Other assets		83,692	(469,329)
Net increase/(decrease) in operating liabilities			
Amounts due to the Bank of Russia		62,492	–
Amounts due to credit institutions		(2,504,361)	(8,801,146)
Amounts due to customers		(1,552,608)	464,253
Other liabilities		(926,441)	1,294,283
Net cash used in operating activities before income tax		**5,067,664**	**(22,275,552)**
Income tax expense		(736,926)	(718,413)
Net cash used in operating activities		**4,330,738**	**(22,993,965)**
Cash flows from investing activities			
Purchase of property and equipment, intangible assets		(175,654)	(189,477)
Purchase of investment securities		–	(1,001,289)
Proceeds from sale and redemption of securities and other financial assets at FVOCI		–	439,780
Net cash used in investing activities		**(175,654)**	**(750,986)**
Cash flows from financing activities			
Debt securities redeemed		(10,867,383)	–
Debt securities issued		8,000,000	20,000,000
Net cash from financing activities		**(2,867,383)**	**20,000,000**
Effect of exchange rate changes on cash and cash equivalents		18,989	(5,259)
Net increase/(decrease) in cash and cash equivalents		**1,306,690**	**(3,750,210)**
Cash and cash equivalents, beginning		5,843,069	9,593,279
Cash and cash equivalents, ending	5	**7,149,759**	**5,843,069**

Signed and authorized for release on behalf of the Management Board of the Bank

АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК» ОГРН 1025500003737 РН Банк Лицензия № 170 ИНН 5503067018 РОССИЯ Г. МОСКВА

Chairman of the Management Board
Derot Xavier Gerard

Chief Accountant
Daria Vladislavovna Dolgorukova

19 March 2021

(thousands of Russian rubles)

1. Principal activities

These are the financial statements of JSC RN Bank (hereinafter, the "Bank").

The Bank (former CJSC Bank Sibir) was formed in the Russian Federation (the city of Omsk) on 9 March 1989. In 1998, in order to align the legal structure with the legislation, the Bank was reorganized into a limited liability company − LLC OCB Sibir. In 2002 the Bank changed its legal form to a closed joint stock company. Since May 2013, the Bank has been registered and located in Moscow. On 5 September 2013, following the decision of the sole shareholder (Decision No. 1 dated 5 September 2013), the Bank changed its name as follows:

Full corporate name of the Bank: Joint Stock Company RN Bank.

Short name: JSC RN Bank.

Location (legal address): Russia 109028, Moscow, Serebryanicheskaya naberezhnaya, 29.

Main State Registration Number: 1025500003737.

The record concerning the establishment was made in the Uniform State Register of Legal Entities on 6 November 2002.

Bank's identification code (BIC): 044583105.

Taxpayer identification number (TIN): 5503067018.

Contact telephone number: +7 (495) 775-40-68.

Contact fax number: +7 (495) 775-40-67.

Email address: help@rn-bank.ru.

Web-site: www.rn-bank.ru.

In 2014, the Bank changed its legal form from a closed joint stock company to a joint stock company. The decision was approved by the shareholders on 31 October 2014. The change was made to the Uniform State Register of Legal Entities on 9 December 2014.

The Bank carries out its activities based on the following licenses:

- License No. 170 issued on 16 December 2014 to carry out banking operations in rubles and foreign currencies (without the right to accept deposits from individuals);
- License No. 170 issued on 16 December 2014 to accept deposits from individuals denominated in rubles and foreign currencies.

The Bank is a member of the deposit insurance system and was included in the register of banks participating in the obligatory insurance system on 3 February 2005 (Certificate No. 551). The system operates under the federal laws and regulations and is governed by the State Corporation Deposit Insurance Agency. Insurance covers the Bank's liabilities to individual depositors in the amount up to RUB 1,400 thousand both in 2020 and 2019 per each individual in case of a business failure or revocation of the banking license issued by the Bank of Russia.

As at 1 January 2021, the Bank:

- Is a member (an associate) of a banking group with Joint Stock Company UniCredit Bank as a parent;
- Is not a professional participant of the securities market;
- Has no branches or representative offices in the Russian Federation;
- Has no subsidiaries or associates.

On 21 February 2020, Analytical Credit Rating Agency (ACRA) confirmed the national credit rating of the Bank at the maximum of AAA(RU) with a stable outlook. The ratings of the Bank's exchange-traded bond issues were also confirmed at AAA(RU).

On 14 July 2020, International Credit Rating Agency S&P Global Ratings confirmed the Bank's long-term credit rating at BB+ with a stable outlook.

(thousands of Russian rubles)

1. Principal activities (continued)

As at 1 January 2021 and 1 January 2020, the headcount of the Bank was 296 employees and 259 employees, respectively.

As at 1 January 2021 and 1 January 2020, Limited Liability Company BARN B.V., the Netherlands, is the sole shareholder of the Bank. Its ownership in the share capital of the Bank is 100.00%.

The executive body as represented by the Chairman of the Management Board of JSC RN Bank approves the annual financial statements for issue. The IFRS annual financial statements of the Bank are published in full on the Bank’s official website (www.rn-bank.ru/about/investors/отчетность).

2. Basis of preparation

Statement of compliance with International Financial Reporting Standards

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

In the reporting period, the Bank continued, and continues now, to apply a fundamental going concern assumption (principle), which suggests that the Bank will continue as going concern in the future and it has neither the intention nor the need to liquidate or curtail materially the scale of its activities or to undertake transactions on adverse terms.

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

Basis of measurement

These financial statements have been prepared under the historical cost convention except for financial instruments at fair value. For example, derivative financial instruments have been measured by the Bank at fair value. The historical cost is generally estimated based on the fair value of consideration transferred in exchange of goods and services.

Presentation currency

These financial statements are presented in thousands of Russian rubles (RUB).

Inflation accounting

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Bank applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

The application of this standard resulted in an increase in the share capital by RUB 64,091 thousand and a decrease in retained earnings / (accumulated deficit) by the same amount.

Effect of the COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic, in early 2020 many governments, including the Russian Government, introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as the scale of business activity in general. It is expected that the pandemic itself as well as the related mitigation measures may influence the business of entities in a wide range of industries. In 2020, support measures were introduced by the Government of the Russian Federation and the Bank of Russia to prevent a significant deterioration of economic performance caused by the COVID-19 pandemic.

(thousands of Russian rubles)

2. Basis of preparation (continued)

Effect of the COVID-19 pandemic (continued)

These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures. As the financial position of the Bank is stable, it decided not to use temporary relief measures in the calculation of the prudential ratios introduced by the Bank of Russia due to the COVID-19 pandemic. From March 2020 through 30 September 2020 (statutory prescribed deadline for submitting repayment holidays applications), the Bank accepted applications from individuals for repayment holidays in accordance with Federal Law No. 106-FZ *On Amendments to the Federal Law, On the Central Bank of the Russian Federation (the Bank of Russia), and Certain Legislative Acts of the Russian Federation with Respect to Changes in the Terms of Loan Agreements* dated 3 April 2020. In accordance with the recommendations of the Bank of Russia, the Bank published information about the terms of repayment holidays and ways to apply therefor on its official website. April 2020 saw the biggest growth in the number of applications. Starting from May 2020, the number of the borrowers' applications for restructuring (including repayment holidays) gradually declined. As at 1 January 2021, the Bank believed that the number of applications obtained is insignificant as compared with the overall number of loans issued to individuals. For all cases of repayment holidays granted, the Bank analyzes whether the creditworthiness of borrowers recovered. In 2020, due to the ongoing COVID-19 pandemic, the Bank introduced certain changes to the measurement of expected credit losses. Namely, it updated forward-looking information, including macroeconomic forecasts. Due to the deteriorating macroeconomic situation, the Bank used a conservative stress test scenario for retail lending to calibrate migration matrices in calculating expected credit losses. For loans to legal entities (dealers), the Bank downgraded its forecast for sales of new cars in Russia in 2020. As at 1 January 2021, the COVID-19 pandemic did not result in significant changes in the quality of the Bank's loan portfolio.

3. Summary of accounting policies

Changes in accounting policies

The Bank reviewed the amendment to IFRS 16: *COVID-19-Related Rent Concessions*, which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment had no impact on the Bank as no COVID-19-related changes were made to the lease agreement. No other standard, interpretation or amendment that has been issued but is not yet effective was early adopted by the Bank.

Financial assets

Initial recognition

The Bank recognizes an asset in its statement of financial position when it becomes party to the contractual provisions of the financial instrument. The Bank classifies its financial assets at initial recognition.

Classification of financial assets

The Bank classifies its financial assets as subsequently measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss, based on the following:

(a) The Bank's business model for managing the financial assets; and

(b) The financial asset's contractual cash flow characteristics (the SPPI test).

The Bank measures a financial asset at amortized cost if both of the following conditions are met:

(a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;

(b) 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 (SPPI).

As a second step of its classification process, the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Included in this category are the Bank's loans to individuals and legal entities, as the Bank does not expect its loan portfolios to be regularly sold without any deterioration in their credit quality. Gains and losses on such assets are recognized in profit or loss.

Debt instruments at FVOCI

Since 1 January 2018, the Bank has applied the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

(a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

(b) 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 (SPPI).

The Bank includes its issued securities classified as available for sale within the FVOCI category, since the Bank plans to hold these assets not only to collect contractual cash flows, but also for the purpose of relatively frequent significant sales. After initial recognition, the Bank measures the securities at fair value recording the revaluation gains and losses in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired. However, interest calculated using the effective interest rate method is recognized in profit or loss.

The Bank measures financial assets at fair value through profit or loss unless they are measured at amortized cost or FVOCI. For financial assets at fair value through profit or loss, the business model does not meet the SPPI criterion.

Financial instruments at fair value through profit or loss represent financial assets and liabilities, which are:

- Acquired principally for the purpose of reselling or repurchasing in the near term;
- Part of a portfolio of identified financial instruments that are managed as a single portfolio and for which there is evidence of a recent actual pattern of near-term profit-taking;
- Derivative financial instruments (except for derivative financial instruments designated as a hedging instrument in an effective hedge); or
- Classified by the Bank as financial instruments at fair value through profit or loss at initial recognition.

Financial assets and liabilities are classified by the Bank as financial assets and liabilities at fair value through profit or loss if:

- These assets or liabilities are managed and evaluated on a fair value basis;
- Designation of these assets and liabilities into the category of assets and liabilities at fair value through profit or loss eliminates or significantly reduces the mismatch which otherwise would arise; or
- The corresponding asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Gains or losses on financial assets not held for trading are recognized in profit or loss.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Disposal of financial assets

The Bank derecognizes a financial asset in the statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement;
- The Bank either (a) has transferred substantially all the risks and rewards of the asset or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Fair value measurements

The Bank measures financial instruments, which are recorded at FVPL and FVOCI, at fair value at each reporting date.

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.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers should occur between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Reclassification of financial assets

Starting 1 January 2018, the Bank does not reclassify financial assets after their initial recognition, apart from exceptional cases when the Bank changes the business model for managing the financial assets (2017: the Bank did not reclassify financial assets).

3. Summary of accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Bank of Russia, excluding obligatory reserves, and amounts due from credit institutions that mature within 90 days of the date of origination and are free from contractual encumbrances.

Obligatory cash balances with the Central Bank of the Russian Federation

The Bank cannot use obligatory cash balances with the Bank of Russia to finance its day-to-day operating activities.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including interest rate and cross-currency interest rate swaps. Such financial instruments are not held for trading and are entered into to hedge the Bank's liabilities denominated in foreign currency and fixed-rate liabilities, and recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss for the period.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host contract were carried at fair value in the trading portfolio with changes in fair value recognized in the statement of profit or loss.

Since 1 January 2018, with the introduction of IFRS 9, the Bank has accounted in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

Hedge accounting

The objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income).

At its discretion, the Bank designates a hedging relationship between a hedging instrument and a hedged item.

Hedging instruments

The standard does not limit the circumstances in which the derivative may be designated as a hedging instrument, provided the hedge criteria are met.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Hedged items

A hedged item may be:

(a) A separate asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation;

(b) A group of assets, liabilities, firm commitments, highly probable forecast transactions or net investments in foreign operations with similar risk characteristics; or

(c) For a portfolio hedge of interest rate risk only, a component of the portfolio of financial assets or financial liabilities with the same hedged risk.

Hedge accounting

Two types of hedging relationships are determined:

(a) Fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified component of any such item, that is attributable to a particular risk and could affect profit or loss;

(b) Cash flow hedge: a hedge of the exposure to variability in cash flows that:

  (i) Is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable-rate debt); or

  (ii) Could affect profit or loss.

A hedging relationship qualifies for hedge accounting if, and only if, all of the following criteria are met:

(a) At the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge. That documentation shall include the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedge effectiveness to compensate for the exposure to changes in the fair value of the hedged item or cash flows associated with the risk being hedged.

(b) Hedges are expected to compensate for changes in the fair value or cash flows associated with the risk being hedged in accordance with the originally documented risk management strategy for the related hedging relationship.

(c) For cash flow hedges, future transactions being hedged must be highly probable, and such transactions must give rise to the exposure to variability in cash flows that could affect profit or loss.

(d) The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.

(e) The hedge is assessed on an ongoing basis, and the effectiveness of the hedge is assessed for all reporting periods for which the hedge is designated.

Fair value hedges

As long as a fair value hedge meets the qualifying criteria (see above) during the period, it should be accounted for as follows:

- The gain or loss on the fair value revaluation of the hedging instrument is recognized in profit or loss;
- The gain or loss on the hedged item associated with the risk being hedged adjusts the carrying amount of the hedged item and is recognized in profit or loss. This method is applied where the hedged item is measured at cost.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

A fair value hedge is discontinued when the following criteria are met:

(a) A hedging instrument expires or is terminated, sold or exercised.

For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of the entity's documented hedging strategy.

(b) The hedge ceases to meet the criteria for hedge accounting.

(c) The entity revokes its previous designation of a hedge relationship.

Cash flow hedges

As long as a cash flow hedge meets the qualifying criteria (see above) during the period, it should be accounted for as follows:

(a) The portion of the gain or loss on the hedging instrument that was determined to be an effective hedge should be recognized in other comprehensive income;

(b) The ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss.

In greater detail, cash flow hedges are accounted for as follows:

(a) Separate components of equity associated with the hedged item are adjusted to the lower of the following (in absolute amounts):

(i) The cumulative gain or loss on the hedging instrument from inception of the hedge; and

(ii) The cumulative change in fair value (present value) of the hedged expected future cash flows from inception of the hedge.

(b) Any remaining gain or loss on the hedging instrument or certain component of the hedging instrument (that is not an effective hedge) is recognized in profit or loss.

If a hedged forecast transaction subsequently results in the recognition of a financial asset or financial liability, the respective gain or loss recognized in other comprehensive income shall be removed from equity and recognized in profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, in the periods when interest income or interest expense is recognized). However, if the entity expects that all or a portion of the loss recorded within other comprehensive income will not be recovered in one or more future periods, it shall reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment to which fair value hedge accounting is applied, the entity shall:

(a) Reclassify the related gain or loss recorded in other comprehensive income into profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss (for example, in the periods when the depreciation or cost or sales was recognized). However, if the entity expects that all or a portion of the loss recorded within other comprehensive income will not be recovered in one or more future periods, it shall transfer the amount that is not expected to be recovered from equity into profit or loss as a reclassification adjustment.

(b) Remove the associated gain or loss recognized in other comprehensive income and include it in the initial cost or other carrying amount of the asset or liability.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

A cash flow hedge is discontinued when the following criteria are met:

(a) A hedging instrument expires or is terminated, sold or exercised. In this case, the cumulative gain or loss on the hedging instrument recorded in other comprehensive income from the period during which the hedge was effective shall continue to be recognized in equity as a separate item until the forecast transaction is completed. For the purpose of this paragraph, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of the entity's documented hedging strategy.

(b) The hedge ceases to meet the criteria for hedge accounting listed above. In this case, the cumulative gain or loss on the hedging instrument recorded in other comprehensive income from the period during which the hedge was effective shall continue to be recognized in equity as a separate item until the forecast transaction occurs.

(c) The transaction is no longer expected to occur, in which case the cumulative gain or loss on the hedging instrument recorded in other comprehensive income from the period during which the hedge was effective shall be removed from equity and recognized in profit or loss as a reclassification adjustment. A future transaction that is no longer highly probable to occur may still be expected to occur.

(d) The entity revokes its previous designation of a hedge relationship. For a hedged future transaction, the cumulative gain or loss on the hedging instrument recorded in other comprehensive income from the period during which the hedge was effective shall continue to be recognized in equity as a separate item until the transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain or loss recorded in other comprehensive income shall be removed from equity and recognized in profit or loss as a reclassification adjustment.

Hedge effectiveness calculations

Hedge effectiveness assessment is based on the hypothetical derivative method (a variety of the dollar compensation method in IAS 39 IG F5.5).

Under this method, an ideal hypothetical derivative is determined that would be an ideal hedging instrument to hedge against particular risks. The fair value of the ideal hypothetical instrument shall be used instead of the net discounted value of future cash flows being hedged. It is that fair value that is compared to fair value changes in the actual hedging instrument.

The actual hedge effectiveness ratio shall be within the range of 80% to 125%.

Hedge effectiveness shall be assessed monthly at each reporting date.

IFRS 9 gives a choice to continue applying the hedge accounting requirements of IAS 39 instead of the new requirements set out in IFRS 9. The Bank decided not to apply IFRS 9 for hedge accounting when IFRS 9 becomes effective.

Offsetting

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

The right to set-off must not be contingent on a future event and should be enforceable in all the following circumstances:

- In the normal course of business;
- In the event of default; and
- In the event of insolvency or bankruptcy of an entity or any of its counterparties.

These conditions are not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Restructured loans

Provided that an income source is available to the borrower, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

From 1 January 2018, the Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been revised to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- A change in the currency of the loan;
- A change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss, presented within interest revenue calculated using EIR in the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. The loan is reclassified out of Stage 3 to Stage 2 only after the overdue debt is fully repaid, and out of Stage 3 to Stage 1 at least 12 months after the overdue debt is fully repaid.

Non-financial assets

Other non-financial assets, excluding deferred taxes, are assessed for any indications of impairment at each reporting date.

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.

Impairment losses in respect of non-financial assets are recognized 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 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 recognized.

Financial liabilities

Financial liabilities are recorded in the Bank's statement of financial position when the Bank becomes a party to the contract for the respective financial instrument.

Initial recognition

The Bank classifies all financial liabilities as subsequently measured at amortized cost, except:

(a) Financial liabilities at fair value through profit or loss (the Bank includes derivative financial instruments in this category);

(b) Financial liabilities arising when the transfer of a financial asset does not qualify for derecognition or the principle of accounting for continuing involvement is applied (not applicable to the Bank);

(c) Financial guarantee contracts (not applicable to the Bank);

(d) Loan commitments at below-market interest rates (not applicable to the Bank);

(e) Contingent consideration recorded by the acquirer upon the business combination (not applicable to the Bank).

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial liabilities (continued)

Included in the Bank's financial liabilities at amortized cost are amounts due to credit institutions, amounts due to customers, subordinated debt and debt securities issued. After initial recognition, borrowings are subsequently recorded at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

Included in the Bank's financial liabilities at amortized cost are debt securities issued, i.e. bonds. Pursuant to Article 2 of Federal Law No. 39-FZ *On the Securities Market* of 22 April 1996, circulation of securities shall mean the conclusion of civil transactions which entail the transfer of ownership rights to securities. Thus, securities mature within a period from the moment they originate as objects of civil rights, during which parties to civil transactions may conclude transactions or perform other legal acts therewith. Debt securities issued by the Bank are recorded at their nominal cost, whether upon the initial placement or sale in the secondary market.

Reclassification of liabilities

The Bank did not reclassify its financial liabilities in 2020 or 2019.

Disposal of financial liabilities

A financial liability is derecognized when it is discharged or canceled or expires.

Where an existing financial liability is replaced with another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Leases

Bank as a lessee

The Bank applies a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement of the lease (i.e., the date the underlying asset becomes available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for the remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment testing.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in in-substance fixed lease payments or a change in the assessment of the option to purchase the underlying asset.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Leases (continued)

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Taxation

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

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available in the future, against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax regulations that have been enacted or substantively enacted at the reporting date.

Russia also has various operating taxes, that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

Depreciation of property and equipment begins when they become available for use. Depreciation is accrued on a straight-line basis over the following estimated useful lives:

Property and equipment	*Depreciation period*
Furniture	5-7 years
Equipment	2-5 years
Computer equipment	2 years
Capital investments in leased property and equipment	3-6 years
Light vehicles	3 years
Other property and equipment	3-5 years

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to current and capital repairs are charged when incurred and included in other operating expenses unless they qualify for capitalization.

An item of property and equipment is derecognized upon sale or when no future economic benefits are expected from its continuing use. Gains or losses on sale or other disposal of property and equipment are determined as the difference between the sale price and the carrying amount of property and equipment and are recognized in profit or loss.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets other than goodwill include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is accrued on a straight-line basis over the useful life of an intangible asset. The useful lives of intangible assets are assessed to be either finite or indefinite. At present, the useful life of intangible assets with finite useful life is estimated as not exceeding 5 years.

An intangible asset is derecognized upon sale or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Collateral

The Bank obtains collateral against customers' obligations where necessary. Collateral is generally the pledge of the customer's assets entitling the Bank to claim such assets with regard to the customers' current and future obligations.

Other provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Pension obligations and other employee benefits

The Bank does not have any pension arrangements separate from the state pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-employment benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as share premium (additional paid-in capital).

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contingencies

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate (EIR) to the gross carrying amount of financial assets other than credit-impaired assets (prior to 1 January 2018: by applying the effective interest rate to the amortized cost of financial assets). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest revenue or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income can be divided into the following two categories:

Fee and commission income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee and commission income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party − such as where the Bank’s performance obligation is the arrangement of the acquisition of shares or other securities − are recognized on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognized after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Foreign currency translation

The financial statements are presented in Russian rubles, which are the Bank’s functional and presentation currency. Transactions in foreign currencies are translated into the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the presentation currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation are recognized in profit or loss as gains/losses from translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the rate of exchange ruling at the date of the initial transaction. Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the Bank of Russia on the date of the transaction are included in profit or loss.

The official exchange rates of the Bank of Russia at 31 December 2020 and 31 December 2019 were RUB 73.8757 and RUB 61.9057 to 1 USD, respectively.

The official exchange rates of the Bank of Russia at 31 December 2020 and 31 December 2019 were RUB 90.6824 and RUB 69.3406 to 1 EUR, respectively.

The official exchange rates of the Bank of Russia at 31 December 2020 and 31 December 2019 were RUB 71.4915 and RUB 56.7032 to 100 JPY, respectively.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Government grants

Since 2013, the Bank has participated in a government-sponsored program launched on 3 December 2012 by the Government of the Russian Federation for a partial reimbursement of interest income on loans issued to individuals for the purchase of Russian-produced cars.

Since 2017, the Bank has participated in government lending programs (My First Car, Family Car) providing for an additional discount for the initial installment of 10% of the cost of the purchased car.

As at 31 December 2020, all the government grant programs related to the year ended 31 December 2020 were closed. Income for 2013-2020 from government lending programs for subsidizing loan interest rates was recorded within interest income.

Standards issued but not yet effective

The standards and interpretations that have been issued, but are not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it;
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: issuers of such loans – e.g. a loan with a waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

IFRS 9 Financial Instruments − Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which it will first adopt the amendment, and does not expect the amendment to materially affect its financial statements.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Interest Rate Benchmark Reform − Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued *Interest Rate Benchmark Reform − Phase 2* Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with an RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk free rate (RFR).

Changes to the basis for determining contractual cash flows as a result of the interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Bank will apply these amendments from January 2021.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates is as follows:

Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. More details are provided in Note 20.

Expected credit losses / impairment losses on financial assets

The measurement of losses under IFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL / impairment losses and assessing a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of impairment allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Bank's internal credit grading model, which assigns PDs to individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk; so, allowances for financial assets should be measured on a lifetime ECL basis, and the qualitative assessment;
- The segmentation of financial assets when their ECL are assessed on a collective basis;
- Development of ECL models, including various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of the allowance recognized in the statement of financial position as at 31 December 2020 was RUB 3,938,633 thousand (2019: RUB 3,833,499 thousand). More details are provided in Notes 7 and 17.

(thousands of Russian rubles)

4. Significant accounting judgments and estimates (continued)

Deferred income tax asset recognition

The recognized deferred income tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position.

The deferred income tax asset is recorded to the extent that the realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are forecast probable in the future are based on management's estimates.

The Bank recognized a tax asset equal to its estimated sufficient taxable profit available in the foreseeable future to realize the deferred tax asset in accordance with the Bank's business plan which is adjusted for expected adverse economic changes in the market where the Bank operates.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2020	*31 December 2019*
Cash on hand	10	10
Current accounts with the Bank of Russia	2,056,687	2,186,720
Balances on nostro accounts with other credit institutions	93,062	56,339
Term deposits (up to 90 days) with the Bank of Russia	5,000,000	3,600,000
Total cash and cash equivalents	**7,149,759**	**5,843,069**

Cash and cash equivalents are neither impaired nor past due.

As at 31 December 2020 and 31 December 2019, the Bank had balances with one counterparty.

6. Derivative financial instruments

The Bank does not enter into derivative financial instruments for trading purposes. Derivative financial instruments represent hedges. The table below shows the fair values of derivative financial instruments recorded in the financial statements as assets or liabilities.

The Bank measures derivative financial instruments using valuation techniques based on market interest rates. Significant changes in the specified variables may produce materially different estimates of fair values.

Below are the fair values of derivative financial instruments recognized in assets or liabilities and their nominal values as at 31 December 2020.

	31 December 2020			
	Nominal value		*Fair value*	
	Assets	*Liabilities*	*Assets*	*Liabilities*
Cross-currency interest rate contracts				
Swaps	5,687,117	(10,402,370)	2,636,161	–
Interest rate contracts				
Swaps	10,574,215	(2,429,790)	901,178	(65,008)
	16,261,332	**(12,832,160)**	**3,537,339**	**(65,008)**

(thousands of Russian rubles)

6. Derivative financial instruments (continued)

Below are the fair values of derivative financial instruments recognized in assets or liabilities and their nominal values as at 31 December 2019.

	31 December 2019			
	Nominal value		*Fair value*	
	Assets	*Liabilities*	*Assets*	*Liabilities*
Cross-currency interest rate contracts				
Swaps	10,219,852	(11,577,515)	–	(154,064)
Interest rate contracts				
Swaps	4,033,622	(3,311,710)	868,323	–
	14,253,474	**(14,889,225)**	**868,323**	**(154,064)**

As at 31 December 2020, the Bank had positions in cross-currency interest rate swaps, which are contractual agreements stipulating that on a fixed date a party shall pay a fixed or floating interest on a certain amount in RUB to the other party and shall receive a payment of the interest at a floating or fixed rate in foreign currency, and non-deliverable interest rate swaps, which are contractual agreements that on a fixed date a party shall pay a fixed interest on a certain amount in RUB to the other party and shall receive a payment of the interest at a floating rate in RUB.

As at 31 December 2020, the Bank entered into derivative transactions with four counterparties, all of which are resident counterparties.

As at 31 December 2019, the Bank entered into derivative transactions with four counterparties, all of which are resident counterparties.

To manage exposure to currency and interest rate risks, the Bank continued to apply hedge accounting in 2020 in relation to all derivative transactions that were concluded after 1 January 2015 and passed the hedge effectiveness test.

The table below shows non-trading derivative financial instruments by hedge, included in assets or liabilities as at 31 December 2020 and 2019, respectively:

	31 December 2020	
Hedging instruments	*Assets*	*Liabilities*
Cross-currency interest rate contracts	**2,636,161**	**–**
Fair value hedges	2,636,161	–
Interest rate contracts	**901,178**	**(65,008)**
Fair value hedges	901,178	(65,008)
Total	**3,537,339**	**(65,008)**

	31 December 2019	
Hedging instruments	*Assets*	*Liabilities*
Cross-currency interest rate contracts	**–**	**(154,064)**
Fair value hedges	–	(154,064)
Interest rate contracts	**868,323**	**–**
Fair value hedges	868,323	–
Total	**868,323**	**(154,064)**

Non-hedging derivatives comprise derivative transactions that have not passed the hedge effectiveness test.

(thousands of Russian rubles)

6. Derivative financial instruments (continued)

Cash flow hedges:

- As at 31 December 2020, the Bank had no derivative financial instruments, which qualify for recognition in other comprehensive income;
- As at 31 December 2019, the Bank had no derivative financial instruments, which qualify for recognition in other comprehensive income;
- During 2019, RUB (135,743) thousand were recognized in other comprehensive income, RUB (135,743) were reclassified to profit or loss with RUB (34,419) thousand of interest expense on amounts due to banks, RUB (107,984) thousand of translation differences and RUB 6,660 thousand of the ineffective portion.

Fair value hedges:

- During 2020, RUB 2,668,728 thousand were recognized in profit or loss, including RUB 2,759,337 thousand of translation differences, RUB 7,552 thousand of interest expense on amounts due to banks and RUB (98,161) thousand of the ineffective portion;
- During 2019, RUB (1,872,627) thousand were recognized in profit or loss, including RUB (1,201,349) thousand of translation differences, RUB (654,299) thousand of interest expense on amounts due to banks and RUB (16,979) thousand of the ineffective portion.

7. Loans to customers

Loans to customers comprise:

	31 December 2020	*31 December 2019*
Loans to legal entities		
Factoring and credit facilities	28,757,614	42,679,478
Total gross loans to legal entities	**28,757,614**	**42,679,478**
Loans to individuals		
Car loans	67,726,554	58,771,438
Total gross loans to individuals	**67,726,554**	**58,771,438**
Allowance for expected credit losses	(3,938,633)	(3,833,499)
Total loans to customers	**92,545,535**	**97,617,417**

Movements in the gross carrying amount of loans to legal entities measured at amortized cost for the year ended 31 December 2020 are provided below:

Loans to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance at 1 January 2020	**38,900,872**	**3,778,606**	**–**	**42,679,478**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(3,394)	3,394	–	**–**
Transfers to Stage 3	(23,262)	–	23,262	**–**
Assets recognized during the period	156,941,235	–	–	**156,941,235**
Assets disposed or redeemed (except for write-offs)	(167,704,648)	(3,158,451)	–	**(170,863,099)**
Write-offs	–	–	–	**–**
Balance at 31 December 2020	**28,110,803**	**623,549**	**23,262**	**28,757,614**

(thousands of Russian rubles)

7. Loans to customers (continued)

Movements in the gross carrying amount of loans to legal entities measured at amortized cost for the year ended 31 December 2019 are provided below.

Loans to legal entities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance at 1 January 2019	**28,170,682**	**4,341,406**	**–**	**32,512,088**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(3,785,218)	3,785,218	–	**–**
Transfers to Stage 3	–	–	–	**–**
Assets recognized during the period	385,488,231	–	–	**385,488,231**
Assets disposed or redeemed (except for write-offs)	(370,972,823)	(4,348,018)	–	**(375,320,841)**
Write-offs	–	–	–	**–**
Balance at 31 December 2019	**38,900,872**	**3,778,606**	**–**	**42,679,478**

Movements in the gross carrying amount of loans to individuals measured at amortized cost for the year ended 31 December 2020 are provided below:

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance at 1 January 2020	**56,881,995**	**795,141**	**1,094,303**	**58,771,439**
Transfers to Stage 1	130,968	(130,968)	–	**–**
Transfers to Stage 2	(1,116,132)	1,129,772	(13,640)	**–**
Transfers to Stage 3	(681,931)	(178,065)	859,996	**–**
Assets recognized during the period	55,906,190	–	–	**55,906,190**
Assets disposed or redeemed (except for write-offs)	(46,212,376)	(409,650)	(260,821)	**(46,882,847)**
Write-offs	–	–	(68,227)	**(68,227)**
Balance at 31 December 2020	**64,908,714**	**1,206,230**	**1,611,611**	**67,726,555**

Movements in the gross carrying amount of loans to individuals measured at amortized cost for the year ended 31 December 2019 are provided below:

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance at 1 January 2019	**47,917,263**	**1,004,157**	**928,421**	**49,849,841**
Transfers to Stage 1	152,839	(152,839)	–	**–**
Transfers to Stage 2	(668,161)	692,633	(24,472)	**–**
Transfers to Stage 3	(340,545)	(113,139)	453,684	**–**
Assets recognized during the period	49,122,333	–	–	**49,122,333**
Assets disposed or redeemed (except for write-offs)	(39,301,734)	(635,671)	(157,668)	**(40,095,073)**
Write-offs	–	–	(105,662)	**(105,662)**
Balance at 31 December 2019	**56,881,995**	**795,141**	**1,094,303**	**58,771,439**

Movements in ECL (expected credit losses) on loans to legal entities measured at amortized cost for the year ended 31 December 2020 are provided below:

Loans to legal entities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance at 1 January 2020	**1,346,731**	**382,870**	**–**	**1,729,601**
Transfers to Stage 1	41	(41)	–	**–**
Transfers to Stage 2	(6)	6	–	**–**
Transfers to Stage 3	–	(10)	10	**–**
Charge/(reversal) for the period of expected credit losses	(170,664)	(288,403)	5,857	**(453,210)**
Write-offs	–	–	–	**–**
Balance at 31 December 2020	**1,176,102**	**94,422**	**5,867**	**1,276,391**

(thousands of Russian rubles)

7. Loans to customers (continued)

Movements in ECL (expected credit losses) on loans to legal entities measured at amortized cost for the year ended 31 December 2019 are provided below:

Loans to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance at 1 January 2019	**752,328**	**850,548**	**–**	**1,602,876**
Transfers to Stage 1	1,239	(1,239)	–	**–**
Transfers to Stage 2	(6,251)	6,251	–	**–**
Transfers to Stage 3	–	–	–	**–**
Charge/(reversal) for the period of expected credit losses	599,415	(472,690)	–	**126,725**
Write-offs	–	–	–	**–**
Balance at 31 December 2019	**1,346,731**	**382,870**	**–**	**1,729,601**

Movements in ECL (expected credit losses) on loans to individuals measured at amortized cost for the year ended 31 December 2020 are provided below:

Loans to individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance at 1 January 2020	**964,558**	**163,988**	**975,352**	**2,103,898**
Transfers to Stage 1	1,580	(1,580)	–	**–**
Transfers to Stage 2	(185,770)	188,838	(3,068)	**–**
Transfers to Stage 3	(437,619)	(144,975)	582,594	**–**
Charge/(reversal) for the period of expected credit losses	584,006	105,226	(62,660)	**626,572**
Write-offs	–	–	(68,227)	**(68,227)**
Balance at 31 December 2020	**926,755**	**311,497**	**1,423,991**	**2,662,243**

Movements in ECL (expected credit losses) on loans to individuals measured at amortized cost for the year ended 31 December 2019 are provided below:

Loans to individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance at 1 January 2019	**497,274**	**191,298**	**982,293**	**1,670,865**
Transfers to Stage 1	2,029	(2,029)	–	**–**
Transfers to Stage 2	(81,991)	87,378	(5,387)	**–**
Transfers to Stage 3	(211,965)	(92,179)	304,144	**–**
Charge/(reversal) for the period of expected credit losses	759,212	(20,481)	(243,919)	**494,812**
Write-offs	–	–	(61,779)	**(61,779)**
Balance at 31 December 2019	**964,559**	**163,987**	**975,352**	**2,103,898**

Key assumptions and judgments in loan impairment assessment

A loan is impaired as a result of one or more events that occurred after the initial recognition of the loan and had an impact on estimated future cash flows from the loan that can be reliably estimated. There is no direct objective evidence of impairment for loans not individually impaired.

Objective evidence of impairment of loans to legal entities and individuals is in particular associated with the following:

- At least one of the loan-related payments is over 90 days overdue (fully or partially);
- The client is subject to legal actions and complaints as a defendant in cases related to unsettled loans with the Bank;
- The loans of the client were written off from the Bank's balance sheet;
- The client's debt was restructured and the outstanding amount was reduced through forgiving or postponement of the principle and/or interest and/or commission payment (as appropriate);
- The client is subject to the insolvency (liquidation/bankruptcy) procedure.

(thousands of Russian rubles)

7. Loans to customers (continued)

Key assumptions and judgments in loan impairment assessment (continued)

The Bank determines the impairment allowance for loans to legal entities based on the following major assumptions:

- The financial position of the client and its ability to fulfill its obligations to the Bank;
- The collateral considered in the future cash flows assessment can be sold on the market.

Modified and restructured loans

As at 31 December 2020 and during the year then ended, no significant modifications occurred to loans to customers, as restructured loans did not result in any material movements in cash flows and the net loss/gain on loans restructuring was insignificant. Loans restructured by the Bank are not material to the total portfolio of loans to individuals.

As at 31 December 2020, 2,299 restructured loans to individuals, with a carrying amount of RUB 1,042,894 thousand, are recognized on the balance sheet.

As at 31 December 2019, 130 restructured loans to individuals, with a carrying amount of RUB 46,415 thousand, are recognized on the balance sheet.

The increase in restructured loans is due to repayment holidays, the terms of which are described in the “Effect of the COVID-19 pandemic” section.

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on the assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Corporate lending: charges over vehicles, charges over spare parts, bank guarantees, corporate or personal sureties, the rights of claim under corporate deposits;
- Retail lending: charges over vehicles, personal sureties.

The main purpose of collateral agreements is to reduce possible loan losses when settling obligations under credit agreements. For loans secured by several types of collateral, all types of collateral at their contractual value are listed.

Below are the total values of collateral, by group of loans to customers and type of collateral, as at 31 December 2020 and 31 December 2019, respectively.

	Carrying amount of collateral (as at the reporting date)	*Carrying amount of loans to customers*	*Carrying amount of collateral (as at the reporting date)*	*Carrying amount of loans to customers*
	31 December 2020		*31 December 2019*	
Loans to legal entities				
- Vehicles	18,275,285	–	40,514,349	–
- Guarantees of credit institutions	539,115	–	603,760	–
- Pledge of receivables related to deposits of legal entities	301,733	–	282,832	–
- Pledge of property rights of claim	362,196	–	–	–
- Pledge of goods in turnover	765,125	–	561,285	–
- Corporate sureties	86,571,229	–	84,956,678	–
- Personal sureties	67,852,138	–	58,666,454	–
Total loans to legal entities	**173,901,696**	**28,757,614**	**185,585,358**	**42,679,478**
Loans to individuals				
- Vehicles	126,807,785	–	138,296,202	–
- Personal sureties	7,775	–	15,451	–
Total loans to individuals	**126,815,560**	**67,726,555**	**138,311,653**	**58,771,439**
Total loans to customers	**300,717,256**	**96,484,169**	**323,897,012**	**101,450,917**

(thousands of Russian rubles)

7. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2020, the concentration of loans issued to the ten largest groups of interrelated parties amounted to RUB 9,223,618 thousand (9.56% of the total loan portfolio). An allowance of RUB 40,546 thousand was charged against these loans.

As at 31 December 2019, the concentration of loans issued to the ten largest groups of interrelated parties amounted to RUB 10,465,735 thousand (10.32% of the total loan portfolio). An allowance of RUB 286,223 thousand was charged against these loans.

8. Investment securities

Investment securities comprise:

	31 December 2020	*31 December 2019*
Debt securities at FVOCI		
Treasury bills of the Russian Ministry of Finance	993,084	1,004,477
Total debt securities at FVOCI	**993,084**	**1,004,477**

9. Taxation

The corporate income tax expense comprises:

	2020	*2019*
Current income tax expense	(1,005,228)	(470,517)
Deferred tax expense − (origination)/reversal of temporary differences	79,745	(346,117)
Income tax expense	**(925,483)**	**(816,634)**

Russian legal entities must file income tax declarations. The standard income tax rate for companies (including banks) was 20% for 2020 and 2019.

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

	2020	*2019*
Profit before tax	**4,430,216**	**3,984,763**
Statutory tax rate	20%	20%
Income tax at the applicable income tax rate	**(886,043)**	**(796,953)**
Non-deductible expenditures and non-taxable income	(25,495)	(16,315)
Unrecognized deferred tax asset movement	–	–
Other	(17,555)	(4,967)
Income taxed at a lower rate	3,610	1,601
Income tax expense	**(925,483)**	**(816,634)**

(thousands of Russian rubles)

9. Taxation (continued)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	1 January 2020	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*31 December 2020*
Allowance for expected credit losses	(430,198)	128,329	–	(301,869)
Derivative financial instruments	(22,585)	3,322	–	(19,263)
Loans to customers	867,968	(171,100)	–	696,868
Other assets	(30,473)	29,501	(1,043)	(2,015)
Other liabilities	275,481	89,692	–	365,173
Total deferred tax assets/(liabilities)	**660,193**	**79,744**	**(1,043)**	**738,894**

	1 January 2019	*Recognized in profit or loss*	*Recognized in other comprehensive income*	*31 December 2019*
Allowance for expected credit losses	92,452	(522,650)	–	(430,198)
Derivative financial instruments	82,172	(104,757)	–	(22,585)
Loans to customers	583,460	284,508	–	867,968
Other assets	968	(29,398)	(2,043)	(30,473)
Other liabilities	249,301	26,180	–	275,481
Total deferred tax assets/(liabilities)	**1,008,353**	**(346,117)**	**(2,043)**	**660,193**

10. Other assets and liabilities

Other assets comprise:

	31 December 2020	*31 December 2019*
Prepayments under business contracts	138,463	143,207
Other taxes prepaid	180,947	47,519
Guarantee deposits under lease agreements	4,379	4,379
Other	10,203	6,414
Other assets	**333,992**	**201,519**

Other liabilities comprise:

	31 December 2020	*31 December 2019*
Payroll payable	284,091	266,192
Trade payables	343,203	658,424
Agency fees under insurance agreements	521,125	710,214
Lease liabilities	141,730	178,244
Taxes payable	337,596	305,117
Provision for contingent liabilities (Note 16)	865,404	852,587
Other liabilities	**2,493,149**	**2,970,778**

(thousands of Russian rubles)

11. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2020	*31 December 2019*
Deposits received from banks and maturing within 1 year	30,134,963	27,196,105
Deposits received from banks and maturing after 1 year	2,029,495	5,798,687
Amounts due to credit institutions	**32,164,458**	**32,994,792**

As at 31 December 2020, the Bank raised RUB 26,638,937 thousand (2019: RUB 28,808,149 thousand) as deposits of resident banks and RUB 5,525,521 thousand (2019: RUB 4,186,643 thousand) as deposits of non-resident banks (a non-resident bank from France).

As at 31 December 2020, the Bank had balances on short-term and long-term deposits with eight counterparties. As at 31 December 2020, total balances with all counterparties were as follows: 82.82% with resident banks and 17.18% with a non-resident bank (a non-resident bank from France).

As at 31 December 2019, the Bank had balances on short-term and long-term deposits with eight counterparties. As at 31 December 2019, total balances with all counterparties were as follows: 87.31% with resident banks and 12.69% with a non-resident bank (a non-resident bank from France).

12. Amounts due to customers

Amounts due to customers comprise:

	31 December 2020	*31 December 2019*
Current accounts and demand deposits		
- Corporate customers	11,586	24,290
- Retail customers	2,829,173	2,558,745
Assigned rights of claim for factoring transactions	25,906	–
Deposits of legal entities maturing within 1 year	8,890,052	3,474,260
Deposits of legal entities maturing after 1 year	–	5,792,863
Amounts due to customers	**11,756,717**	**11,850,158**

As at 31 December 2020, the Bank raised RUB 1,501,003 thousand (2019: RUB 3,474,260 thousand) as deposits of resident legal entities and RUB 7,389,049 thousand (2019: RUB 5,792,863 thousand) as deposits of non-resident legal entities (a non-resident legal entity from Japan).

As at 31 December 2020, the Bank had balances of short-term deposits with multiple counterparties. As at 31 December 2020, total balances with all counterparties were as follows: 83.12% of total short-term deposits for non-resident legal entities (a non-resident legal entity from Japan) and 16.88% of total short-term deposits for resident legal entities.

As at 31 December 2019, the Bank had balances on short-term deposits with multiple counterparties. As at 31 December 2019, total balances with all counterparties were as follows: 62.51% of total short-term deposits for non-resident legal entities (a non-resident legal entity from Japan) and 37.49% of total short-term deposits for resident legal entities.

(thousands of Russian rubles)

13. Amounts due to the Bank of Russia

In 2020, the Bank joined the Small and Medium-business Loan Support Program, which is aimed at creating a support mechanism for small and medium entities (SME) by issuing them loans on preferential terms, issuing loans to increase their working capital, providing them support of factoring companies by issuing loans to factoring companies, which offer SME financing under assignment of cash claims (factoring transactions) so that SME may raise financing against assignment of cash claims, etc. where the SME Corporation acts as the Bank's guarantor and the Bank of Russia acts as a lender.

	31 December 2020	*31 December 2019*
Loans received from the Bank of Russia and maturing after 1 year	62,514	–
Amounts due to the Bank of Russia	**62,514**	**–**

14. Debt securities issued

	31 December 2020	*31 December 2019*
Debt securities issued	36,738,461	39,886,928
Debt securities issued	**36,738,461**	**39,886,928**

The table below presents the structure of securities issued as at 31 December 2020:

Bonds							
Series	*Number*	*Placement date*	*Maturity date*	*Annual coupon rate, %*	*Principal*	*Interest accrued / discounts*	*Total*
1	40100170B	5 July 2016	9 July 2021, offer on 7 January 2020	7.9	2,563,845	80,197	**2,644,042**
BO-001R-03	4B020300170B001P	20 November 2018	22 November 2021	9.25	5,000,000	51,950	**5,051,950**
BO-001R-04	4B020400170B001P	14 February 2019	16 February 2022	9.15	5,000,000	172,950	**5,172,950**
BO-001R-05	4B020500170B001P	23 April 2019	25 April 2022	8.9	8,000,000	136,480	**8,136,480**
BO-001R-06	4B020600170B001P	24 September 2019	26 September 2022	7.65	7,000,000	145,250	**7,145,250**
BO-001R-07	4B02-07-00170-B-001P	21 October 2020	24 October 2023	6.25	8,000,000	97,280	**8,097,280**
Effect of hedge accounting							**490,509**
Total debt securities issued as at 31 December 2020							**36,738,461**

In 2020, changes in liabilities arising from financing activities and disclosed in the statement of cash flows in cash flows from financing activities result only from cash flows from debt securities issued, redeemed and partially early bought-back, payments on securities and accrued interest.

15. Equity

The authorized, issued and fully paid share capital comprises:

	2020			*2019*		
	Number of shares	*Nominal value*	*Inflation-adjusted amount*	*Number of shares*	*Nominal value*	*Inflation-adjusted amount*
Ordinary shares	4,335,000	6,069,000	6,133,091	4,335,000	6,069,000	6,133,091
Total share capital	**4,335,000**	**6,069,000**	**6,133,091**	**4,335,000**	**6,069,000**	**6,133,091**

The decision on the distribution of net profit for 2020, including dividend payment, will be made by the sole shareholder after approval of the Bank's annual financial statements for 2020.

(thousands of Russian rubles)

16. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is influenced by dropping oil prices, the COVID-19 pandemic and sanctions imposed against Russia by a number of countries. The ruble interest rates remain high. The combination of the above resulted in reduced access to capital, a higher cost of capital, and increased uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal

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

Taxation

A significant part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is not clear and unambiguous enough, which often results in varying interpretations, selective and inconsistent application, as well as frequent and, at times, highly unpredictable changes, which may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. The tax authorities may be taking a more assertive position in their interpretation and application of the legislation and in performing tax reviews. As a result, the Bank's approaches to tax liability calculations that have not been challenged in the past may be challenged during future tax audits. As such, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

The Russian transfer pricing tax legislation allows the Russian tax authorities to apply transfer pricing adjustments and impose additional income tax and value added tax liabilities in respect of all controlled transactions if the transaction price differs from the market price and unless the Bank is able to demonstrate the use of market prices with respect to the controlled transactions. Security transactions, payments and receipts of interest on debt, as well as derivative transactions are subject to special transfer pricing rules. In 2020, the Bank determined its tax liabilities arising from controlled transactions using actual transaction prices.

The majority of the Bank's transactions with related parties carried out under the effective legislation are not deemed controlled.

Management believes that the Bank complies with the requirements of the Russian transfer pricing legislation with regard to transactions that qualify for recognition as controlled transactions, including proper preparation and presentation of notifications and, if necessary, transfer pricing documentation to the tax authorities, confirming that the Bank used market prices in performing controlled transactions.

Tax legislation introduced special rules for recognizing income and expenses arising from hedging transactions. In accordance with the existing Russian tax legislation, the Bank may classify derivative transactions as hedging transactions on condition that the proper documentation is in place to confirm, inter alia, the nature and rationale for hedging transactions. Management believes that the Bank has sufficient evidence to recognize hedging transactions for taxation purposes.

Currently, the Russian tax legislation requires compliance with the taxation rules for controlled foreign companies and the concept of tax residency of legal entities; in addition, foreign entities receiving income from Russian sources must have an actual right to such income. Overall, the adoption of these concepts should increase the administrative and, in some cases, tax burden on Russian taxpayers that form part of an international group and/or conduct transactions with foreign companies. In some cases, the Bank paid income to foreign entities using reduced rates of the Russian withholding tax based on the provisions of international tax treaties concluded by the Russian Federation. Given that the above rules have not been applied consistently with regard to the confirmation of the foreign entities' actual right to income, there is uncertainty regarding the procedure for the application of these rules and their possible interpretation by the Russian tax authorities and the effect on the amount of tax liabilities. Management believes it is possible that with the evolution of these rules and changes in the approach of the Russian tax authorities and/or courts to their interpretation and enforcement, additional taxes and related fines and penalties may be assessed, which could negatively impact the financial position of the Bank.

(thousands of Russian rubles)

16. Commitments and contingencies (continued)

The introduction of these regulations and the interpretation of some other provisions of Russian tax legislation together with the latest trends in the application and interpretation of certain provisions of Russian tax legislation suggest that the tax authorities may take a more assertive position in their interpretation and application of the legislation, conducting tax audits and imposing additional tax requirements. At the same time, it is impossible to evaluate the potential impact the adoption of these norms will have and the probability of negative outcome of litigations if challenged by the Russian tax authorities. Consequently, the tax authorities may challenge the transactions and methods of accounting which have not been challenged before. As a result, significant additional taxes, penalties and fines may be assessed. Tax field audits of the accuracy of tax calculation and payments conducted by tax authorities may cover three calendar years preceding the year during which the tax audit decision was made. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2020, the Bank's management holds a conservative position when interpreting applicable legislation and creates a provision for undetermined tax liabilities.

17. Personnel and other administrative expenses

Personnel and other operating expenses comprise:

Personnel expenses

	2020	*2019*
Personnel benefits	578,773	534,497
Payroll related taxes and charges	112,713	102,373
Total personnel expenses	**691,486**	**636,870**

Other general and administrative expenses

	2020	*2019*
Communications and information services	190,437	130,495
State duties and taxes other than income tax	131,146	144,814
Professional services	106,569	66,759
Communication services	66,703	55,678
Personnel expenses	58,407	60,436
Promotion expenses	43,633	31,245
Advisory services	31,721	31,609
Lease of computer equipment	25,639	26,970
Audit	15,743	18,019
Tax contingencies	13,291	152,446
Other	11,923	6,382
Repair and maintenance of property and equipment	9,845	8,027
Business travel	9,449	21,362
Low-value items, expenses on materials for administrative and other needs	6,783	6,840
Advertising, marketing and entertainment expenses	6,045	16,044
Total general and administrative expenses	**727,334**	**777,126**

18. Risk management

Introduction

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 internal controls. This process of risk management is critical to the Bank's continuing profitability, and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

(thousands of Russian rubles)

18. Risk management (continued)

Introduction (continued)

Given the Bank's business strategy and activities, it identifies a number of significant risks, including:

- Credit risk;
- Market risk;
- Interest rate risk of the banking book;
- Operational risk (including legal risk);
- Liquidity risk;
- Concentration risk.

The Bank is exposed to both financial and non-financial risks. The Bank's non-financial risks include strategic risk, reputational risk, compliance (regulatory) risk and operational risk (risk, threat). The Bank's financial risks include credit risk, market risk, interest rate risk of the banking book, liquidity risk and concentration risk.

Risks that the Bank is exposed to can be interrelated, i.e. once materialized, a certain risk may cause another risk to change or materialize.

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

18.1 Internal control

The Bank has established internal control that is harmonized with the nature and scale of transactions and the level and combination of the risks assumed.

Internal control is aimed at, among other things, ensuring the following:

- Efficient and effective business operations for banking and other transactions, efficient asset and liability management, including the safety of assets and management of banking risks;
- Accuracy, completeness and objectivity as well as timely preparation and presentation of financial statements, statistical and other reports (both for external and internal users), as well as information security (protection of the Bank's IT interests (goals) comprising information, IT infrastructure, components collecting, forming, distributing and using information, as well as a system that regulates the respective relationships);
- Compliance with statutory regulations, as well as the Bank's founding and internal documents;
- Non-involvement of the Bank and its personnel in illegal activities, including money laundering and terrorism financing, as well as ensuring timeliness of data submitted to the state agencies and the Bank of Russia.

Internal control management is performed by the following bodies within the scope of their powers as set forth in the Bank's founding and internal documents:

- General Shareholders' Meeting;
- Board of Directors;
- Management Board;
- Chairman of the Management Board;
- Audit Commission (Auditor);
- Chief Accountant / Deputy Chief Accountant;
- Internal Control, Operational Risks and Compliance Committee of the Management Board;
- Internal Audit Function of the Bank;
- Internal Control Function;
- Special officer and the Bank's business unit responsible for anti-money laundering and terrorism financing;
- Other internal control personnel or business units operating within the existing internal controls and on the basis of internal regulations and the Charter of the Bank.

(thousands of Russian rubles)

18. Risk management (continued)

18.1 Internal control (continued)

The Bank's internal control system includes the following areas of focus:

- Control over the organization of the Bank's operations performed by the management bodies;
- Control over the functioning of the banking risk management system and banking risk assessment;
- Control over the distribution of powers with respect to banking operations and other transactions;
- Control over data flow management (information provision and transmission) and information security assurance;
- Control over anti-money laundering and counter-terrorism financing;
- Ongoing monitoring of the internal control system to assess its compliance with the Bank's operating objectives, detection of deficiencies, proposal development, and control over the enhancement of the Bank's internal control system ("monitoring of the internal control system").

Control and monitoring over the system of banking risk management and internal control are performed by the Bank on a regular basis as provided in its internal regulations.

The Bank takes appropriate measures to enhance internal control aimed at ensuring its effectiveness, taking into account changing internal and external factors that affect the Bank's activities.

Monitoring of the internal control system is permanently performed by the management and personnel of various business units, including departments responsible for banking operations and other transactions and their recognition in financial and tax accounting and reporting, as well as the Internal Audit Function.

Frequency of monitoring of various types of banking activities is defined taking into account associated banking risks, frequency and nature of changes in the areas of the Bank's activities.

Monitoring of internal controls includes the following:

- Implementing control procedures at all management levels;
- Selective reviews/audits of the compliance of the Bank's operations with laws and internal regulations;
- Reviewing whether additional control procedures exist at all levels of banking processes comprising a higher risk;
- Managing banking risks, including their identification, analysis, measurement and adopting of mitigation measures;
- Analyzing whether operations comply with rules prescribed by the Policy and internal regulations of the Bank.

Frequency of reviews is defined taking into account associated banking risks, frequency and nature of changes in the areas of the Bank's activities

- Implementing controls in day-to-day operations of the Bank;
- Stricter control over operations with higher risks;
- Analyzing the effect each risk has on the Bank's activities, their overall measurement accounting for existing control methods and measures;
- Timely presentation of deficiencies identified by structural units to the Internal Control Function, with subsequent reporting to the Bank's management bodies in accordance with internal regulations.

To ensure efficient monitoring of internal controls, management bodies of the Bank within the scope of their competence continuously assess risks affecting the set goals and take measures to adapt to changing circumstances and conditions, including by changing the Bank's internal controls on a timely basis.

The framework for developing and organizing the Bank's internal controls approved by its Board of Directors sets levels of internal controls (competencies) which are a part of controls and monitoring over their efficiency.

As a result of monitoring internal controls, the Bank's internal control bodies within the scope of their competence take measures to timely change and improve the internal controls.

(thousands of Russian rubles)

18. Risk management (continued)

18.1 Internal control (continued)

The Bank's Internal Audit Function was formed to perform audits and assist the Bank's management bodies in ensuring the Bank's effective operation, protecting interests of the Bank's shareholders and customers, and continuously monitoring and assessing the effectiveness and adequacy of internal control, including:

- The effectiveness of financial and operating activities;
- The fairness of accounting records, accuracy, completeness and objectivity of financial statements;
- The effectiveness of the risk management system;
- Compliance with Russian statutory regulations, as well as the Bank's founding and internal documents;
- The effectiveness of asset and liability management, including physical asset security.

The Bank has ensured consistency, independence and objectivity of the Internal Audit Function, professional qualification of its head and personnel; in addition, an environment has been created for the Internal Audit Function to comply with its duties efficiently and smoothly. The Internal Audit Function operates under the direct control of the Board of Directors.

The Bank has established the procedures of:

- Control (including additional audits) over measures taken to eliminate violations identified by the Internal Audit Function;
- Reporting by the Internal Audit Function at least semiannually on the measures taken to follow the recommendations and to eliminate the identified violations to the Board of Directors.

Internal Control Function

The Internal Control Function is created to perform second-control internal control.

In the course of its operations, the Internal Control Function relies on the laws of the Russian Federation, regulations of the Bank of Russia, decisions of the General Meeting of Shareholders, Board of Directors, Management Board and the Bank's Charter.

The Internal Control Function operates on a permanent basis; it is not involved in banking operations or other transactions.

The Internal Control Function is responsible for ensuring the compliance of the Bank's activities with the current legislation of the Russian Federation, the Bank's internal regulations and standards for self-regulating organizations. The Internal Control Function also reviews the Bank's documentation, performs assessment of regulatory risks, provides recommendations on risk mitigation and ensures the Bank's compliance with the Russian legislation and standards and taking measures aimed at the protection of the Bank's business reputation.

According to an administrative document of the Bank, the Internal Control and Operational Risk Department (ICORD) acts as the Internal Control Function.

ICORD reports on the work performed to the Chairman of the Management Board and to the Management Board at least once a year and communicates the performance results during meetings of the Internal Control, Operational Risks and Compliance Committee.

Internal Control, Operational Risks and Compliance Committee

The Internal Control, Operational Risks and Compliance Committee of JSC RN Bank is a standing committee of the Management Board established by the decision of the Management Board to address issues of control over the reliability and efficiency of the Bank's internal control, control over the Bank's operational risks, and control over the compliance with Russian legislative and regulatory acts.

Within its remit and functions, the Internal Control, Operational Risks and Compliance Committee reviews the information on the activities of the Internal Audit Function and ICORD, the results of external audits and first level control procedures performed by heads of the Bank's business units. It also deals with regulatory and operational risk management issues, reviews the results of testing the Bank's business continuity and/or disaster recovery plan ('BC/DR Plan'), deals with establishing internal control over anti-money laundering and counter-terrorism financing and other issues.

(thousands of Russian rubles)

18. Risk management (continued)

18.1 Internal control (continued)

Risk management system

The Bank's risk management system is based on the following components:

- Strategy;
- Methodology;
- Procedures;
- Control;
- Updating.

The goal of the risk management system is to maintain the overall risk accepted by the Bank at the level defined by the Bank subject to its strategic objectives. The priority is to ensure the maximum safety of assets and equity by mitigation of risk exposures which might lead to unexpected losses.

The goal of the risk management system is achieved through the use of a systemic and complex approach that focuses on the following:

- Identification and analysis of all risks arising in the course of the Bank's activities;
- Interpretation of the approach to various risk types;
- Quantitative and qualitative assessment (measurement) of specific risk types;
- Establishing correlation among individual risks in order to assess the impact of the actions planned to be taken to limit a particular type of risk on the increase or decrease in the level of other risks;
- Performing full risk level analysis of operations planned and completed by the Bank to determine the total amount of banking risks;
- Assessment of whether the total amount of risk is acceptable and reasonable;
- Establishing a subsystem of risk monitoring at the origination of a negative tendency and a subsystem of swift and adequate response aimed at preventing or mitigating risks.

Each risk faced by the Bank must be identified and recognized. Risks are classified into internal and external as well as controlled or not controlled by the Bank. Risks are identified on a regular basis due to the fast-evolving internal and external environment.

Management of the Bank determines its approach to all the risks identified. A part of the risks which the Bank is not ready to assume must be totally excluded, with the related activities totally terminated. With regard to the risks assumed, the Bank defines the maximum acceptable risk exposure. The Bank's strategy governs its risk approach.

The Bank's risk management strategy is based on the break-even principle and focuses on achieving a healthy ratio of the profitability of the Bank's business activities and the level of assumed risks.

The Bank's risk management strategy involves:

- Compliance with the Bank's strategic goals set by the Board of Directors;
- Lending schemes as a priority area;
- Effective capital management with the aim to maintain its adequate level.

The risk management strategy implies using a whole range of risk mitigation instruments and choosing each particular instrument depending on the risk type.

Evaluation of various risk types involves various methodologies which are set out in the Bank's internal regulations.

The Bank complies with the requirements set by the Bank of Russia to risk and capital management systems and internal control.

The Deputy Chairman of the Management Board, Risk Management and Compliance Director (acting as the Head of the Risk Management Function), Head of the Internal Audit Function and Head of ICORD comply with the qualification criteria established by the Bank of Russia and the business reputation requirements set forth by Federal Law No. 395-1.

(thousands of Russian rubles)

18. Risk management (continued)

18.1 Internal control (continued)

Risk reporting

Information on various risks relevant to the Bank is analyzed with the aim of control and early identification of risks, and subsequent communication to the Bank's management.

Risk reporting with various level of detail and different time intervals is performed by the Bank's departments, including the Risk Management Department and ICORD in order to provide the personnel and management of the Bank with up-to-date and necessary information on the level of risks relevant to the Bank.

Daily reports include information on the Bank's open currency position, calculation of statutory liquidity ratios, gap analysis of the assets and liabilities maturity gap to assess the liquidity risk, calculation of statutory liquidity ratios, calculation of the maximum risk attributable to one borrower or a group of borrowers, and calculation of the Bank's capital adequacy ratios.

Monthly reports on interest rate risk testing are reviewed by the Finance Committee of the Bank's Management Board and include the gap analysis of the assets and liabilities maturity gap, as well as the results of testing the basic scenario (change in the interest rate by 100 b.p.), results of the stress testing (change in the interest rate by 300-500 b.p.), analysis of changes in the Bank's external environment driven by macroeconomic trends, and the financial markets analysis.

Monthly reports on credit risk testing are reviewed by the Risk Committee of the Bank's Management Board and provide information on the quality of the Bank's loan portfolio in aggregate and broken down by interbank loans, financing to car dealers (factoring), retail lending (car loans), major quality indicators and their changes, overdue debts, their amount, dynamics, structure and timing, the amount of created provisions, collateral quality and credit risk concentration.

ICORD provides regular reports to the Internal Control, Operational Risks and Compliance Committee of the Management Board on operational and/or regulatory risks identified, as well as a monthly report on operational risk management.

18.2 Credit risk

Credit risk is the risk that the debtor/counterparty fails to discharge its financial liabilities, or their value adversely changes as the debtor's/counterparty's ability to discharge the liabilities has deteriorated.

Credit risk is managed in accordance with the regulations of the Bank of Russia, as well as the principles and methodologies designed by the Basel Committee on Banking Supervision, the requirements of the Bank's sole shareholder, and internal regulations designed on the basis thereof.

The Bank's credit risk management involves the following key procedures:

- Credit risk identification;
- Quantitative and qualitative assessment of credit risk;
- Planning the level of credit risk;
- Measures to mitigate and reduce risks (including the establishment of risk limits and reference values that trigger taking risk mitigation measures and accepting collateral);
- Risk monitoring and control (including the oversight of the set limits and reference values) at the level of both individual borrowers and portfolios (the retail portfolio, the portfolio of loans to corporate dealers, the interbank lending portfolio);
- Creation of allowances for possible losses;
- Credit risk stress testing in accordance with the scenarios and procedures approved by the Board of Directors;
- Reporting on the level of accepted credit risk and the results of assessing the efficiency of risk management techniques used;
- Improvement of the risk management system.

(thousands of Russian rubles)

18. Risk management (continued)

18.2 Credit risk (continued)

In accordance with the requirements of the Bank of Russia, the Bank limits risk concentrations per borrower or group of related borrowers, maximum large credit risk, aggregate risk on the Bank's insiders, maximum amount of loans, bank guarantees and sureties provided by the Bank to its participants (shareholders). Actual exposures against limits are monitored by the Accounting and Reporting Department on a daily basis.

Additionally, the Bank limits risk concentrations by customer, counterparty and group of related customers depending on the level of the accepted credit risk.

Derivative financial instruments

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

Classification and measurement

The Bank expects to continue measuring at fair value all financial assets currently measured at fair value.

Debt securities classified as available for sale are measured at FVOCI under IFRS 9, as the Bank expects to hold these assets not only to collect contractual cash flows but also to sell significant amounts on a relatively frequent basis. The vast majority of loans satisfy the SPPI criterion and are measured at amortized cost.

Impairment assessment

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortized cost or FVOCI, as well as on loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECL. If the financial asset meets the definition of purchased or originated credit-impaired, the allowance is based on the change in the lifetime ECL.

a) Corporate dealers

In accordance with IFRS 9, the Bank designed and implemented (on 1 January 2018) a model to assess expected credit losses related to corporate dealers.

ECL calculation mechanics

ECL calculations are based on the following key elements:

Probability of default (PD)	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the asset has not been previously derecognized and is still in the portfolio.
Exposure at default (EAD)	The *Exposure at Default* is an estimate of the amount exposed to default.
Loss given default (LGD)	The *Loss Given Default* is an estimate of the loss arising in case a default occurs at a given time.

b) Individual borrowers

In accordance with IFRS 9, the Bank designed and implemented (on 1 January 2018) a model to assess expected credit losses related to individuals. The key element of ECL calculations is the calculation of transition matrices, which help determine the probability of default.

(thousands of Russian rubles)

18. Risk management (continued)

18.2 Credit risk (continued)

c) Classification of loans

The Bank has established policies to assess the level of risk at the end of each reporting period, including to assess whether a financial instrument's credit risk has changed significantly, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the assessment, the Bank classified loans as described below:

Stage 1	Standard assets that have not shown any significant increase in credit risk since origination. Stage 1 loans also include facilities where the credit risk has improved and the loans have been reclassified from Stage 2.
Stage 2	Standard assets that have shown a significant increase in credit risk since origination. Stage 2 loans also include facilities where the credit risk has improved and the loans have been reclassified from Stage 3.
Stage 3	Doubtful assets considered credit-impaired.

d) Allowance for expected credit losses

Under IFRS 9, where a loan has been included in Stage 1, the allowance for expected credit losses related to borrowers is equal to 12-month expected credit losses. For Stage 2 and Stage 3 loans, the allowance for expected credit losses is equal to expected credit losses over the life of the asset.

e) Definition of default and recovery

The Bank considers a credit exposure to have significantly increased since initial recognition if credit risk monitoring revealed a deterioration of a borrower's credit grade, or when asset restructuring has taken place. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

For ECL calculation purposes, the Bank considers a financial instrument to be in default, and, therefore, includes it in Stage 3 (credit-impaired assets) whenever a borrower is 90 days late with contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in default and whether the assets should be taken to Stage 3 for ECL calculations, or whether Stage 2 is appropriate. Such events include the following:

- Internal rating of the borrower indicating default or near-default;
- Death of the borrower;
- Other objective evidence of impairment.

Loans may be transferred from Stage 3 to Stage 2 in the absence of any impairment indicators and provided the borrower has fully settled the overdue amounts. Loans may be transferred to Stage 1 in the absence of any impairment indicators and provided the borrower has not delayed any payments at the reporting date and no amounts have been overdue by more than 30 days within a 12-month period.

Credit quality per class of financial assets

In the table below, high-grade loans to banks are those having a minimal level of credit risk, normally with a credit rating on or close to the sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. The sub-standard grade comprises loans below the standard grade but not individually impaired.

Liabilities of individuals and legal entities (other than banks) in the tables below are classified as Stage 1, Stage 2 or Stage 3.

(thousands of Russian rubles)

18. Risk management (continued)

18.2 Credit risk (continued)

The gross carrying amounts calculated as at 31 December 2020 are provided in the table below.

	Notes	*Stage*	*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	7,056,687	93,062	–	–	**7,149,749**
Loans to customers at amortized cost	8						
Loans to individuals		Stage 1	–	64,908,714	–	–	**64,908,714**
		Stage 2	–	1,206,230	–	–	**1,206,230**
		Stage 3	–	–	–	1,611,611	**1,611,611**
Loans to legal entities		Stage 1	–	28,110,803	–	–	**28,110,803**
		Stage 2	–	623,549	–	–	**623,549**
		Stage 3	–	–	–	23,262	**23,262**
Debt investment securities:			–	–	–	–	**–**
- Measured at FVOCI		Stage 1	–	993,084	–	–	**993,084**
		Stage 2	–	–	–	–	**–**
		Stage 3	–	–	–	–	**–**
Total			**7,056,687**	**95,935,442**	**–**	**1,634,873**	**104,627,002**

The gross carrying amounts calculated as at 31 December 2019 are provided in the table below.

	Notes	*Stage*	*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	5,786,720	56,339	–	–	**5,843,059**
Loans to customers at amortized cost	8						
Loans to individuals		Stage 1	–	56,881,995	–	–	**56,881,995**
		Stage 2	–	795,140	–	–	**795,140**
		Stage 3	–	–	–	1,094,303	**1,094,303**
Loans to legal entities		Stage 1	–	38,900,872	–	–	**38,900,872**
		Stage 2	–	3,778,606	–	–	**3,778,606**
		Stage 3	–	–	–	–	**–**
Debt investment securities			–	–	–	–	**–**
- Measured at FVOCI		Stage 1	–	1,004,477	–	–	**1,004,477**
		Stage 2	–	–	–	–	**–**
		Stage 3	–	–	–	–	**–**
Total			**5,786,720**	**101,417,429**	**–**	**1,094,303**	**108,298,452**

Cash and cash equivalents, high-grade loans to banks and customers are those having a minimal level of credit risk, normally with a credit rating on or close to the sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. The sub-standard grade comprises loans below the standard grade but not individually impaired.

See Note 8 for more detailed information on the allowance for impairment of loans to customers.

As at 31 December 2020, claims against individual borrowers totaled RUB 1,339,997 thousand.

In 2020, the Bank filed 1,129 legal suits against individual borrowers demanding the repayment of amounts due under loan agreements and the foreclosure on property pledged as collateral. As at the date of claim handling, the total amount of such claims against individual borrowers was RUB 620,613 thousand.

In 2019, the Bank filed 846 legal suits against individual borrowers demanding the repayment of amounts due under loan agreements without demanding foreclosure on property pledged as collateral. As at the date of claim handling, the total amount of such claims against individual borrowers was RUB 355,823 thousand.

18.3 Market risk

Market risk is the risk of adverse changes in the market value of financial instruments caused by equity, currency and interest rate risk factors.

Market risk includes equity, currency and interest rate risks.

(thousands of Russian rubles)

18. Risk management (continued)

18.3 Market risk (continued)

The purpose of market risk management is to maintain the risk accepted by the Bank at the appropriate level defined by the Bank subject to its business strategy. The priority is to ensure maximum safety of assets and equity by reducing (excluding) the possibility of loss incurred on the Bank's operations in financial markets, as well as other operations of the Bank involving the acceptance of risk exposure.

The Bank manages its market risk by setting open position limits in relation to interest rate repricing and currency positions and stop-loss limits which are monitored on a monthly basis and reviewed and approved by the Management Board.

Equity risk

Equity risk is the risk of losses due to adverse changes in market quotes for equity instruments in the trading portfolio and derivative financial instruments under the influence of both issuers of equity instruments and derivative financial instruments and general fluctuations of market prices for financial instruments.

The Bank does not engage in speculative trading of stock securities or derivatives. Therefore, the Bank does not calculate equity risk.

Currency risk

Currency risk is the risk of losses due to adverse changes in foreign exchange rates and/or accounting prices for precious metals under open positions in foreign currencies and/or precious metals.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Highly volatile exchange rates affect both the Russian economy and the Bank's activities.

Currency risk management and control aims to:

- Minimize the Bank's capital losses when structuring assets and liabilities using foreign currencies;
- Prevent non-compliance by the Bank with the requirements of the Russian foreign currency laws and foreign currency control authorities in the course of performing transactions with foreign currencies and discharging the functions of a foreign currency control agent.

The Bank's financial position and cash flows are exposed to fluctuations in foreign exchange rates. To mitigate currency risks, the Banks oversees the open currency position on a daily basis in order to limit its currency risk, as required by the Bank of Russia. Where necessary, the Bank carries out foreign exchange transactions and enters into hedges (cross-currency swaps, cross-currency interest rate swaps) to minimize any losses caused by fluctuations of the national and foreign currencies. Limits are set both for each currency and for aggregate positions in all currencies.

Most balance sheet items and cash flows of the Bank are denominated in Russian rubles; in addition, the Bank hedges its currency liabilities and does not engage in any speculative transactions in the foreign exchange market; thus, currency risk is assessed as low.

As at 31 December 2020, a change in the value of the Russian ruble to other currencies would have caused an increase (decrease) in equity and profit or loss as indicated in the following table. This analysis was performed net of tax and is based on the expected change in currency exchange rates. The analysis assumes that all other variables, in particular interest rates, remain constant.

	***2020* Increase in the currency exchange rate**	***2020* Decrease in the currency exchange rate**
Change in USD to RUB exchange rate (+16%/-16%)	606	(606)
Change in EUR to RUB exchange rate (+16%/-16%)	15,989	(15,989)
Change in JPY to RUB exchange rate (+16%/-16%)	23,178	(23,178)

	***2019* Increase in the currency exchange rate**	***2019* Decrease in the currency exchange rate**
Change in USD to RUB exchange rate (+13%/-13%)	240	(240)
Change in EUR to RUB exchange rate (+13%/-13%)	20,730	(20,730)
Change in JPY to RUB exchange rate (+13%/-13%)	28,231	(28,231)

(thousands of Russian rubles)

18. Risk management (continued)

18.3 Market risk (continued)

The table below discloses the Bank's currency risk exposure as at 31 December 2020 and 2019. The Bank does not intend to heavily engage in currency exchange transactions; therefore, currency risk is limited and controlled based on the ratio of the open currency position and the Bank's equity. This ratio cannot exceed 10% for each foreign currency and 20% of the total amount of open positions.

	2020					*2019*				
	RUB	*USD (RUB equivalent)*	*EUR (RUB equivalent)*	*JPY (RUB equivalent)*	*Total*	*RUB*	*USD (RUB equivalent)*	*EUR (RUB equivalent)*	*JPY (RUB equivalent)*	*Total*
Assets										
Cash and cash equivalents	7,060,080	3,785	16,636	69,258	**7,149,759**	5,789,380	1,843	8,054	43,792	**5,843,069**
Obligatory reserve with the Bank of Russia	536,204	–	–	–	**536,204**	490,450	–	–	–	**490,450**
Amounts due from credit institutions	–	–	–	–	**–**	–	–	–	–	**–**
Derivative financial instruments	3,537,339	–	–	–	**3,537,339**	868,323	–	–	–	**868,323**
Loans to customers	92,545,536	–	–	–	**92,545,536**	97,617,417	–	–	–	**97,617,417**
Investment securities available for sale	993,084	–	–	–	**993,084**	1,004,477	–	–	–	**1,004,477**
Other assets	132,558	–	–	–	**132,558**	142,622	–	–	–	**142,622**
Total assets	**104,804,801**	**3,785**	**16,636**	**69,258**	**104,894,480**	**105,912,669**	**1,843**	**8,054**	**43,792**	**105,966,358**
Liabilities										
Amounts due to the Bank of Russia	62,514	–	–	–	**62,514**	–	–	–	–	**–**
Amounts due to credit institutions	26,703,046	–	5,461,412	–	**32,164,458**	28,823,788	–	4,171,004	–	**32,994,792**
Derivative financial liabilities	12,901,275	–	(5,544,710)	(7,291,557)	**65,007**	10,373,916	–	(4,322,408)	(5,897,444)	**154,064**
Debt securities issued	36,738,461	–	–	–	**36,738,461**	39,886,928	–	–	–	**39,886,928**
Amounts due to customers	4,540,763	–	–	7,215,954	**11,756,717**	6,126,087	–	–	5,724,071	**11,850,158**
Other liabilities	668,699	–	–	–	**668,699**	1,174,831	–	–	–	**1,174,831**
Total liabilities	**81,614,758**	**–**	**(83,298)**	**(75,603)**	**81,455,857**	**86,385,550**	**–**	**(151,404)**	**(173,373)**	**86,060,773**
Net balance sheet position	**23,190,043**	**3,785**	**99,934**	**144,861**	**23,438,623**	**19,527,119**	**1,843**	**159,458**	**217,165**	**19,905,585**

(thousands of Russian rubles)

18. Risk management (continued)

18.4 Interest rate risk

Interest rate risk is the risk of financial losses due to unfavorable changes in interest rates. The Bank's net interest income and the market value of assets and liabilities that are sensitive to changes in interest rates may be subject to interest rate risk.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The following table demonstrates the sensitivity of the Bank's statement of profit or loss to a possible change in interest rates.

To measure interest rate risk quantitatively, the Bank calculates the sensitivity to interest rate risk on the basis of the moving monthly average gap between assets and liabilities in each currency.

The Bank measures the sensitivity of balance sheet cash flows to changes in market interest rates. The overall sensitivity is in line with changes in the market values of balance sheet cash flows resulting from an even 1% change in interest rates for the entire yield curve.

The tables below summarize the impact on the statement of profit or loss and equity of stress-testing scenarios assuming a possible increase or decrease in interest rates by 100 basis points. Negative amounts in the table reflect a potential net decrease in the statement of profit or loss or equity, while positive amounts reflect a potential net increase.

	2020		
Currency	***Increase in basis points***	***Sensitivity of net interest income***	***Sensitivity of equity***
RUB	100	57,357	45,886
EUR	100	–	–
JPY	100	–	–

	2020		
Currency	***Decrease in basis points***	***Sensitivity of net interest income***	***Sensitivity of equity***
RUB	100	(57,357)	(45,886)
EUR	100	–	–
JPY	100	–	–

	2019		
Currency	***Increase in basis points***	***Sensitivity of net interest income***	***Sensitivity of equity***
RUB	100	63,267	50,614
EUR	100	–	–
JPY	100	–	–

	2019		
Currency	***Decrease in basis points***	***Sensitivity of net interest income***	***Sensitivity of equity***
RUB	100	(63,267)	(50,614)
EUR	100	–	–
JPY	100	–	–

(thousands of Russian rubles)

18. Risk management (continued)

18.5 Operational risk

Operational risk (risk, threat) is the risk of direct and/or indirect loss arising from:

- Imperfections or errors in internal processes within the Bank;
- Actions of employees or other persons (through inadvertent or deliberate actions or omission to act);
- Failures and weaknesses of information, technological or other systems;
- Impact of external events.

Operational risk is classified by the following types depending on the Bank's processes:

- Personnel risk;
- (Economic, physical, information) security risk;
- In-house fraud risk;
- Third-party fraud risk;
- IT risk;
- Going concern risk;
- Project management risk;
- Legal risk;
- Process error risk related to the design, review, adaptation and acceptance of assets and risk assessment techniques and quantitative models (hereinafter, the "model risk").

Strategic risk and reputational risk are not part of operational risk.

The operational risk management system is implemented using the key risk management principles provided below.

- It is based on the economic expedience principle. Following the operational risk assessment, the Bank decides whether to minimize operational risk or accept it because operational risk mitigation measures are either economically inexpedient or costly;
- It is implemented on an ongoing basis by all business units and employees of the Bank;
- It imposes responsibility on the Bank's Board of Directors for the design of an efficient operational risk management system and the procedure for the Bank's business units to interact in the course of managing the Bank's operational risk;
- It requires regular reporting on the level of operational risk to the Internal Control, Operational Risks and Compliance Committee of the Management Board and the Board of Directors in accordance with this Regulation;
- It requires regular identification, assessment, monitoring, control and mitigation of operational risks, including internal assessments of risks inherent in the Bank's products, business lines, automated systems and business processes, both existing and planned;

The key operational risk management stages include:

- Identification of operational risks;
- Assessment of operational risks;
- Mitigation of operational risks;
- Operational risks monitoring;
- Control over operational risks.

(thousands of Russian rubles)

18. Risk management (continued)

18.5 Operational risk (continued)

Identification of operational risk is the fundamental element of an efficient operational risk management system. Operational risk events are continually identified by the Bank's structural units and should be registered with the Analytical Operational Risks Database.

Operational risks are assessed through a comprehensive review of key operational risk parameters while performing internal operational risk assessments, creating (upgrading) new banking products and implementing information systems.

To mitigate operational risks, the Bank's internal documents provide for a number of techniques and procedures applied at various banking service stages, as well as approaches to management and measures to prevent/reduce operational risks in each risk category.

Once operational risks are identified and assessed or an operational risk event has occurred, the Bank decides on a set of necessary measures to be taken.

The level of operational risk is regularly monitored through regular analysis of data on losses caused by operational risks. Other operational risk monitoring measures include the analysis of the status of remedial action plans based on the results of reviews performed by the Bank's structural units.

For operational risk monitoring purposes, the Bank has introduced a system of key risk indicators; it also monitors the risk appetite indicators set in advance.

Those indicators are monitored on a continuous basis by the responsible business units of the Bank in accordance with the Policy on Managing Capital Adequacy and Risk Appetite of JSC RN Bank.

Results of operational risk monitoring are reported to the Internal Control, Operational Risks and Compliance Committee of the Management Board.

The operational risk control system functions within the Bank's internal control.

The Bank's operational risk control elements include:

- Control over the Bank's compliance with internal rules and procedures for conducting banking operations and other transactions;
- Control over the principles of segregation of duties and accountability for banking operations and other transactions;
- Control over the compliance with the limits set on banking operations and other transactions;
- Regular reconciliation of primary documents and personal accounts with regard to banking operations and other transactions;
- Control over the compliance with the established procedure that regulates access to the Bank's information and material assets;
- Analysis of system errors arising in the course of the Bank's activities that cause or may result in operational risk losses for the purpose of preventing errors in future;
- Organization of educational courses and staff retraining programs.

Besides monitoring key risk indicators, the Bank performs stress tests in accordance with the scenarios approved by the Bank's Board of Directors. The major purpose of stress tests is to assess the effect of the derived values on the Bank's financial result, equity and capital adequacy ratio. The results of stress tests are reported to the Bank's governance bodies.

In addition, the Bank has designed the BC/DR Plan to minimize operational risk. As a rule, the Bank tests the BC/DR Plan annually in accordance with the Bank's internal regulations.

(thousands of Russian rubles)

18. Risk management (continued)

18.5 Operational risk (continued)

To ensure an efficient operational risk management system, the Bank has established the procedure of communicating and reporting to the Bank's governance bodies. For example, the Internal Control, Operational Risks and Compliance Committee of the Management Board regularly considers various operational risk management issues, including the action plan and recommendations to minimize operational risk, analysis of operational risk events, results of the BC/DR Plan testing, first level control results, results of monitoring key risk indicators, risk appetite, stress tests, and other issues. Reports on operational risk management are prepared for the Board of Directors on a quarterly basis.

Information on the identified instances of external fraud, respective measures taken, number of fraud instances prevented by the Bank, their reasons and respective measures taken are considered at the meetings of the working group of the Operational Committee of the Bank's Management Board on a monthly basis. Data on risk assessments and losses incurred enable the identification of risk concentrations and the subsequent development of measures to reduce the Bank's operational risk level. Measures to reduce risks are systemic in nature and focus on the improvement of the existing processes and transaction technologies. The implementation status and the level of residual risk are regularly monitored by both the Bank's structural units and its management and collegial governance bodies.

The Bank determines capital requirements with regard to operational risk following the requirements in the Regulation of the Bank of Russia *On the Procedure for Calculating Operational Risk Exposure*.

18.6 Liquidity risk

Liquidity risk is the risk of loss as a result of the Bank's inability to ensure fulfillment of its liabilities in full. Liquidity risk results from an improper balance between the Bank's financial assets and financial liabilities and/or an unforeseen need for immediate and simultaneous discharge of its financial obligations.

The key objective of liquidity risk management and control is to build and improve the mechanism to manage interbank liquidity which would enable addressing the following fundamental tasks:

- Prevent liquidity deficit;
- Achieve the minimal level of excessive liquidity;
- Maintain the optimal balance between liquidity and profitability.

In order to optimize liquidity management, the Bank differentiates between the management of instant, current and long-term liquidity. In doing so, the Bank is guided by statutory liquidity ratios established by the Bank of Russia and strictly complies with the related requirements.

As at 31 December, the ratios were as follows:

	2020, %	***2019, %***
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand; statutory ratio >=15%)	247.44	244.24
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days; statutory ratio >=50%)	226.78	130.19
N4 "Long-term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year; statutory ratio <=120%)	87.61	67.33

The Bank applies the following key methods to manage liquidity risk:

- Analysis of actual values and movements in statutory liquidity ratios;
- Forecasting the effect of transactions performed on statutory ratios;
- Gap analysis of assets and liabilities maturities based on the earliest possible maturities.

(thousands of Russian rubles)

18. Risk management (continued)

18.6 Liquidity risk (continued)

For those purposes, the Treasury:

- Receives information from the Bank's business units on the liquidity of their financial assets and liabilities and projected cash flows arising from projected future business;
- Monitors the liquidity position on a daily basis;
- Performs regular stress tests under a variety of scenarios covering both normal and more severe market conditions;
- Reports to management on the liquidity position and subsequently communicates the information to the Bank's Board of Directors;
- Combines a conservative approach, whereby it ensures availability of sufficient liquid assets to meet its obligations to customers when due, and an active approach, which requires seeking for borrowings in financial markets provided the Bank has sufficient loan limits.

In the event of any deterioration of the Bank's ability to refinance the existing resource base using the available loan limits, or upon any other force majeure circumstances, the Bank will obtain support from entities related to its shareholder. The support can take the form of direct financial aid (interbank loans and corporate deposits), access to financial expertise and extensive global practices, including the experience of operating under stressed economic conditions and crisis management techniques, and comprehensive (legal, in particular) information support.

To cover technical liquidity gaps, the Bank can use intraday credits of the Bank of Russia collateralized by securities. In terms of obligatory reserves, the Bank can keep their average amount on a correspondent account with the Bank of Russia, thus ensuring a substantial average balance on the correspondent account at the close of business used to maintain liquidity together with deposits placed with the Bank of Russia.

To support an efficient liquidity risk management and control system, the Bank places available funds for reasonable periods determined in view of the known structure of liabilities and the projected structure of assets.

To ensure the liquidity risk management and control, the Bank has formalized the Liquidity Policy, the Funding and Asset and Liability Management Policy, the Stress Testing Regulation, the Procedure for Liquidity Management in Crisis Situations, the Financial Stability Recovery Plan, and other regulations.

Analysis of financial liabilities by remaining contractual maturity

The table below summarizes the maturity profile of the Bank's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay; therefore, the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31 December 2020	*On demand and less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Liabilities							
Debt securities issued	82,911	497,860	10,314,212	30,126,059	–	–	**41,021,042**
Amounts due to credit institutions	–	7,421,725	23,575,479	2,303,067	–	–	**33,300,271**
Amounts due to the Bank of Russia	–	–	–	69,419	–	–	**69,419**
Deliverable derivative financial instruments:	–	–	–	–	–	–	**–**
- Cash inflow	–	–	(377,055)	(6,751,027)	–	–	**(7,128,082)**
- Cash outflow	91,445	–	283,161	6,821,089	–	–	**7,195,695**
Amounts due to customers	3,811,871	204,551	7,757,841	–	–	–	**11,774,263**
Other financial liabilities	48,611	617,815	–	2,273	–	–	**668,699**
Total financial liabilities	**4,034,838**	**8,741,951**	**41,553,638**	**32,570,880**	**–**	**–**	**86,901,307**

(thousands of Russian rubles)

18. Risk management (continued)

18.6 Liquidity risk (continued)

31 December 2019	*On demand and less than 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Liabilities							
Debt securities issued	135,905	497,860	8,099,978	36,999,795	–	–	**45,733,538**
Amounts due to credit institutions	–	8,571,332	19,476,709	6,128,891	–	–	**34,176,932**
Deliverable derivative financial instruments:	–	–	–	–	–	–	**–**
- Cash inflow	(187,005)	–	(597,305)	(10,606,191)	–	–	**(11,390,501)**
- Cash outflow	14,740	–	176,304	10,029,219	–	–	**10,220,263**
Amounts due to customers	3,507,035	1,511,554	946,996	6,029,032	–	–	**11,994,617**
Other financial liabilities	1,174,830	–	–	–	–	–	**1,174,830**
Total financial liabilities	**4,645,505**	**10,580,746**	**28,102,682**	**48,580,746**	**–**	**–**	**91,909,679**

Risks assumed by the Bank

As at 31 December 2020, the Bank had the following liquidity level:

	On demand and less than 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Assets							
Cash and cash equivalents	7,149,759	–	–	–	–	–	**7,149,759**
Obligatory reserve with the Bank of Russia	28,806	56,006	271,942	179,450	–	–	**536,204**
Derivative financial assets	(181,183)	177,878	3,208,567	332,077	–	–	**3,537,339**
Loans to customers	2,133,152	22,468,989	20,091,296	47,848,726	3,372	–	**92,545,535**
Investment securities available for sale	–	–	993,084	–	–	–	**993,084**
Property and equipment	–	–	–	–	–	179,251	**179,251**
Intangible assets	–	–	–	–	–	241,812	**241,812**
Income tax	–	–	–	–	–	–	**–**
Deferred income tax assets	–	–	–	738,894	–	–	**738,894**
Other assets	115,587	45,854	168,172	4,379	–	–	**333,992**
Total assets	**9,246,121**	**22,748,727**	**24,733,061**	**49,103,526**	**3,372**	**421,063**	**106,255,870**
Liabilities							
Debt securities issued	80,197	318,200	8,340,064	28,000,000	–	–	**36,738,461**
Amounts due to the Bank of Russia	–	–	–	62,514	–	–	**62,514**
Amounts due to credit institutions	–	7,206,790	22,864,064	2,093,604	–	–	**32,164,458**
Derivative financial liabilities	91,161	–	(93,071)	66,918	–	–	**65,008**
Amounts due to customers	3,877,614	202,571	7,676,532	–	–	–	**11,756,717**
Current income tax liability	–	58,795	–	–	–	–	**58,795**
Other liabilities	391,207	813,443	1,115,148	173,351	–	–	**2,493,149**
Total liabilities	**4,440,179**	**8,599,799**	**39,902,737**	**30,396,387**	**–**	**–**	**83,339,102**
Net position	**4,805,942**	**14,148,928**	**(15,169,676)**	**18,707,139**	**3,372**	**421,063**	**22,916,768**
Accumulated net position	**4,805,942**	**18,954,870**	**3,785,194**	**22,492,333**	**22,495,705**	**22,916,768**	

According to the data above, the planned accumulated net liquidity position of the Bank is sufficient to discharge all its liabilities.

(thousands of Russian rubles)

18. Risk management (continued)

18.6 Liquidity risk (continued)

As at 31 December 2019, the Bank had the following liquidity level:

	On demand and less than 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Later than 5 years*	*No maturity*	*Total*
Assets							
Cash and cash equivalents	5,843,069	–	–	–	–	–	**5,843,069**
Obligatory reserve with the Bank of Russia	23,059	65,320	182,373	219,698	–	–	**490,450**
Derivative financial assets	(119,595)	110,608	320,908	556,402	–	–	**868,323**
Loans to customers	3,603,049	15,010,615	43,927,286	34,688,758	387,709	–	**97,617,417**
Investment securities available for sale	–	–		1,004,477	–	–	**1,004,477**
Property and equipment	–	–	–	–	–	224,652	**224,652**
Intangible assets	–	–	–	–	–	146,025	**146,025**
Income tax	–	–	208,462	–	–	–	**208,462**
Deferred income tax assets	–	–	–	660,193	–	–	**660,193**
Other assets	52,757	29,396	114,986	4,380	–	–	**201,519**
Total assets	**9,402,339**	**15,215,939**	**44,754,015**	**37,133,908**	**387,709**	**370,677**	**107,264,587**
Liabilities							
Debt securities issued	131,450	316,730	11,007,520	28,431,228	–	–	**39,886,928**
Amounts due to credit institutions	–	8,469,034	18,727,071	5,798,687	–	–	**32,994,792**
Derivative financial liabilities	173,661	–	404,857	(424,454)	–	–	**154,064**
Amounts due to customers	3,503,460	1,500,034	1,007,948	5,838,716	–	–	**11,850,158**
Current income tax liability	–	–	–	–	–	–	**–**
Other liabilities	1,479,795	315,726	997,013	178,244	–	–	**2,970,778**
Total liabilities	**5,288,366**	**10,601,524**	**32,144,409**	**39,822,421**	**–**	**–**	**87,856,720**
Net position	**4,113,973**	**4,614,415**	**12,609,606**	**(2,688,513)**	**387,709**	**370,677**	**19,407,867**
Accumulated net position	**4,113,973**	**8,728,388**	**21,337,994**	**18,649,481**	**19,037,190**	**19,407,867**	

18.7 Concentration risk

Concentration risk is the aggregate maximum level of concentration risk that arises because a credit institution is exposed to major risks which, when realized, may cause significant losses and these losses may jeopardize the credit institution's solvency and ability to continue its operations.

Pursuant to statutory regulations, the Bank manages concentration risks using limits that represent the maximum risk it is ready to accept for:

- Individual counterparties and groups of related counterparties;
- Individual counterparties and groups of counterparties related to the Bank;
- Economic sector;
- Groups of counterparties within one economic sector;
- Principal activities;
- Concentration of asset types;
- Concentration of liability types;
- Concentration of funding sources.

The Bank has set reference values and limits on concentration risk indicators, which, when exceeded, require taking action (management action) to reduce risks or mitigate the potential adverse consequences thereof.

(thousands of Russian rubles)

18. Risk management (continued)

18.8 Legal risk

Legal risk, pursuant to Instructive Regulation No. 3624-U of the Bank of Russia *On Requirements for Risk and Capital Management Systems of a Credit Institution and Banking Group* of 15 April 2015, forms part of operational risk and is the risk of the Bank incurring losses as a result of the following:

- Non-compliance by the Bank with regulatory legal acts and contractual requirements;
- Legal errors in operations;
- Weaknesses of the legal system (contradictory legislation, lack of regulation for certain issues arising in the course of the Bank's activities);
- Failure by counterparties to comply with regulatory and contractual requirements.

The Bank follows the requirements of Russian laws in its operations. To manage legal risk, the Bank:

- Monitors legal and regulatory developments that are related to or affect the Bank's activities;
- Performs legal reviews to monitor compliance of the Bank's internal regulations and contractual arrangements with the effective laws and regulations;
- Analyzes and reviews current arbitration practices on an ongoing basis;
- Analyzes and summarizes legal opinions of supervisory authorities on matters related to legal risk mitigation;
- Analyzes and monitors the activities of counterparties.

The objective of legal risk management is to ensure sustainable growth of the Bank under its development strategy and compliance of its activities and products with legislative requirements and law enforcement practice.

The probability of legal risk realization is assessed as moderate. The Bank forecasts no extraordinary legal risks that may significantly impact its financial and business operations.

Current and potential claims against the Bank

The Bank makes a provision for potential litigation costs for non-credit-related contingent liabilities, if the analysis of all circumstances and conditions shows a likelihood of more than 50% that claims will be raised against the Bank for non-fulfillment or improper fulfillment of its obligations, including mandatory payments (such as litigation costs).

As at 31 December 2020, the Bank had no uncovered risks relating to court proceedings that may impact the Bank's future financial and business performance.

As at 1 January 2021, the Bank made a provision of RUB 20 million for litigations with individuals where it acts as a defendant (1 January 2020: RUB 10.7 million). The Bank does not think it is probable that future litigations with individuals will significantly affect the Bank's financing or operating activities.

18.9 Strategic risk

Strategic risk is a risk of losses which the Bank may incur as a result of mistakes (deficiencies) in making decisions defining the Bank's strategy due to lacking or inadequate accounting for potential threats to the Bank's operations, insufficiently reasoned or incorrect determination of priority areas where the Bank can achieve competitive advantages, lacking or insufficient resources required (financial, material, technical, etc.) or organizational measures (management decisions) which should facilitate achievement of the Bank's strategic objectives.

Strategic risk of the Bank arises from its strategic objectives and business plans, because the success of long-term plans depends on whether management is able to make management decisions in a timely and adequate manner.

The Bank manages this risk by the application of corporate-wide approaches and adequate planning of its activities. The adequacy of the planning system requires the use of various planning scenarios, planning continuity, centralization of methodological and control functions for planning purposes, goals precision, as well as personal responsibility for the goals and execution control.

The Management Board formulates the development strategy of the Bank for a period from three to five years, as well as a business plan for the current financial year, which are approved by the Board of Directors. The Management Board is informed on the business plan implementation for the current financial year on a monthly basis and the development strategy implementation on an annual basis. The Management Board makes amendments to the strategy and (or) the business plan, if necessary, which are subsequently submitted for approval by the Board of Directors.

(thousands of Russian rubles)

18. Risk management (continued)

18.10 Reputational risk

Reputational risk is a risk of loss arising from deterioration of the public opinion related to the Bank's financial stability, quality of its services and nature of its business in general resulting in loss of clients (counterparties).

The Bank has a solid business reputation, promotes a positive image of the Bank, quality of its services and nature of its business in general, based on the actual operating results. The risk that the Bank may incur losses as a result of business reputation deterioration is assessed by the Management of the Bank as minimal.

18.11 Country risk

Country risk (including non-payment risk) is a risk that the Bank may incur losses as a result of foreign counterparties (legal entities or individuals) failing to meet their obligations or doing that improperly due to economic, political or social changes or because the currency of a monetary liability may be inaccessible to a counterparty due to the specifics of the national legislation (irrespective of the counterparty's financial position).

The Bank is a resident of the Russian Federation and operates in the Russian Federation. The Bank's is actively engaged with the Renault-Nissan Alliance in Russia, which is also exposed to country risk inherent in its operations in the Russian Federation.

The level of country risk of the Russian Federation is driven by a number of factors, including the following:

- Social, economic and political situation in the country;
- Economic growth rates in Russia and movements in major macroeconomic measures (including prices for energy resources);
- Fiscal policies;
- External factors (including global economy changes that may have a substantial impact on the Russian economy as a result of the inherent economic globalization).

Most of the above risk factors, given their global nature and scale, are beyond the Bank's control perimeter. However, the Bank if financially stable enough to overcome mid-term negative economic developments in the Russian Federation; moreover, in the event of a substantial adverse change in its operating environment, the Bank can rely on the help of entities related to its shareholder.

The Bank engages in transactions with non-resident counterparties registered in the EU, the USA and Japan. Given the insignificant volume of such transactions, the related country risk is immaterial.

19. Fair value measurements

Fair value hierarchy

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs that are significant to the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques for which some of the inputs that are significant to the recorded fair value are not based on observable market data.

(thousands of Russian rubles)

19. Fair value measurements (continued)

Fair value hierarchy (continued)

As at 31 December 2020, fair value hierarchy disclosures are as follows:

	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value				
Investment securities − debt securities at FVOCI	993,084	–	–	**993,084**
Derivative financial instruments	–	3,537,339	–	**3,537,339**
Total assets measured at fair value	**993,084**	**3,537,339**	**–**	**4,530,423**
Assets for which fair values are disclosed				
Cash and cash equivalents	–	7,149,759	–	**7,149,759**
Amounts due from credit institutions	–	–	–	**–**
Loans to customers	–	–	87,935,350	**87,935,350**
Other assets	–	–	132,558	**132,558**
Total assets for which fair values are disclosed	**–**	**7,149,759**	**88,067,908**	**95,217,667**
Liabilities measured at fair value				
Derivative financial instruments	–	65,008	–	**65,008**
Total liabilities measured at fair value	**–**	**65,008**	**–**	**65,008**
Liabilities for which fair values are disclosed				
Debt securities issued	37,396,039	–	–	**37,396,039**
Amounts due to the Bank of Russia	–	–	61,319	**61,319**
Amounts due to credit institutions	–	–	32,172,701	**32,172,701**
Amounts due to customers	–	–	11,756,717	**11,756,717**
Other liabilities	–	–	668,699	**668,699**
Total liabilities for which fair values are disclosed	**37,396,039**	**–**	**44,659,436**	**82,055,475**

(thousands of Russian rubles)

19. Fair value measurements (continued)

Fair value hierarchy (continued)

As at 31 December 2019, fair value hierarchy disclosures are as follows:

	Quoted prices in active markets (Level 1)	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value				
Investment securities − debt securities at FVOCI	1,004,477	−	−	**1,004,477**
Derivative financial instruments	−	868,323	−	**868,323**
Total assets measured at fair value	**1,004,477**	**868,323**	**−**	**1,872,800**
Assets for which fair values are disclosed				
Cash and cash equivalents	−	5,843,069	−	**5,843,069**
Amounts due from credit institutions	−	−	−	**−**
Loans to customers	−	−	93,551,832	**93,551,832**
Other assets	−	−	142,621	**142,621**
Total assets for which fair values are disclosed	**−**	**5,843,069**	**93,694,453**	**99,537,522**
Liabilities measured at fair value				
Derivative financial instruments	−	154,064	−	**154,064**
Total liabilities measured at fair value	**−**	**154,064**	**−**	**154,064**
Liabilities for which fair values are disclosed				
Debt securities issued	40,266,743	−	−	**40,266,743**
Amounts due to credit institutions	−	−	33,046,754	**33,046,754**
Amounts due to customers	−	−	12,003,498	**12,003,498**
Other liabilities	−	−	1,174,830	**1,174,830**
Total liabilities for which fair values are disclosed	**40,266,743**	**−**	**46,225,082**	**86,491,825**

Financial instruments not recorded at fair value in the statement of financial position

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not recorded at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2020			*31 December 2019*		
	Carrying amount	*Fair value*	*Unrecognized gain/(loss)*	*Carrying amount*	*Fair value*	*Unrecognized gain/(loss)*
Financial assets						
Cash and cash equivalents	7,149,759	7,149,759	−	5,843,069	5,843,069	−
Amounts due from credit institutions	−	−	−	−	−	−
Loans to customers	92,545,535	87,935,350	(4,610,185)	97,617,417	93,551,832	(4,065,585)
Other assets	132,558	132,558	−	142,621	142,621	−
Total financial assets	**99,827,852**	**95,217,667**	**(4,610,185)**	**103,603,107**	**99,537,522**	**(4,065,585)**
Financial liabilities						
Amounts due to the Bank of Russia	62,514	61,319	1,195	−	−	−
Amounts due to credit institutions	32,164,457	32,172,701	(8,244)	32,994,792	33,046,754	(51,962)
Amounts due to customers	11,756,717	11,756,717	−	11,850,158	12,003,498	(153,340)
Debt securities issued	36,738,461	37,396,039	(657,578)	39,886,928	40,266,743	(379,815)
Other liabilities	668,699	668,699	−	1,174,830	1,174,830	−
Total financial liabilities	**81,390,848**	**82,055,475**	**(664,627)**	**85,906,708**	**86,491,825**	**(585,117)**
Total unrecognized change in fair value			**(5,274,812)**			**(4,650,702)**

(thousands of Russian rubles)

19. Fair value measurements (continued)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than one year), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

The fair value of instruments that have been unquoted for over a year, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the Bank of Russia and other credit institutions, other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

20. Segment reporting

The Bank has determined operating segments based on its organizational structure. Information on operating segments is presented in the same manner as internal reports presented to the Management Board.

For the purposes of this disclosure, “operating segments” are determined by the Bank based on the definition specified in IFRS 8 *Operating Segments*.

For management purposes, the Bank’s activities are divided into three business segments:

- Corporate banking − provision of financing to car dealers, maintenance of term deposits placed by corporate customers;
- Retail banking − provision of loans to retail customers (car loans) and rendering related financial services;
- In-house activities − interbank lending, trading with securities, foreign currencies and derivative financial instruments, and other internal transactions.

Management monitors operating results separately for each business unit for the purpose of making decisions on the resource allocation and performance assessment. Transfer prices for transactions between operating segments are set on an arm’s length basis in a manner similar to transactions with third parties.

Information on each segment is reviewed using the methods similar to those applied in making decisions on the resource allocation between segments and performance assessment.

The breakdown of the Bank’s assets and liabilities by operating segment in 2020 and 2019 is shown in the table below.

	31 December 2020	***31 December 2019***
Assets		
Retail banking	65,064,312	56,667,541
Corporate banking	27,572,344	40,949,876
In-house activities	13,619,214	9,647,170
Total assets	**106,255,870**	**107,264,587**
Liabilities		
Retail banking	2,829,945	2,559,517
Corporate banking	493,955	1,133,472
In-house activities	80,015,202	84,163,733
Total liabilities	**83,339,102**	**87,856,722**

(thousands of Russian rubles)

20. Segment reporting (continued)

The analysis of the Bank's income and expenses by segment for the year ended 31 December 2020 and 31 December 2019 is shown in the table below.

	2020				*2019*			
	Retail banking	*Corporate banking*	*In-house activities*	*Total*	*Retail banking*	*Corporate banking*	*In-house activities*	*Total*
Revenue								
Interest income	8,539,387	2,533,074	454,568	**11,527,029**	8,015,674	4,162,039	516,624	**12,694,337**
Fee and commission income	0	137,698	0	**137,698**	–	146,682	–	**146,682**
Total revenue	**8,539,387**	**2,670,772**	**454,568**	**11,664,727**	**8,015,674**	**4,308,721**	**516,624**	**12,841,019**
Expenses								
Interest expense	(3,790,648)	(1,078,465)	(392,449)	**(5,261,562)**	(3,964,299)	(1,951,708)	(1,348,527)	**(7,264,534)**
Fee and commission expense	(147,081)	–	–	**(147,081)**	(162,542)	–	–	**(162,542)**
Allowance for impairment	(626,571)	453,210	(11)	**(173,372)**	(495,395)	(126,725)	583	**(621,537)**
Non-interest income (expense)	–	–	(56,951)	**(56,951)**	–	–	834,055	**834,055**
Other administrative expenses	(1,177,489)	(418,055)	–	**(1,595,544)**	(1,108,721)	(532,976)	–	**(1,641,697)**
Total expenses	**(5,741,789)**	**(1,043,310)**	**(449,411)**	**(7,234,510)**	**(5,730,957)**	**(2,611,409)**	**(513,889)**	**(8,856,255)**
Profit/(loss) before income tax expense	**2,797,598**	**1,627,462**	**5,157**	**4,430,217**	**2,284,717**	**1,697,312**	**2,735**	**3,984,764**
Income tax expense	(551,424)	(374,059)	–	**(925,483)**	(486,569)	(330,065)	–	**(816,634)**
Total net profit for the year	**2,246,174**	**1,253,403**	**5,157**	**3,504,734**	**1,798,148**	**1,367,247**	**2,735**	**3,168,130**

In 2020 and 2019, the Bank had no revenue from transactions with a single external customer or counterparty that would amount to 10% or more of its total revenue.

21. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

21.1 Transactions with the members of the Board of Directors and the Management Board

The total compensations to the members of the Board of Directors and the Management Board included in personnel expenses in 2020 and 2019 amounted to RUB 104,191 thousand and RUB 77,670 thousand, respectively.

21.2 Transactions with related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions.

The Bank entered into transactions with related parties as part of its normal business. There is no increased risk of arrears or other unfavorable events resulting from such transactions.

The Bank's related parties are as follows:

As a result of a share sale and purchase transaction, BARN B.V., a private limited liability company (the Kingdom of the Netherlands) became the Bank's sole shareholder on 29 August 2013. The ownership interest in the Bank's share capital is 100.00%.

The ultimate owners of the Bank's shareholder are:

- UniCredit S.p.A., Italy − 40%;
- Renault S.A., France − 30%;
- Nissan Motor Co., Ltd., Japan − 30%.

(thousands of Russian rubles)

21. Related party disclosures (continued)

21.2 Transactions with related parties (continued)

The shares above do not include the ownership of Renault S.A., France, in the share capital of Nissan Motor Co., Ltd., Japan, which was 43% as at 31 December 2020.

	31 December 2020	*31 December 2019*
Shareholders	***BARN B.V.***	***BARN B.V.***
Transactions with other related parties	JSC UniCredit Bank RCI Banque S.A. Nissan Financial Services Co, Ltd. RNGM S.A. LLC Nissan Manufacturing RUS LLC RNL Leasing UniCredit S.p.A CJSC Renault Russia DIAC	JSC UniCredit Bank RCI Banque S.A. Nissan Financial Services Co, Ltd. RNGM S.A. LLC Nissan Manufacturing RUS LLC RN Finance RUS JSC NPF Rostec CJSC Renault Russia

The outstanding balances of, and gains and losses resulting from, transactions with related parties are presented below:

	31 December 2020		*31 December 2019*	
	Shareholder	***Other related parties***	***Shareholder***	***Other related parties***
Assets				
Cash and cash equivalents	–	23,508	–	12,178
Loans to customers	–	239,912	–	846,581
Financial assets at fair value through profit or loss	–	883,630	–	336,083
Other assets	–	38	–	–
Total assets	**–**	**1,147,088**	**–**	**1,194,842**
Liabilities				
Amounts due to credit institutions	–	15,598,132	–	15,453,292
Financial liabilities at fair value through profit or loss	–	23,931	–	60,779
Amounts due to customers	–	7,215,954	–	5,724,072
Other liabilities	–	516	–	1,306
Total liabilities	**–**	**22,838,533**	**–**	**21,239,449**
Commitments and guarantees received	–	215,085	–	177,735

	2020		*2019*	
	Shareholder	***Other related parties***	***Shareholder***	***Other related parties***
Interest income	–	1,774,332	–	2,851,871
Interest expense	–	(1,432,442)	–	(2,648,054)
Fee and commission income	–	73,046	–	113,627
Fee and commission expense	–	(39,019)	–	(127,423)
Result of operations with financial instruments	–	116,548	–	(99,439)
Other operating income	–	2,782	–	735
Other operating expenses	–	(58,472)	–	(53,172)
Net gains/(losses) from foreign currencies	–	640,254	–	(308,814)

(thousands of Russian rubles)

22. Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The Bank's capital adequacy is monitored using the ratios established by the Bank of Russia.

The primary objective of capital management is monitoring compliance of the Bank's capital with external requirements and maintenance of robust credit ratings and capital ratios to ensure the Bank's operation and maximize shareholder value.

In 2020, the Bank adhered to the same capital management policies as in 2019.

In the third quarter of 2020, based on the decision of the Board of Directors made on 10 July 2020, the Bank adopted a finalized approach in calculating credit risk for the purpose of capital adequacy ratios on accordance with Instruction No. 199-I.

Capital adequacy ratio set by the Bank of Russia

In the event a bank does not comply with the prudential ratio for a minimum of six business days, in aggregate, within any 30 consecutive business days, the Bank of Russia may take measures stipulated in Article 74 of the Federal Law *On the Central Bank of the Russian Federation (the Bank of Russia)*.

When planning its future activities, the Bank assesses its capital adequacy by monitoring compliance with the prudential ratios N1.0, N1.1 and N1.2 of the planned ratios as adjusted for the scope of the Bank's activities and the level of risk assumed on the planned lending transactions in accordance with Basel III regulations.

Capital adequacy ratio set by the Bank of Russia

Under the requirements set by the Bank of Russia, banks have to maintain a capital adequacy ratio of at least 8% of risk-weighted assets (the ratio is calculated in the statutory financial statements prepared in accordance with Russian accounting legislation).

	31 December 2020	*31 December 2019*
Core capital, main capital	19,669,565	17,999,467
Additional capital	3,809,452	579,334
Total equity (capital)	**23,479,017**	**18,578,801**
Risk-weighted assets	118,673,467	120,656,986
Core capital adequacy ratio, % (N1.1) (minimum is set at 4.5%)	16.6%	14.9%
Main capital adequacy ratio, % (N1.2) (minimum is set at 6.0%)	16.6%	14.9%
Equity (capital) adequacy ratio, % (N1.0) (minimum is set at 8.0%)	19.8%	15.4%

In 2020 and 2019, the Bank's operations complied with all externally imposed capital requirements.

A capital buffer was set in accordance with Instruction No. 199-I of the Bank of Russia *On Prudential Ratios and Capital Conservation Buffers of Banks with General Licenses* dated 29 November 2019 (hereinafter, "Instruction No. 199-I"). The buffer amounted to 2.5% in the reporting period. During the reporting period, the Bank's actual capital adequacy ratios were in line with the established limits, subject to the capital buffers.

23. Events after the reporting date

On 15 February 2021, Analytical Credit Rating Agency (ACRA) confirmed the national credit rating of the Bank at AAA(RU) with a stable outlook. The ratings of the Bank's exchange-traded bond issues were also confirmed at AAA(RU).

Chairman of the Management Board
Derot Xavier Gerard

АКЦИОНЕРНОЕ ОБЩЕСТВО «РН БАНК» ОГРН 1025500003737 РН Банк Лицензия № 170 ИНН 5503067018 РОССИЯ Г.МОСКВА

Chief Accountant
Daria Vladislavovna Dolgorukova

19 March 2021