

APPROVED  
by the General Shareholders' Meeting of  
CREDIT BANK OF MOSCOW  
Minutes No. \_\_ dated \_\_.\_\_.2021

## **CREDIT BANK OF MOSCOW**

**2020**

## **ANNUAL REPORT**

Correctness of information was confirmed by the Audit  
Panel of CREDIT BANK OF MOSCOW

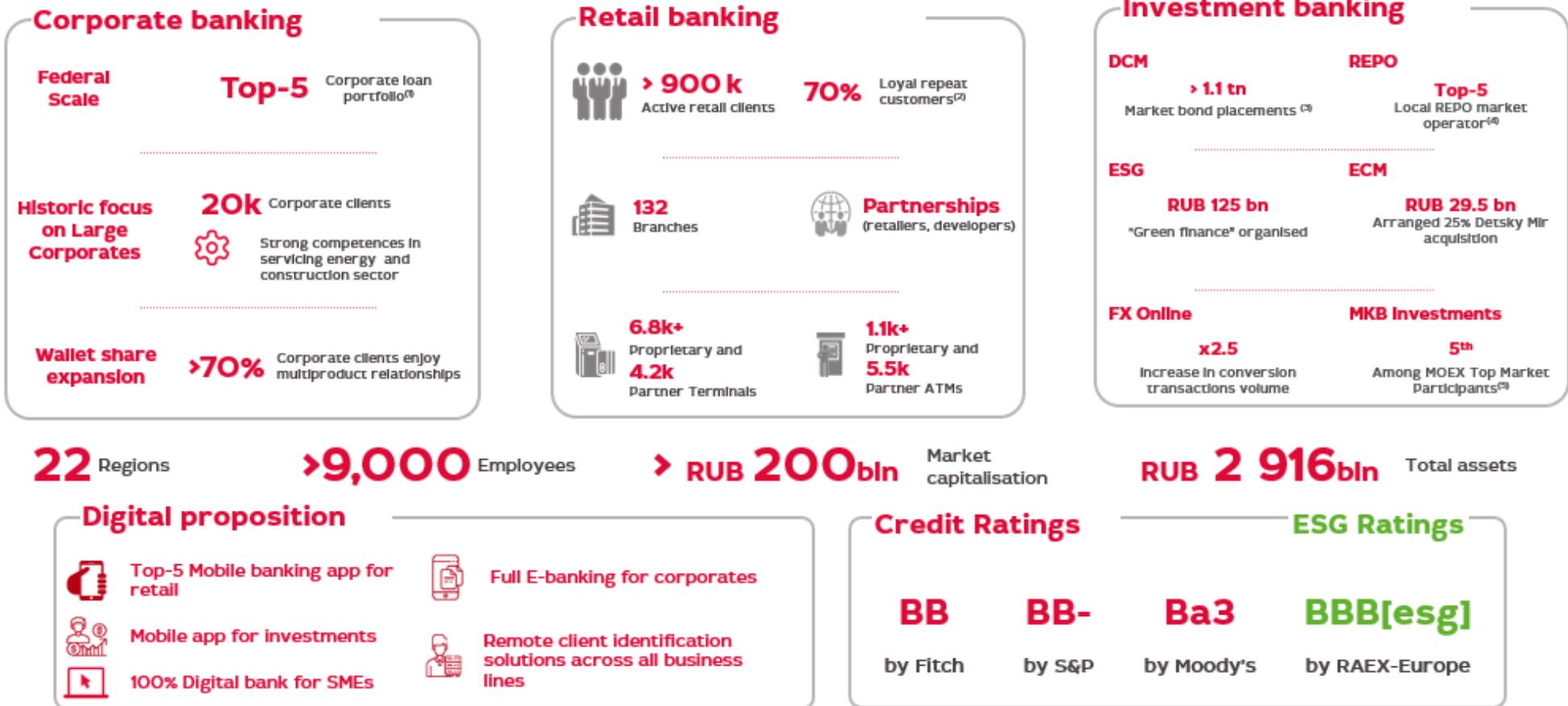
\* Pre-approved  
by the Supervisory Board of  
CREDIT BANK OF MOSCOW  
Minutes No. 18 dated 27.05.2021

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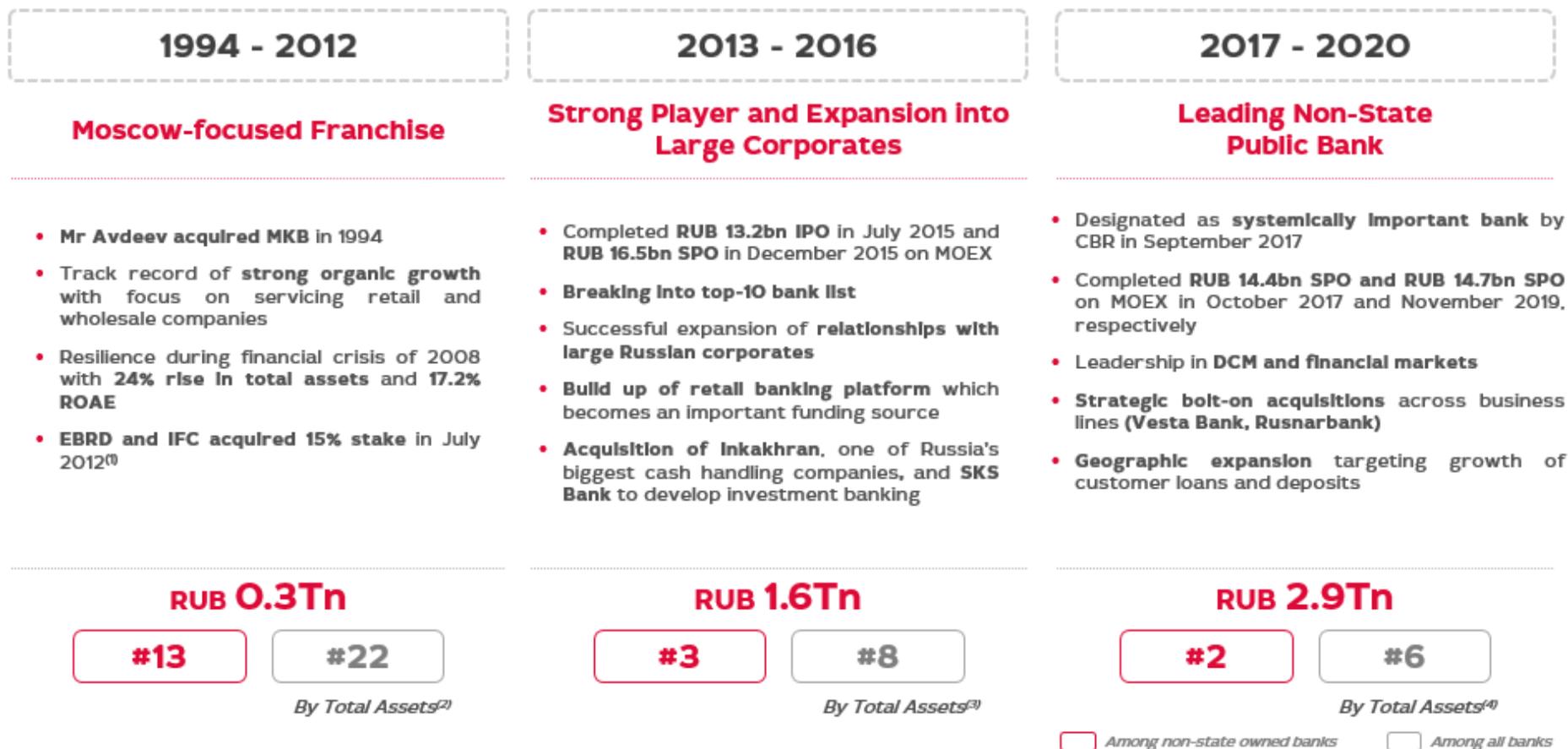
# MKB TODAY

## 1. MKB at a Glance



Source: Company data, IFRS financial statements, public sources, as of 31/12/2020  
 Notes: (1) According to banki.ru rating, as at 1 January 2021 (2) By total assets, as per Banki.ru ranking; including state-owned banks and excluding NCC, as at 1 January 2021. (3) As of 12m2020 according to cbonds.ru. (4) According to MOEX Repo Market Operators ranking as of February 2021. (5) According to MOEX rating of Top Market Participants by monthly trading volume of equities and funds, as of February 2021

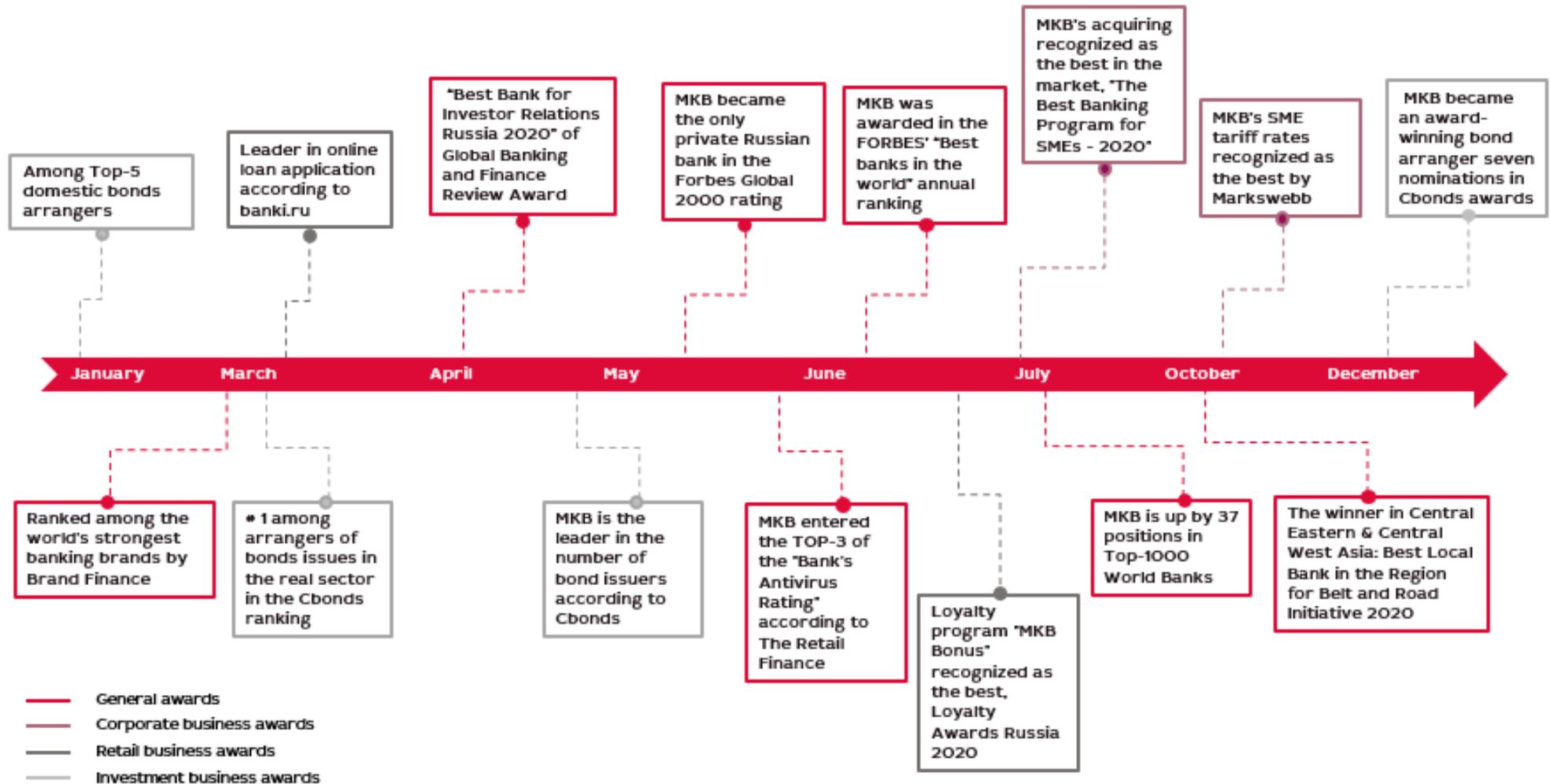
## 2. Milestones



Source: Company data, banki.ru ranking

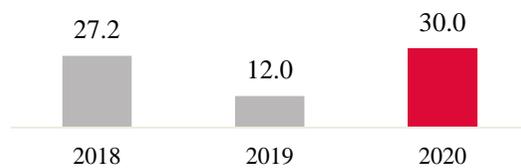
Notes: (1) IFC sold off its remaining stake in MKB in 2017. (2) As at December 2012. (3) As at December 2016. (4) As at December 2020

### 3. Awards and Nominations



#### 4. Key Financial Indicators

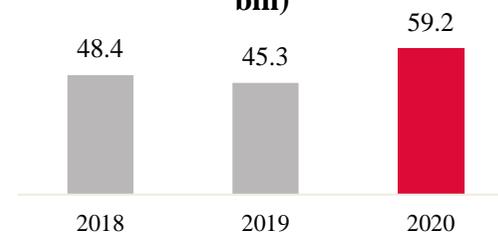
**Net Income (RUB bln)**



**Earnings per Share (RUB)**



**Net Interested Income (RUB bln)**



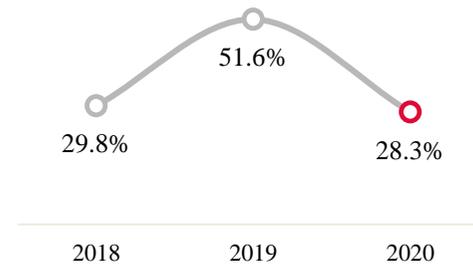
**ROE (%)**



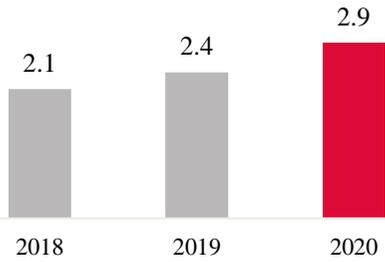
**Net Interest Margin (%)**



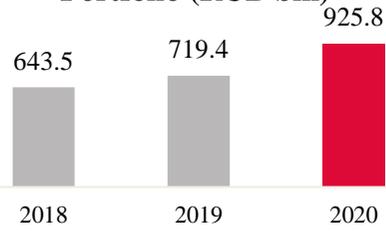
**CTI (%)**



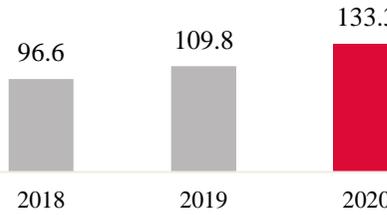
**Assets (RUB tln)**



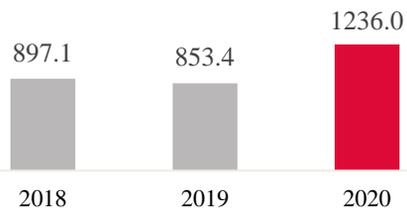
**Gross Corporate Loan Portfolio (RUB bln)**



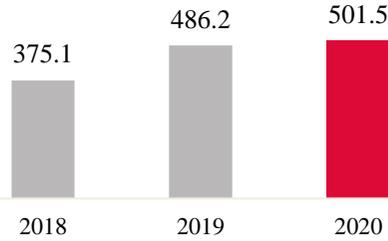
**Gross Retail Loan Portfolio (RUB bln)**



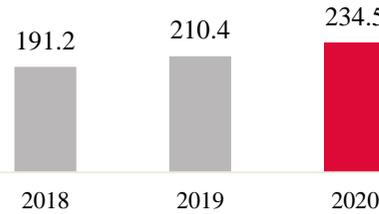
**Corporate Deposits (RUB bln)**



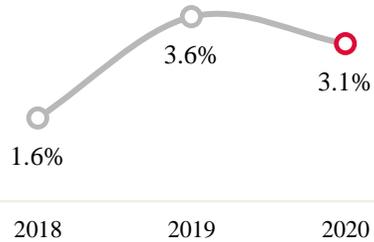
**Retail Deposits (RUB bln)**



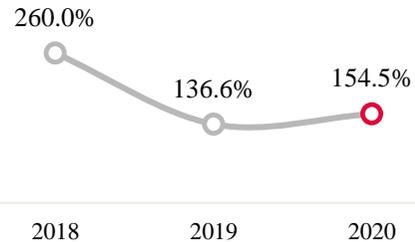
**Equity (RUB bln)**



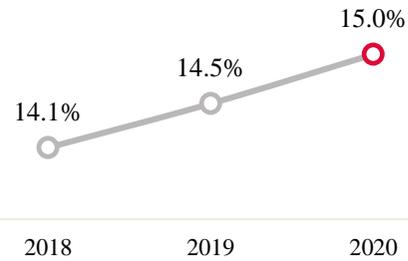
**NPL (%)**



**NPL Coverage (%)**



**CET 1 ratio (%)**



## *5. Mission and Values*

The Bank builds its strategy around the main goal – to be a reliable, helpful and insightful financial assistant for customers and partners, thus promoting the development of each of them and the national economy on the whole.

The Bank undertakes to carry out its business in good faith, applying the seven principles of socially responsible behaviour as outlined in ISO 26000: accountability, transparency, ethical behaviour, respect for stakeholder interests, respect for the rule of law, respect for international norms of behaviour, and respect for human rights.

The Bank's business is hinged on the understanding that social and economic development and the environment are inseparably interrelated.

The Bank's environment protection activities are based on strict compliance with the requirements and standards of applicable Russian environmental laws and international S&E rules and standards.

EBRD's equity participation allows MKB to lead the way in implementing best practices of corporate governance, and guarantees its compliance with certain global and European S&E standards.

Responsible conduct of business, mitigation of environmental impacts and growing contribution to the global sustainable development agenda are among MKB's major priorities, along with the achievement of strong financial results.

MKB sees its **sustainable development** mission in exemplifying sustainable development principles for its customers and partners, guided by social and environmental responsibility principles.

Sustainable development in business means contributing as much as you can to ensuring decent opportunities for the future generations. I.e. this is caring for the future. That's what MKB chose as its green slogan "**Caring for the future**" – to tell the society in whole why it follows sustainable development principles.

## **STRATEGIC REPORT**

### ***1. Address of the Chairman of the Supervisory Board***

DEAR SHAREHOLDERS, INVESTORS, CUSTOMERS, PARTNERS AND EMPLOYEES,

The year 2020 was an extremely challenging year not only for the world and its people, but also for its governments and businesses. However, with the creation and wide distribution of the new vaccines, the worst is hopefully now in the past.

Russia faced its share of challenges in 2020, as did its banking system, yet the year also saw Russian bank assets increase by 16.9% with profits of approximately RUB 1.6 tln. The Bank of Russia provided a steady hand to help guide the Russian banking system through a challenging year, and the economy is rapidly recovering.

MKB likewise successfully navigated 2020, supporting our clients with new programmes and assistance while delivering record performance to our shareholders with the largest profit in our history.

The bank supported its borrowers in a number of critical ways, moving swiftly during the pandemic to provide assistance from state programmes, as well as implement new in-house measures (such as deferral of loan payments, restructuring of loan terms, and enhanced online capabilities) in order to help our clients.

MKB's retail customers can now remotely access 80% of the bank's services, while our business clients can seamlessly transact and utilise financial services and electronic document flow through a new widely-utilised mobile app.

Despite worldwide economic turbulence, MKB placed a senior five-year USD 600 mln Eurobond issue in January 2021, with a coupon rate which is the lowest in MKB's Eurobond history as well as the lowest rate for any Russian or CIS (non-government) bank issue. MKB also signed a USD 350 mln one-year syndicated loan agreement with large European, U.S. and Middle Eastern investors, thus remaining the only CIS financial institution currently in place in the syndicated loan market.

MKB's Supervisory Board focused on improving what is already regarded as one of Russia's best corporate governance systems. The Supervisory Board initiated the review and approval of candidates to the board of directors of subsidiaries and affiliated companies, approved and implemented new policies concerning information security/technology, sustainable development, internal audit, internal controls and ESG.

The Supervisory Board closely followed Bank of Russia recommendations and guidance, adhering to its goal to remain in the top-tier of Russian companies in terms of transparency and "best-practice" adoption of sound corporate governance principles.

MKB's solid positioning in the Russian market as well as its conservative capital position were recognised by the rating agencies, which not only affirmed MKB's already strong ratings (even during Covid), but – in the case of Fitch – upgraded MKB's viability rating, reflecting the continuing reduction in the bank's high-risk legacy assets.

MKB is a "systematically important bank" in Russia and understands the important role it plays in supporting sustainable development. Consistent with this belief, the bank is a leader in "green finance" in Russia. MKB is the first Russian bank to develop an integrated management system to support its ESG framework and to create a loan program directly tied to sustainability. MKB was thus recognised as having the best ESG program among Russian banks by RAEX-Europe in March 2021.

MKB continued to be a good corporate citizen by supporting numerous social programs, working in particular to assist individuals impacted by Covid. The bank adopted policies designed to protect and

assist not only its own staff and clients, but the broader public as well. An example of this commitment is the bank's support of Moscow's Clinical Hospital No. 52, as part of the Initiative (LetsHelpTogether), where the Bank provides funding to buy equipment, medicines, and essential medical supplies to address Covid.

MKB has shown that even during the toughest of years, it can not only do well financially, but also do well for the broader community. This reflects the skill, expertise, and commitment of Management, the investors and shareholders and above all, the employees of MKB who together have made it one of the best banks in Russia.

**Chairman of the Supervisory Board**

**William Forrester Owens**

## 2. *Address of the Chairman of the Management Board*

Dear shareholders, investors, partners and customers,

The year 2020 proved to be one of the hardest in the banking sector's history. Throughout the year, we witnessed the spread of the coronavirus infection across the world, the imposition and lifting of restrictions, and the tightening and easing of isolation measures. With a global drop in demand and related effects, the recovery will not be quick and will depend mostly on social circumstances: the duration of lockdowns, further waves of infection, new strains, the distribution and effectiveness of vaccines.

All developments of 2020 will, in one way or another, be viewed through the prism of the coronavirus. Credit should be given to the economic authorities for their responses that largely offset liquidity and market risks. State support measures helped the most affected sectors, companies and people whose income had fallen sharply. Credit Bank of Moscow took an active part in government programmes from the outset and deployed its own programmes for borrowers.

One of the main topics of 2020 was loan restructuring. MKB's approval rate for restructurings was 86%. It is gratifying that customers returned the favour by showing loyalty: an absolute majority (about 90%) of retail borrowers resumed payments on time. Loan repayment holidays have ended for most customers who took them, but we allow borrowers to re-apply for further grace periods.

The Bank also provided information support to its customers, retail and corporate alike. We launched a special portal for businesses which aggregates and clarifies all existing support programmes for them, and we reached out on an ongoing basis to our retail customers, both at branches and through remote channels.

One of the most welcome support measures was the state-subsidised mortgage programme. MKB promoted mortgage lending not only by attractive pricing, but also by its service model. We now feature among the market leaders in terms of quick underwriting and customer screening.

The crisis is changing Russian banks – their business models, internal processes, standards and technologies. The pandemic has forced them to compete in a brand-new environment, transforming banking services in line with the changing needs of their customers. After months of self-isolation, people have grown accustomed to working and obtaining most services online, and remote communications have prevailed.

The bank's main task was to ensure all its services were up and running. The penetration of remote services into MKB's customer base reached 50% (growth by more than 20%). The Covid crisis catalysed digital transformation. Recent months have shown that digitisation is where many banks see the potential to improve their market positions. The past year saw 20% more credit card applications and 14% more accumulation accounts opened online.

By end-2020, the bank had made almost all products and services that were previously offered only at bank offices available in its remote banking channels: issuance of statements, deposit and credit products and the ordering of credit and debit cards. In late 2020, Markswebb listed MKB's app among the top 5 banking mobile applications, calling it the "Breakthrough of the Year".

We intensified the introduction of paper-free document flow for corporate customers and managed to set up an almost seamless communication, reaching a new level of customer relations. Our corporate banking team's work was once again praised by Euromoney: MKB was ranked a top-3 Russian bank by service quality (Cash Management Survey 2020).

Despite pandemic-related adjustments, the bank continued to pursue its strategy of balanced growth. During 2020, we increased our presence throughout Russia, with offices opened in Kazan, Yekaterinburg, Izhevsk, and another for mkb private bank customers in Saint Petersburg.

2020 was a year of disruptions, but also a year of new opportunities. According to MOEX, brokerage accounts were opened by more than 4 mln people starting from January – more than in all preceding years taken together. In the autumn, MKB announced the creation of its own digital platform, MKB Investments, dramatically expanding its range of services for private investors. Naturally, MKB continued to support its customers with competitive classic products to save and earn.

Over the last few years, the bank has achieved leadership in the investment market. In 2020, it arranged bond placements in excess of 1 tln roubles for the largest state- and privately-owned Russian and international borrowers. The issues included perpetual bonds, a new debt instrument for the Russian market, as well as "green" bonds and social Eurobonds for RZD.

Our international business continued to develop, too. The Bank won AsiaMoney New Silk Road Finance Award 2020 as the "Best Local Bank in the Region for Belt and Road Initiative".

In 2020, despite the global economic slowdown and mass lockdowns, the bank continued working successfully with Asian financial institutions and established a hopefully long-term cooperation with China Development Bank. The bank now partners with 23 financial institutions of the PRC, including CDB, ICBC, Bank of China and China Construction Bank, actively develops trade finance products and is a member of CIPS, being thus able to process yuan transactions.

MKB is highly rated by Russian and international agencies:

"A" by ACRA and Expert RA, "Ba3" by Moody's; "BB" by Fitch; "BB-" by S&P. In 2020, the NCR rating agency assigned MKB a credit rating of A+ ru. with a stable outlook, noting that the high evaluation of its market positions is underpinned by the scale and importance of its business.

In 2021, the banking market is to develop further a model of responsible care of customers. This year will be no less challenging for all sectors of the world economy, and the public attention will closely track the vaccination process, its speed and efficiency. However, a big window of opportunity remains. Bank customers have highly appreciated the communication channels built in 2020. Whenever the pandemic ends, new rules of the game have already been established and banks must live up to new expectations.

**Chairman of the Management Board**

**V.A. Chubar**

3. ***Management Responsibility Statement***

I hereby certify that, to the best of my knowledge:

(a) the financial statements prepared in accordance with the International Financial Reporting Standards and Russian Accounting Standards give a true and fair view of the assets, liabilities, financial position and profit or loss of CREDIT BANK OF MOSCOW and

(b) that the management report includes a fair review of the development and performance of the business and the position of CREDIT BANK OF MOSCOW together with a description of the principal risks and uncertainties that it faces.

On behalf of the Management Board: Vladimir A. Chubar

Chairman of the Management Board

#### **4. *Economy and Banking Sector***

##### ***Macroeconomic update***

According to Rosstat, Russia's GDP in 2020 decreased by 3.1%. The decline was due to the introduction of restrictive measures aimed at stopping the spread of the coronavirus infection, and a decrease in global demand for energy resources. The situation in key non-resource sectors of the economy remained stable in 2020.

The manufacturing industry in 2020 showed moderate growth (by 0.3%), while in November–December the growth rate was in a positive area (2.9% year-on-year and 4.4% year-on-year, respectively).

The volume of construction works at the end of 2020 remained almost at the level of the previous year (an increase of 0.1%).

In agriculture, the improvement of the situation in animal husbandry, as well as high grain harvest rates, offset the effect of the reduction in the yield for other agricultural crops.

At the same time, a significant decline in 2020 was seen in the production of minerals and the associated transport complex in the context of restrictions on oil production under the OPEC+ agreement. At the end of the year, mining production decreased by 7.0% and transport cargo turnover decreased by 4.9%.

The consumer market indicators for 2020 also showed a negative trend against the quarantine restrictions. Retail trade turnover decreased by 4.1% in 2020.

Demand for food products declined by 4.5% year-on-year, for non-food products by 2.6% year-on-year. There was a decline in the automotive market by 9.1% at the end of the year. The volume of paid services to the population at the end of the year decreased by 17.3%.

The number of people in employment fell by 1,331,700 (-1.9% year-on-year), totalling 70.6 million people. The total number of people out of work (according to the methodology of the International Labor Organization) increased by 857,500 people (+24.7% year-on-year) and totalled 4.3 million, while the unemployment rate increased by 1.2 percentage points compared to 2019 and averaged 5.8% of the labour force. Data from the HeadHunter portal at the end of the year also indicated a gradual stabilisation in the labour market. The number of vacancies from April to July decreased, from September the dynamics of vacancies was in a positive area and in December the growth stood at 27% year-on-year.

The headline seasonally adjusted IHS Markit Russia Manufacturing PMI, which tracks the overall market situation, was 49.7 points (in December 2020), 47.5 points a year earlier, while expectations for further growth in production volumes strengthened amid hopes for an improvement of pent-up demand as we move towards 2021.

The seasonally adjusted IHS Markit Russia Services Business Activity Index was 48.0 points at the end of the year (53.1 points a year earlier), which indicates a decrease in business activity among Russian service providers, caused by a decrease in customer demand and a decline in new sales. At the same time, by the end of the year, service companies were more optimistic about their forecasts for the next twelve months. The optimism was supported by hopes for an end to the pandemic and a recovery in pent-up demand after the restrictions are lifted.

## Banking sector key indicators

- As at 31 December 2020 Russia had 406 credit institutions (442 at the start of year).
- A new approach to the assessment of credit risk associated with the principles of Basel 3.5 (a finalised approach) was introduced from 1 January 2020. This approach involves the identification of categories of borrowers with lower risk ratios.
- As of 1 January 2021, the net assets of the banking sector increased to RUB 103.8 tln. The growth of the loan portfolio at the end of 2020 (excluding loans to banks) was 14.4% (5.4% a year earlier). Despite the concerns, there was no significant deterioration in the quality of loans in 2020, while non-performing loans do not pose much risk, as they are reliably covered by reserves: corporate loans by 74%; retail loans by 88% (unsecured consumer loans) and by 110% (mortgage portfolio), respectively. Since the beginning of the year, the growth of customer funds was significant, at 16.5% (4.5% a year earlier); the main sources of growth were corporate deposits (+21.0% year-on-year) and retail deposits (+11.3% year-on-year, including escrow accounts).

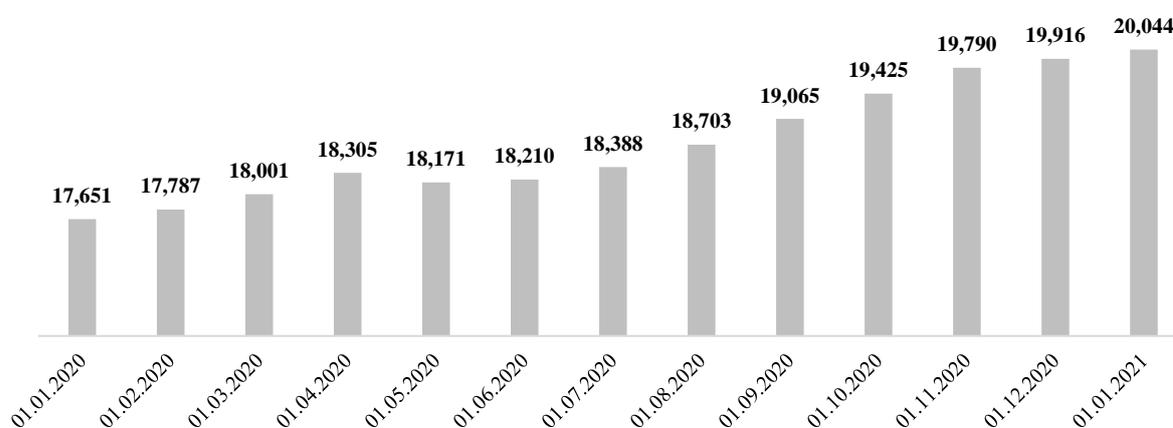
RUB bln	1-Jan-20	1-Jan-21	Change y-o-y
<b>Assets</b>	<b>96,581</b>	<b>112,506</b>	<b>16.5%</b>
<b>Assets (net)</b>	<b>88,742</b>	<b>103,842</b>	<b>17.0%</b>
Corporate loans	33,777	37,770	11.8%
overdue	2,618	2,964	13.2%
<i>as % of loans</i>	7.8%	7.8%	1.2%
Retail loans	17,651	20,044	13.6%
overdue	765	932	22.0%
<i>as % of loans</i>	4.3%	4.7%	7.4%
<b>Total loans</b>	<b>51,427</b>	<b>57,814</b>	<b>12.4%</b>
overdue	3,382	3,896	15.2%
<i>as % of loans</i>	6.6%	6.7%	2.5%
Retail deposits	30,549	34,008	11.3%
Corporate deposits	28,146	34,067	21.0%
Income	1,715	1,608	-6.2%

Source: CBR (all numbers in nominal terms)

## Retail lending

- Retail lending continues to grow, demonstrating a 13.6% increase for 12M 2020.

### Retail Loans (RUB bln)



Source: CBR (all numbers in nominal terms)

- The growth of consumer loans in 2020 was 9.2%, which is significantly lower than in 2019 (20.9%). Obviously, due to the uncertainty associated with the pandemic, banks slightly reduced the share of approved loans, but the population probably also took out new consumer loans more cautiously, unsure of their ability to maintain a level of income and, as a result, their ability to service debts.

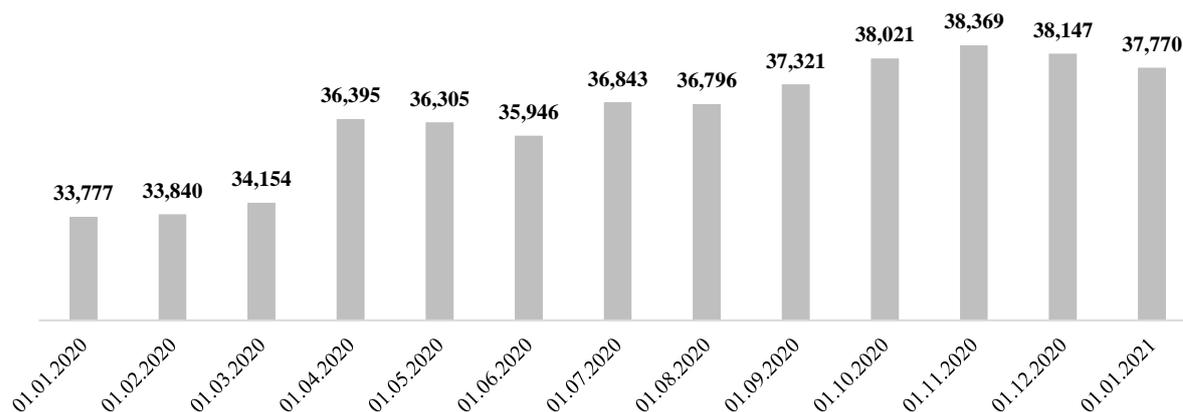
- The growth of the mortgage portfolio at the end of 2020 was 20.8%, which is slightly higher than in 2019 (+17.2%). The share of the *Preferential mortgage 6.5%* programme in loans at the end of the year (December 2020) decreased compared to the previous months and amounted to about 20% (RUB 109 bln). In total, since the launch of this program, loans have been issued to a total of more than RUB 1 tln.

- Retail overdue debt at the end of 2020 increased by 22%, which is significantly higher than the increase at the end of 2019 (less than 1%).

## Corporate lending

- Corporate lending increased by 11.8% (RUB 3,993 bln) in 2020, which is significantly higher than the increase in 2019 +1.2% (RUB 405 bln), respectively. One of the fastest growing corporate segments at the end of 2020 was project financing of housing construction (an increase of 3.5 times since the beginning of the year) due to the switch to escrow accounts.

## Corporate Loans (RUB bln)



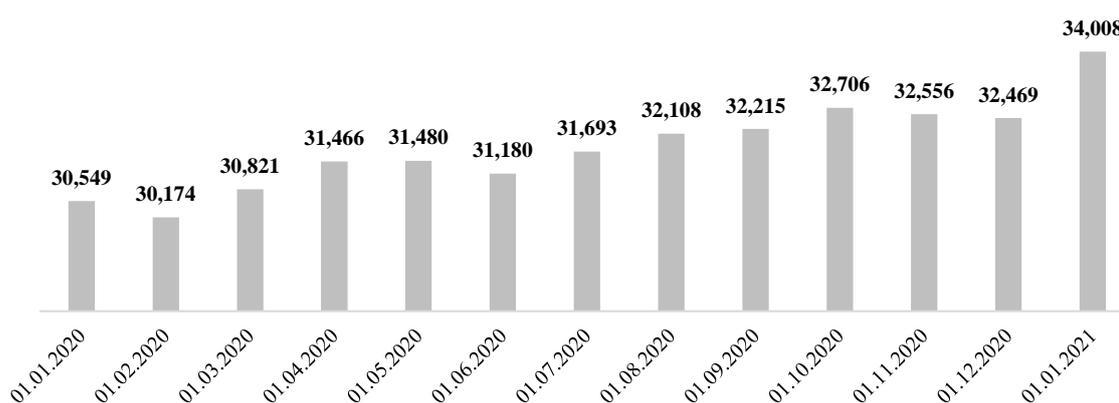
Source: CBR (all numbers in nominal terms)

- Corporate overdue debt at the end of 2020 increased by 13.2% (RUB 346 bln), which was significantly lower than the increase in 2019, +25.1% (RUB 524 bln). Measures to support borrowers from the affected industries, including loan restructuring, helped to avoid more serious consequences for credit quality.

## Funding base

- Retail deposits increased by 11.3% for 12M 2020 which is higher than in 2019 (+7.3%). A significant inflow of funds from the population traditionally occurred at the end of the year (RUB 1,539 bln, or 4.7%, in December), which was due to the payment of bonuses and social payments. Escrow accounts, which characterise the investments of the population in real estate, have increased by more than RUB 1 tln since the beginning of the year, amid the background of active apartment sales in the primary market, supported, among other things, by mortgage lending.

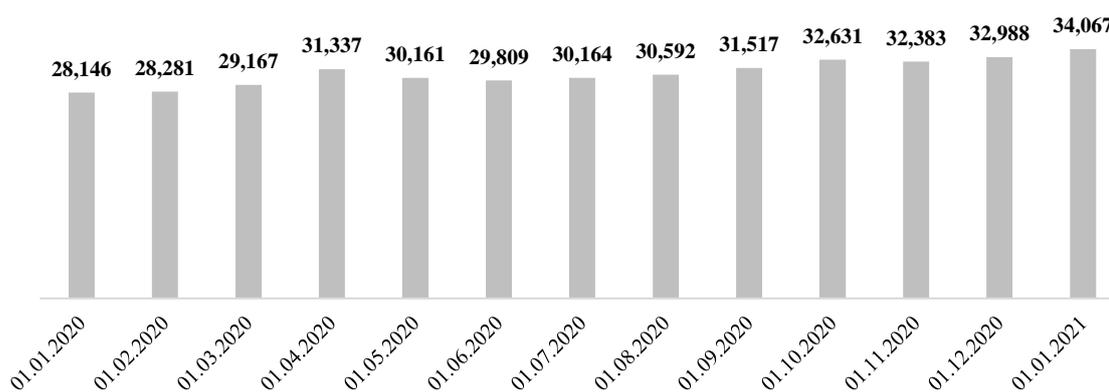
## Retail Deposits (RUB bln)



Source: CBR (all numbers in nominal terms)

- Corporate deposits increased by 21.0% for 12M 2020 (growth of less than 1% at the end of 2019). The main inflow of funds during the year was in systemically important credit institutions, while in other credit institutions, the inflow was lower.

## Corporate Deposits (RUB bln)



Source: CBR (all numbers in nominal terms)

### Earnings and capital

- Banks earned RUB 1,608 bln (return on equity (ROE) was 16%) for 2020, which is only RUB 107 bln (or 6.2%) less than the profit for 2019. The share of banks' assets that were profitable in 2020 was 98%, which is comparable to 2019. However, the median decline was about 30%, mainly due to reserves, which more accurately reflects the impact of the pandemic.

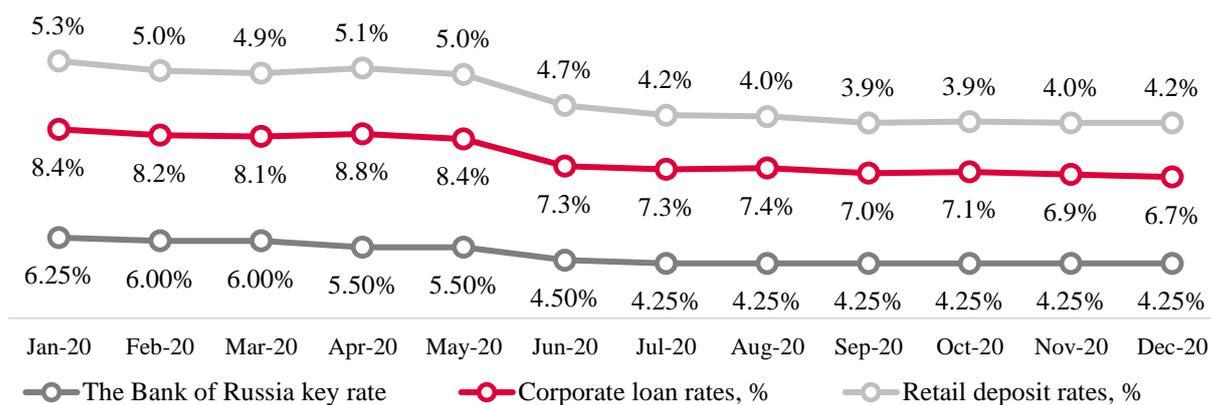
- The balance capital of the sector increased by RUB 1,088 bln in 2020, to RUB 10,681 bln (RUB 617 bln in 2019). The main factor of growth was previously earned profit (RUB 1,236 bln), including dividends paid. The total capital adequacy ratio (N1.0) in December 2020 was 12.47% (12.30% in December 2019).

### Interest rates

- CBR lowered the key rate four times from the start of the year. As at 1 January 2021 the key rate was 4.25% vs. 6.25% in January 2020.

- During the year, there was a decrease in the average rates on loans to non-financial organisations and the average rates on term deposits of individuals. The average interest rate on loans to non-financial organisations was 6.7% (8.4% in January 2020). The average rate on term deposits of individuals was 4.2% (5.3% in January 2020).

### Average Rates of Russian Banks Excluding Sberbank (in RUB)



- The Top-10 Russian banks' deposit rate decreased to 4.49% in the last third of December 2020 from 6.01% at the end of 2019.

## 5. MKB's Business Model. Competitive Advantages.

### Business model

Created value	Shareholders and investors	Customers	Human resources	Other stakeholders
	<p>Net income for 2020 increased by more than 2.5 times y-o-y to RUB 30.0 bln.</p> <p>Net earnings per share demonstrated a growth of 181% to RUB 0.9.</p>	<p>The bank's customer-centric model covers the key needs of customers in all business areas thorough search and implementation of new future-oriented ideas.</p> <p>Growth of customer base by 13% during 2020.</p> <p>Support is provided to customers seeking to achieve business sustainability.</p> <p>"Green" financial products and shares, special product offers for pensioners and young families.</p> <p>Educational projects for customers.</p>	<p>MKB gives freedom for self-fulfilment and development of its team's potential.</p> <p>As at the end of 2020, the headcount exceeded 9,000<sup>1</sup> employees.</p>	<p>A process of effective communication with all stakeholders has been established, including by way of regular transparent non-financial reporting.</p> <p>Voluntary social and environmental initiatives, including cooperation with the <i>Arifmetika Dobra</i> charity supporting orphans and adoptive families, and other projects under the bank's ESG strategy.</p> <p>Promotion of responsible behaviour principles among all stakeholder groups through special campaigns, products and events.</p>

Unique operating model	Corporate business: focus on major customers	Retail banking: high-quality customer base	Investment business: a diversified product line	International business: active player in international capital markets	High ESG standards in all areas at activity
	<ul style="list-style-type: none"> <li>– Focus on strong, large and medium, state- and privately-owned companies</li> <li>– Focus on RAROC<sup>2</sup> for each client and value-added services with 71% of corporate clients using more than one MKB product</li> <li>- Providing products tailored to specific customer needs,</li> </ul>	<ul style="list-style-type: none"> <li>– Target market segments: mortgage lending and card and transaction business</li> <li>– End-to-end omnichannel customer service platform with both online and offline channels: a full range of products and services in the bank's mobile application, and a cost-effective branch network</li> </ul>	<ul style="list-style-type: none"> <li>– Active use of cross-sale tools generating added value</li> <li>– Access to global markets</li> <li>– Full range of investment banking services: ECM, DCM, M&amp;A, equity financing etc.</li> <li>– Focus on low-risk deals with prime counterparties and efficient utilisation of capital</li> </ul>	<ul style="list-style-type: none"> <li>– The most active Russian bank by public transactions in the international capital market in recent years (IPO in 2015, SPO in 2015, 2017 and 2019, 3 Eurobond issues in the last 2 years, international syndicated loans)</li> <li>– Using a strong international business franchise to further diversify the funding base by maturities,</li> </ul>	<ul style="list-style-type: none"> <li>– Full compliance with best international corporate governance practices, including EBRD and IFC requirements</li> <li>– Leadership in transparency and disclosure</li> <li>– 5 out of the 10 Supervisory Board members are independent directors, and 2 others are nominees of minority shareholders</li> </ul>

<sup>1</sup> The headcount is given for the Group, including MKB, Inkakhran, Inkakhran-Service, SKS Bank, MKB Investments, Investment Bank VESTA and RUSNARBANK.

<sup>2</sup> Risk-adjusted return on capital

<p>which makes MKB a real partner bank for its customers</p> <ul style="list-style-type: none"> <li>– Online platform powered by artificial intelligence</li> <li>- Focus on transaction business and comprehensive solutions with a higher margin, such as project finance, international finance, trade finance, etc.</li> </ul>	<ul style="list-style-type: none"> <li>– Further customer service digitisation</li> <li>– Thorough customer screening based on a rigorous underwriting policy aimed at maintaining high loan portfolio quality</li> <li>– Focus on cross-selling retail products to employees and customers</li> <li>– Successful development of the MKB.Invest brokerage platform for retail customers</li> </ul>	<ul style="list-style-type: none"> <li>– Leading positions in the DCM: MKB was ranked among the top 5 domestic bond arrangers (more than 75 deals totalling over RUB 1 trillion)</li> </ul>	<p>sources, instruments and counterparties</p> <ul style="list-style-type: none"> <li>– The most favourable position in the current market conditions to access international capital markets, plus broad experience</li> <li>– Growing operations in the strategically important Asian region and the Middle East</li> <li>– System solutions for exporters and importers: MKB offers a full range of solutions</li> </ul>	<ul style="list-style-type: none"> <li>– Management engagement in decisions related to environmental policies and reporting</li> <li>– Implementation of the ESG strategy aimed at minimising both direct and indirect negative environmental impact and maximising the positive effect</li> <li>– Implementation of in-house “green” taxonomy</li> <li>– Implementation of special “green” products and consulting customers on sustainable development matters</li> <li>– Development of an internal sustainable development culture</li> <li>– Development and implementation of an integrated management system (IMS) for environmental and social protection, health and safety, energy efficiency and energy conservation</li> </ul>
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Financial capital	Intellectual capital	Human capital	Sustainable development capital
<ul style="list-style-type: none"> <li>The bank enjoys a diversified funding structure, including, in particular, corporate, retail and bank deposits.</li> <li>The bank's high credit ratings from four leading international and three Russian rating agencies and an unblemished financial history give it access to international funding and allow it actively to tap capital markets.</li> <li>In 2020, the bank placed USD 600 mln Eurobonds and raised up to USD 350 mln syndicated credit, which allowed it to diversify its liability base, expand its pool of lenders and intensify its cooperation with Middle Eastern financial institutions.</li> </ul>	<ul style="list-style-type: none"> <li>MKB is committed to use data analysis and flexible integration with partners to improve customer experience, holding leading positions in cost-effectiveness supported by technology and an efficient and agile IT organisation, helping it focus clearly on priorities. The bank demonstrates a high level of IT investment management efficiency. The bank's pragmatic approach to investment in innovative technologies, relying on the "follower" strategy and prompt implementation of proven technological solutions, means it can maintain the weighted average CTI at 32% (2016–2020).</li> </ul>	<ul style="list-style-type: none"> <li>MKB, as a systemically important bank, pays priority attention to the development of human capital and the formation of a strong team. To achieve strategic goals, it is extremely important to attract the best personnel, to create conditions for maximum unlocking of the existing employees' potential, involving them in tackling both day-to-day operational and non-standard project tasks at the bank.</li> <li>In 2020, the HR Department focused on the employee motivation system, implementation of a grading system, introduction of the gamified non-material MKB League motivation programme, development of a referral programme and improvement of recruitment indicators, employee engagement, attractiveness of the MKB brand as an employer and corporate culture.</li> </ul>	<ul style="list-style-type: none"> <li>Emphasis is placed on commitment to key standards and values adopted by the bank and shared by its employees and management and fulfilment of social and environmental obligations.</li> <li>The bank's business model emphasises socially-responsive products, in particular social retail products, and support for exporters, SMEs, and other social products.</li> <li>MKB seeks to exemplify sustainable development principles for its customers and partners, guided by social and environmental responsibility principles and relying on best national and international corporate governance practices.</li> <li>MKB recognises the importance of each of the 17 Sustainable Development Goals adopted by the UN General Assembly in 2015. In its practice, MKB focuses on 6 of them, identified as its top priorities: good health and well-being, quality education, decent work and economic growth, industry, innovation and infrastructure.</li> </ul>

## **Competitive Advantages**

### ***Leading non-state public bank in the Russian market***

Underpinned by its organic growth strategy and resilient profitability, MKB holds a strong position in the Russian banking market. As at 1 January 2021, based on Banki.ru's ranking, MKB was **the sixth largest bank in Russia by total assets and the leading non-state public bank in the country.**

MKB is a leading corporate bank in Russia as it services more than 20 thousand corporate clients and it is the fifth largest bank by size of corporate loan portfolio as at 1 February 2021. Among non-state-owned Russian banks, MKB is the No. 1 and No. 2 market player in corporate loans and corporate deposits respectively.

MKB is also actively growing its presence in retail banking, servicing more than 900 thousand active clients, of whom 70% are loyal repeat and payroll customers. MKB has also demonstrated strong performance in its investment banking operations. Based on the Bloomberg ranking and Cbonds, MKB is a top-5 debt capital markets arranger in Russia with a market share exceeding 10% (excluding MKB's own issues). It has organised 75 bond issues in 2020 with a total volume of over RUB 1 tln. MKB is also a top-5 local REPO operator as at February 2021, according to MOEX.

### ***Proven business model with additional avenues for growth***

MKB has a sustainable and well-diversified universal business model, serving its clients within the following three key segments: Corporate banking (51% of operating income in 2020), retail banking (20% of operating income in 2020) and investment banking and treasury (29% of operating income in 2020).

MKB operates a **client-centric business model**, focusing strategically on customer experience and a better understanding of customer needs. The management believes that one of MKB's key differentiated advantages is the ability to provide its customers with tailor-made products and customised solutions, thus gradually becoming a one-stop financial institution for targeted client segments.

The bank offers bundled multiproduct proposition for corporate clients and provides complete end-to-end banking service for the entire industry chain, such as in the residential development sector. Avoiding competition in plain vanilla products, MKB focuses on comprehensive higher-margin solutions and transactional services, such as project finance, international finance, supply chain and trade finance and cash management solutions. In 2020, MKB launched an online banking platform for SME clients built upon the acquired Vesta Bank, which has significant experience in working with small and medium-sized businesses. The bank's corporate loan portfolio increased by 29% and corporate net fee and commission income grew by 34% in 2020.

In the retail segment, MKB has developed a strong mobile platform offering a full range of daily banking services complemented by recently launched MKB Investments, an online retail investment platform, as well as lifestyle services, including Booking and One-Two trip travel bookings and specialised mobile service for car owners. The management believes the improved customer proposition would allow MKB to increase its active customer base to over 3 million clients and enhance client engagement in the medium term. The bank has also identified an attractive opportunity in the Russian mortgage lending market which is expected to grow at 2.3-fold between 2019 and 2030, according to a report published by the Association of Banks of Russia. The bank's mortgage portfolio has grown by 57% in 2020, and MKB aims to further utilise its digital service model and partnerships within its

residential development ecosystem. Following the acquisition of Rusnarbank, MKB also intends to leverage Rusnarbank's platform to develop its auto lending services.

Within its Investment Banking and Treasury operations, MKB focuses on low-risk investments with stable profitability, solid credit quality and low capital pressure (18% RWA/Assets), and has been adhering to this focus against the backdrop of the COVID-19 pandemic, which has allowed it to minimise price fluctuations in its profit.

The bank maintains a moderate risk appetite and conservative risk management policy, which allows it to maintain sustainable through-the-cycle performance. In 2018-2020, the bank's average NPL ratio and cost of risk amounted to 2.7% and 1.3%, respectively, with conservative average NPL coverage of 184%.

The success of MKB's business model is supported by a number of accolades received over the years, including No. 2 Bank in Russia by Forbes' *The World's Best Banks 2020*, Best Bank for Investor Relations from 2020 Global Banking and Finance Review, Best Local Bank in the Region for Belt and Road Initiative from AsiaMoney New Silk Road Finance Awards and Best Service in Russia from Euromoney Cash Management Survey 2020.

### ***Financial strength***

MKB has a robust financial foundation on which it can build further. This strength stems from its strong recurring profitability, liquid and low risk balance sheet, robust capital base and proven access to capital markets.

MKB has delivered a 16% through-the-cycle return on average equity from 2017 to 2020 while maintaining above market growth. The bank increasingly focuses on transactional commission-based products and services which provide a sustainable low-risk source of income, in 2020 net fee and commission income of the bank increased by 34%.

MKB's non-performing loan book is well provisioned with loan loss provision coverage at 155% whilst its non-performing exposure ratio is at 3.1% as at 31 December 2020. Furthermore, its N1.1 ratio stands at 8.9% as at 31 December 2020, which provides substantial buffers above the minimum requirement at 8.0%. MKB enjoys access to capital markets for debt and equity, having raised a total of USD 4.7 bln USD 1.0 bln, respectively.

### ***Omnichannel service model and strong operating efficiency***

MKB has an efficient operating model which is achieved through high service standards, a leading disciplined risk management, highly-qualified personnel and a state-of-the-art IT platform. Comparing MKB's performance with other leading publicly-traded peers from Central Eastern Europe and the CIS, MKB is ahead of its peer group in operating efficiency with a 34% average cost-to-income ratio during from 2017 to 31 December 2020 against the peer group average of 44%.

MKB enhances its business efficiency by increasingly relying on remote channels for the distribution of its products and services. The penetration of remote banking operations reached 50% as at 31 December 2020. Retail clients have access to up to 80% of all banking services online, while businesses can seamlessly transact and use financial services with fully electronic document flow via the online banking system. The mobile app for retail clients is ranked in the Top-5 banking apps by Marksweb.

MKB's multichannel, efficient, yet wide-coverage distribution platform, consisting of 132 branches, 6,600 ATMs and 11,000 payment terminals<sup>3</sup> as at 31 December 2020, plus online banking, a call centre and Russia-wide partner programmes, is another key component of MKB's customer service offering.

The bank maintains a centralised risk management system with uniform underwriting standards, enabling it to achieve economies of scale, agility and advantageous performance. Its corporate customers, comprising of top-tier Russian companies operating in selected industries such as oil and gas, chemicals and metals, tend to be more resilient to economic volatility and are less exposed to economic cycles.

MKB believes that agility and advantageous performance are achieved by reducing the decision layers and attracting the right talent which can help elevate the franchise and help achieve its objectives.

### ***Leadership in environmental, social and governance matters***

MKB is recognised as the Russian banking sector leader in commitment to ESG principles and integration thereof into the bank's business model (as per RAEX-Europe ESG ranking, March 2021). MKB follows EBRD- and IFC-compliant practices in corporate governance and within a broader ESG framework, and maintains a high transparency of ESG disclosure with Sustainability Reports published since 2019. As a result of its strong adherence to the best ESG practices, MKB became the first bank in Russia to achieve a "BBB" the ESG rating.

Regarding governance matters, MKB's adherence to the highest standards is proved by the composition of its Supervisory Board, as 5 of its 10 members, including the Chairman, are independent, while 2 directors represent minority shareholders. The Board also comprises of three committees and each is chaired by an independent director. MKB's corporate governance practices have been recognised within the finance community as the bank received the *Best Corporate Governance in Russia 2019* award from World Finance and the *Best Banking Corporate Governance in Russia 2018* award from Capital Finance International.

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<sup>3</sup> Including ATMs and payment terminals of partner banks

## 6. Strategy

Over the past several years, the main strategic goal of MKB has been to exceed average market growth rates while sustaining sufficient profitability levels, mainly by serving first-class, low-risk, large corporate clients, as well as maintaining a high share of liquidity on the balance sheet.

**MKB's key strategic objective to 2023 is to strengthen further its leading positions in the Russian banking sector by pursuing expansion at above-market growth rates, leveraging the key strength of MKB's universal banking model and exhibiting a particular focus on unique customer experience by offering a differentiated value proposition for each client segment. MKB strives to become a responsible partner, helping its clients fulfil their full potential.**

The MKB's strategic focus is to become a responsible partner, helping the clients realise their potential, focus on business expansion in key market segments and improving operating efficiency.

### MKB 2023 is a responsible partner helping its clients fulfil their potential

#### Key priorities for MKB 2023

<h2 style="margin: 0;">01</h2> <p style="margin: 0;"><b>Unique customer experience based on better understanding of customer needs</b></p> <ul style="list-style-type: none"> <li>• We strive to be the best in understanding the needs of our clients, offering tailored and comprehensive solutions</li> <li>• We are continuously improving our service and product offering with a focus on non-interest income</li> <li>• We combine the best of digital and physical interaction with our clients</li> </ul>	<h2 style="margin: 0;">02</h2> <p style="margin: 0;"><b>Combining strengths of technological bank and fintech</b></p> <ul style="list-style-type: none"> <li>• Data analysis and flexible integration with partners for the best customer experience</li> <li>• Leading in cost efficiency enabled by technology</li> <li>• Effective and dynamic IT organization enabling a clear focus on priorities</li> </ul>	<h2 style="margin: 0;">03</h2> <p style="margin: 0;"><b>Team driven by entrepreneurial spirit</b></p> <ul style="list-style-type: none"> <li>• Providing freedom for self-fulfilment and realisation of team potential</li> <li>• Our team is ready for the challenges of the future</li> </ul>	<h2 style="margin: 0;">04</h2> <p style="margin: 0;"><b>Social and environmental responsibility</b></p> <ul style="list-style-type: none"> <li>• We take responsibility for our impact on the environment, take care of our employees and the community we work in</li> <li>• We support our partners and customers in they efforts to transition to sustainable development</li> </ul>
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#### Key goals of MKB's development in 2021–2023:

Priorities	2023 goals
<p><b>Unique customer experience based on better understanding of customer needs</b></p>	<p><b>4.5 (out of 5)</b> CSI for corporate clients</p> <p><b>Top 5</b> in selected IB products</p> <p><b>10%</b> market share in digital banking for entrepreneurs</p> <p><b>45%</b> share of the mortgage portfolio in the total retail loan portfolio</p> <p><b>30%</b> share of F&amp;C income</p> <p><b>3 mln</b> active retail clients</p> <p><b>75%</b> of retail customers will be using remote channels</p>
<p><b>Combining strengths of technological bank and fintech</b></p>	<p><b>100%</b> transition from legacy to modern core banking systems</p> <p><b>2-3 weeks</b> average time of frame for partner integration</p>

	<p><b>20%</b> increase in development speed of IT solutions</p> <p><b>3% share</b> of data analysts of total IT staff of MKB</p>
<b>Team driven by entrepreneurial spirit</b>	<p><b>85%</b> employee engagement level</p> <p><b>Top 10</b> employer among Russian banks</p> <p><b>15%</b> share of IT employees</p> <p><b>70%</b> share of IT employees working remotely</p> <p><b>40%</b> share of <b>cross-functional teams</b> (of data scientists, data engineers and line-of-business product owners)</p>
<b>Social and environmental responsibility</b>	<p><b>A-rating band (RAEX Europe)</b> and broader coverage by international ESG rating agencies</p> <p>Introduction of <b>the concept of responsible product offering</b> in all business units</p> <p>Regular <b>carbon footprint assessment</b> with targets set to minimise the footprint</p> <p><b>RUB 100 bln sustainable projects</b> and investments</p> <p>Implementation of <b>climate risks impact analysis</b> on MKB's activities</p> <p>Implementation of <b>sustainability principles</b> in the supply chain</p>

A matrix consisting of five key elements of strategy implementation has been prepared to achieve the set objectives:



***Grow the business across all segments by offering tailored and comprehensive solutions to our clients based on a profound understanding of their needs***

MKB will reach its strategic targets through a stronger focus on customer experience, a client-centric approach and a better understanding of customer needs. We believe that unlike large state-owned banks, MKB has the ability to provide its corporate customers with tailor-made products and customised solutions, thus gradually becoming a one-stop financial institution for a number of clients and enhancing margins in corporate lending.

MKB targets large corporates from various sectors where MKB's deep understanding of client needs and flexibility in provision of comprehensive tailored solutions creates unique customer experience which is a winning approach in developing the business in the long term. Historically having strong competencies in servicing the energy sector, MKB has accumulated valuable experience which it can scale across to other sectors and products. In particular, MKB is strongly positioned and aims to develop further its business with companies from the construction industry, continue to strengthen project finance and increase its market share in SMEs.

A successful example of a comprehensive integrated corporate banking solution is the ecosystem MKB builds for the residential construction sector. Throughout the entire process from buying a land plot, obtaining the necessary permits, construction, to the sale of property and its operation and maintenance, MKB is able to provide profitable solutions to developers, contractors, buyers and any other participants in this market. MKB enters into project financing at the very initial stage – acquisition of a land plot – hence, at each subsequent stage it has a competitive advantage, including our preemptive right to participate in the financing of the next stage, arising from the loan agreement. We also obtain a deeper knowledge of a project than any other bank. As part of this initiative, MKB plans to develop retail digital platform in cooperation with leading Russian developers and increase significantly its mortgage loan portfolio, with its share expanding to circa 45% of its total retail loan portfolio by 2023.

In order to service various needs of SME customers including the maintenance of their business operations, MKB is developing a comprehensive digital solution on the basis of Vesta Bank's online platform. Using the mobile app, the client gains access to a variety of digital solutions, including the ability to open a current account at MKB within 15 minutes, make payments and transfers, connect accounts in other banks, receive income/spending analysis and benefit from integration with own tax and accounting procedures.

In its retail business, MKB focuses on the transformation of the customer journey across all products and strives to take an active advisory role in daily banking activities and personal finance management. Leveraging on advanced customer analytics, MKB aims to provide its customers with personalised proposition at the right moment and in the best channel, as well as optimize the price offering for both new and existing clients. MKB plans to continue expanding its product offering by complementing traditional banking services with a broad array of life-style services (i.e. travel and booking services, car purchase and maintenance, insurance, bonus programs, etc.) as well as evolving the capabilities of MKB Investments, its new digital investment platform.

***Increase profitability via product offering enhancement with particular focus on fee-generating services***

MKB places the focus on transactional banking and high added-value solutions at the forefront of its strategic initiatives to 2023. These should allow a material increase in the share of net fee and commission income to 30% of overall net fee and commission and net interest income, and maintain a NII/RWA ratio at a level of approximately 4% to increase the overall profitability of MKB's operations.

Corporate banking is a main source for the targeted increase of profitability. Main growth drivers include the development of the project finance business through broader sector expertise, and expansion of the range of solutions for export & import finance and business with international borrowers (China, SEA, CIS, Africa, Middle East, Turkey). MKB plans to maximise the potential effect from synergies between the bank's corporate and investment divisions by offering a broad range of commission-based products (such as DCM, ECM, M&A advisory, FX and derivatives) to its core clients. Another initiative in this area involves developing the Private Equity Special Situations business up to the level of leading Russian and foreign banks, using MKB's IB brand and expertise of a new team.

In the retail segment, MKB prioritises converting its large depositor base into transactional daily banking customers with special focus on LTV<sup>4</sup> metrics. Key initiatives in this area include developing a product catalogue with high client value, improving card and transactional solutions, implementing customised solutions for underserved customer segments (e.g., young, affluent, pre-affluent, self-employed) and effective integration with partner channels for attracting customers with the highest potential. By 2023, MKB plans to expand its active retail base to 3 million customers, with expected average customer lifetime exceeding 4 years and the average number of products per customer growing to at least 2.5.

### ***Offer the best digital and physical experience to our clients***

MKB closely monitors major trends in digitisation of products, services and interaction channels across all banking segments. To keep up with the rapidly evolving digital landscape of the banking industry, the bank will continue digitising its products and services, and we expect that by 2023, 75% our clients will be using remote channels. Our efforts are aimed at reaching 100% mobile banking penetration for SMEs, 75% penetration for retail clients and we expect 68% of our corporate clients to become active online banking users.

By 2023, MKB aims to onboard c.110,000 SME and 40,000 self-employed clients, which should secure a top-5 ranking among Russian banks by number of SME clients. MKB will develop a new-generation branch network with a focus on client communication and discussing their needs, while all manual processes will be automated, materially improving operational efficiency and enhancing customer experience.

### ***Place digital transformation at the core of every business line and internal banking process***

Aiming to combine the strength of a technology-focused bank and the flexibility of an innovative fintech service provider, MKB will prioritise the following development streams: data analysis and flexible integration with partners for the best customer experience, leadership in cost efficiency enabled by technology and building an effective and dynamic IT organisation.

MKB aims to employ advanced customer analytics across all business processes and product development for better customer understanding and mass personalisation. This involves collecting customer events data from internal and external sources, hypotheses generation and testing on collected customer data, development of models for a better understanding of customer needs, optimisation of business processes and fast and efficient decision making. Advanced data-based analysis of customer needs will enable effective identification of priority areas to improve customer experience and improve MKB's product offering, and will be applied to customer monitoring, risk assessment and decision-making.

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<sup>4</sup> Customer Lifetime Value

The main focus is further digitisation of internal processes with greater robotisation of back-office operations, digitisation of end-to-end processes, developing efficient remote work opportunities and digital workplaces. Digitisation of operational processes will reduce operational costs by 25%. Technological development targets to 2023 include 100% transition from legacy to modern core banking systems, a 20% increase in the development speed of IT solution, an increase in the share of front-end developers to 65%, a data analysts' share of 3% of total IT staff, and a reduction in the average partner integration time frame to 2-3 weeks.

### *Continue to excel as the Russian banking industry's leader in ESG practices*

MKB is recognised as the Russian banking sector leader in commitment to ESG principles and integration thereof into the bank's business model (as per RAEX-Europe ESG ranking, February 2021) for compliance with best international ESG standards (EBRD and IFC), availability of Environmental and Social Risk Management Policy, its focus on developing sustainable client projects and minimising its own negative footprint, and the futhering of its own ESG strategy. MKB sees its mission in exemplifying sustainable development for its customers and partners, guided by social and environmental responsibility principles, and based on best national and international corporate governance practices. MKB further aims to apply best international practices in its operations and retain leading positions in the Russian banking sector.

MKB takes responsibility for its impact on the community and the environment. In managing impact on the society and the environment, MKB supports all 17 Sustainable Development Goals (SDGs) included in the UN global strategic program, while focusing on 6 of them: good health and well-being, quality education, decent work and economic growth, industry, innovation and infrastructure, responsible consumption and production and partnerships for sustainable development goals.

In order to make ESG efforts transparent, the bank has highlighted the following key goals to be achieved by 2023:

## **Commitment to the community and environment**

<p>We take responsibility for our impact on the environment, take care of our employees and the community we work in</p>	<p>We support our partners and customers in their efforts to transition to sustainable development</p>
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### Goals by 2023:

**A[esg]**

A-rating band (RAEX Europe) and broader coverage by international ESG rating agencies

<p><b>Community and environment</b></p> <div style="display: flex; align-items: flex-start; margin-bottom: 10px;"> <p>Concept of responsible product offering in all business units</p> </div> <div style="display: flex; align-items: flex-start;"> <p>Regular carbon footprint assessment with targets set to minimise the footprint</p> </div>	<p><b>Clients</b></p> <div style="display: flex; align-items: flex-start; margin-bottom: 10px;"> <p><b>100 RUB bn</b> Sustainable<sup>(1)</sup> projects and investments facilitated by MKB by 2023</p> </div> <div style="display: flex; align-items: flex-start;"> <p>Implementation of sustainability principles in the supply chain</p> </div>	<p><b>Employees</b></p> <div style="display: flex; align-items: flex-start; margin-bottom: 10px;"> <p><b>85%</b> Employee engagement level<sup>(2)</sup></p> </div> <div style="display: flex; align-items: flex-start;"> <p><b>Top 10</b> Employer among Russian banks<sup>(3)</sup></p> </div>
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Source: Company data  
Notes: (1) Sustainable projects and investments include various types of sustainable instruments (green, social, transition, sustainability-linked, etc.) facilitated via taking direct credit exposure and origination business. (2) According to Happy job survey; (3) According to hiru employers ranking.

Taking care of employees is among the priorities of MKB's HR strategy, as the employees are

without doubt MKB’s most valuable asset. MKB targets excellent working conditions for the employees with the opportunity for further job education and skills development, taking solid measures to ensure employees health and well-being and building an internal culture with a focus on diversity.

**Strategy 2023 assumes the following key financial and business guidelines:**

<b>Strategic and financial outlook</b>		<b>2018 - 2020</b>	<b>2021 - 2023</b>
<b>Growth</b>	Corporate loans (p.a.)	8.2%	10-12%
	Retail loans (p.a.)	15.0%	20-25%
<b>Profitability</b>	NII / RWA	4.0%	c.4.0%
	NIM	2.4%	c.2.7%
	Share of F&C income <sup>(1)</sup>	20.4%	30%
	Cost / Income	36.1%	30-35%
	ROAE	14.9%	> 15%
<b>Asset Quality</b>	Cost of risk	1.3%	c. 1%
<b>Capital</b>	N1.1 ratio	8.5%	> 9%

## 7. *Risk Management*

### 1. Risk Management Stages and Structure

The bank manages risks in accordance with the following stages, each involving responsible subdivisions/employees.



#### *Risk identification (definition)*

The bank's bylaws give a wide list of risk types to which it can be exposed in its activities, specifying rules to qualify them as material, describing the nature of their origin, and listing affected products, processes and operations.

#### *Risk appetite determination*

The bank determines tolerances for material risk types. Risk appetite indicator determination process and algorithms (for calculable indicators) are set out in the bank's bylaws.

#### *Risk identification*

The bank takes steps to identify any risks posed by operations made and products offered. Risk identification procedures are set out in the bank's bylaws.

#### *Risk assessment*

The bank performs qualitative and/or quantitative risk assessment. Assessment algorithms are set out in the bank's bylaws and undergo testing for their relevance and effectiveness.

#### *Selecting responses to risks and risk events*

Based on risk assessment, the bank takes, limits, shares or excludes a risk using risk management tools. Responses to risk events are selected based on their efficiency.

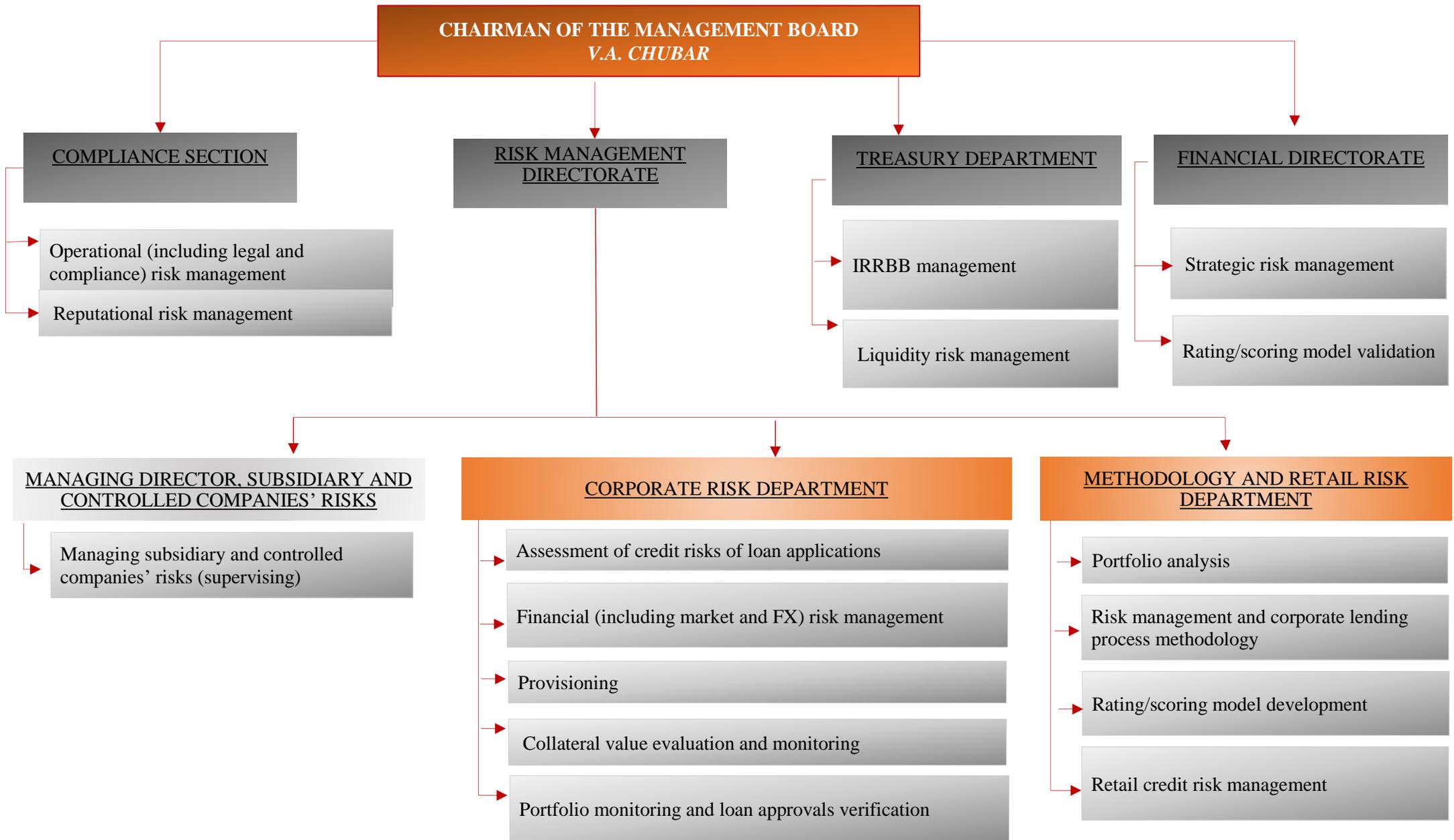
#### *Risk monitoring*

The bank monitors risks taken and adds further responses in the case of a material increase in the level of a risk or a change in its profile. Monitoring procedures are set out in the bank's bylaws. Monitoring results are reflected in the bank's internal reporting.

#### *Control of risk level and compliance with risk management procedures*

The bank controls compliance with established limits, risk appetite indicators (key risk indicators) and other limitations. Three types of control are in place: prior, current and follow-up control. The bank also controls compliance with risk management procedures. Control (including remote control) procedures are set out in the bank's bylaws.

# RISK MANAGEMENT STRUCTURE



## **Qualitative indicators of risk management subdivisions' performance assessment**

- ✓ Compliance with target COR level at the end of the reporting period;
- ✓ Compliance with ICAAP indicators levels;
- ✓ Implementation of the Functional Risk Management Strategy for the reporting period;
- ✓ Implementation of the bank's internal audit recommendations;
- ✓ Compliance with the scheduled deadlines and standard load indicators of the risk management subdivisions' operational activities.

## **2. Major Innovations in Risk Management in 2020**

The bank has established a mature risk management system which matches the scope of its activities and profile and ensures achievement of the goals envisaged by the bank's Development Strategy. The risk management system is sufficiently flexible to ensure a prompt reaction to changes in the bank's operating environment. The current risk management system has been shaped through achievement of goals and consistent implementation of action plans in previous years.

– In order to comply with the uniform risk management and risk landscape approaches at the level of the banking group, in which the bank is the parent credit institution, a set of measures was implemented to revise and approve the powers to accept and assess risks and limit operations, the key risk indicators were valued, and the rules for the organisational risk management structure in subsidiary and controlled companies (SCC) (including organisations included in the group's structure in 2020) and the procedure for interaction of SCCs with the bank were formulated.

– The bank implemented a programme for improving the quantitative risk assessment models, including measures to update the corporate rating model based on new statistics and to develop a new model for specialised lending subclasses. To the extent of retail lending risks, the bank introduced some measures aimed, inter alia, at improving application scoring models for a number of certain credit products. The first development stage for the application model to assess the risks of guarantees that are provided to SMEs within public procurement (44-FZ), was completed.

– Under certain projects, the bank continued to improve stress testing and scenario analysis approaches and procedures in order to increase the transparency and quality of the bank's capital planning and key financial indicators, and to limit operations, including control and utilisation of various limit types.

– Approaches to Model Risk Management were developed and tested.

– The procedures for modelling the bank's dynamic balance and forecasting the liquidity situation, including liquidity provisions and standards, were improved, and the methodology for assessing certain calculation parameters of the short-term liquidity indicator was revised.

### 3. Risk Materiality Assessment

Ongoing development of the risk management system is crucial for timely identification and assessment of risks, and for efficient operation of the instruments developed to manage them. The bank annually identifies and assesses risks inherent in its activities.

Materiality tests result in the bank's risk map, serving as the basis for qualifying particular types of risk as material to the bank. The risk map grades the bank's risks. The aggregated value of any risks is calculated as the sum of points for the following factors:

- the quantum of adopted risk arising from operations (transactions), determined by assessing:
  - the amount of potential loss;
  - their complexity;
  - their ageing (risks of new operations);
  - their amount and exposure to each identified risk type.
- probability (forecasted frequency) of risk events assessed through:
  - frequency of risk events;
  - probability of risk events.

Each factor is scored from 1 to 3 points in accordance with the bank's internal methodology. Material risks are those scoring 4 or higher on the two factors taken together.

<i>Potential losses</i>	3 points	<p>Collateral concentration risk</p> <p>Liquidity risk</p> <p>Foreign exchange risk in the banking book</p> <p>Strategic risk</p> <p style="text-align: right;"><b>4</b></p>	<p>Credit risk of default</p> <p>Counterparty credit risk</p> <p>Risk of concentration on large counterparties</p> <p>Risk of sectoral concentration</p> <p>Risk of concentration on certain sources of liquidity</p> <p>Operational risk</p> <p>Market risk</p> <p style="text-align: right;"><b>5</b></p>	<b>6</b>
	2 points	<p>Concentration by types of income</p> <p>Residual risk in credit risk (Risk of legal defects in transaction documentation)</p> <p style="text-align: right;"><b>3</b></p>	<p>Reputational risk</p> <p>Interest rate risk in the banking book</p> <p style="text-align: right;"><b>4</b></p>	<b>5</b>
	1 point	<p>Concentration by instruments</p> <p>Residual risk in credit risk (Obligor fraud risk)</p> <p>Securitisation risk</p> <p>Transfer risk</p> <p>Environmental risk</p> <p>Insurance risk for corporate exposures secured by insurable property where the bank is a beneficiary</p>	<p>Residual risk in operational risk</p> <p>Residual risk in credit risk (Collateral illiquidity risk)</p> <p>Migration risk</p> <p>Model risk</p> <p>Concentration by geographical area</p> <p>Concentration in specific currencies</p> <p style="text-align: right;"><b>4</b></p>	

<b>Fixed assets devaluation risk</b> <b>Risk of decreasing fair value of interests in subsidiary and controlled companies, mutual funds (MFs)</b> <b>Business risk</b> <b>Residual risk in market risk</b> <b>Emergency support risk</b> <b>Motivational risk</b>	<b>2</b>	<b>3</b>
1 point	2 points	3 points

***Probability of risk/frequency of risk events***

**Changes in the Risk Profile Compared to 2020:**

The long list of risks inherent in the bank's operations was updated by adding a new operational risk subtype: information security risk. The annual identification procedure (whose results were approved by the Supervisory Board) did not lead to any changes to the list of material risk types for 2021 compared to that for 2020.

The bank at least annually deploys an action plan to identify risks and test them for materiality.

According to its risk map, the bank qualifies the following risk types as material:

**Credit Risk (incl. Risk of Default and Counterparty Credit Risk)**

Credit risk is the main risk to which the bank is exposed given the nature of its business and balance-sheet structure. The source of this type of risk is the bank's exposure to losses due to non-performance, late or partial performance by a debtor of its obligations to the bank under existing agreements and to consequences of a deteriorated condition of its borrowers, counterparties or securities issuers. A deteriorated condition means a deterioration both in their financial condition and of other quantitative and qualitative indicators (business reputation, market positions, sector indicators, state of the economy, etc.), i.e. all factors that can affect a borrower's, counterparty's or security issuer's solvency.

The credit risk includes:

1) *Credit risk of default* means the probability of the bank suffering any losses due to a debtor defaulting/ partial defaulting on its contractual obligations to the bank, or any impact from a deteriorated condition of a borrower, counterparty or securities issuer.

2) *Counterparty credit risk*, i.e. the risk that a counterparty fails to perform its contractual obligations before the relevant transactions are finally settled. Such operations are not made without prior evaluation of counterparties' financial condition and probability of counterparty credit risk events both before the settlement is over and while it is underway.

The bank has in-house models to quantify the probability of default and other credit risk components used to estimate expected losses, required economic capital and risk-weighted assets. The bank creates provisions for its lending operations in line with the risk it assumes, as recommended or required by the Bank of Russia.

Credit risk is measured using an evaluation system involving analysis of general risk factors, sectoral specifics and counterparty-specific risk factors and nature of business. Credit risk is limited (controlled) by means of a multi-level system of limits applicable to individual counterparties/exposures and to portfolios of exposures grouped by a certain attribute (sector limits, limits by activities and types of financing, limits on concentration of largest borrowers, etc.).

In order to reduce credit risk, the bank limits the total amount of credit risk per borrower (group of related borrowers). All lending limit requests trigger an independent risk measurement aimed at a comprehensive and thorough analysis of potential borrowers. Credit risks are managed based on limits set for various types of transactions and subject to the regular monitoring of borrowers' creditworthiness. The bank also thoroughly and prudently analyses potential and existing borrowers for economic safety and values collateral taken to secure borrowers' obligations to the bank, subject to the subsequent monitoring of their availability and changes in their actual value throughout the entire life cycle of the loan product. All loan-related documents are subject to thorough legal due diligence.

Lending activities are coordinated, and related decisions are taken, by the bank's credit committee whose members represent all subdivisions concerned, including risk management (with veto and advisory rights). Some decision-making powers in respect of credit transactions and amending credit resolutions made earlier by an authorised body may be delegated to authorised persons under the four-eyes principle. Credit risk management activities are coordinated by the Credit Risk Committee, a specialised management body reporting to the Management Board.

The principle of distribution of responsibility in credit risk management is reflected in the bank's Risk Management Policy, Credit Policy and loan approval procedures.

Key credit risk management elements:

- The Risk Management Policy approved by the Supervisory Board is the bank's framework risk management document, defining the goals, principles and tools of risk management;
- A set of methodological documents regulating the principles of assessing this type of risk, the bank's Credit Policy and credit process bylaws are regularly aligned with market conditions, the bank's lending strategy and existing risks;
- Improvement of the formalised borrower appraisal principles and methods (rating models for corporate borrowers, scoring systems for retail business), risk-based application of the general principles of pricing, collateralisation and provisioning. In the reporting period, the bank validated and revised its internal rating and scoring models to enhance their quality and bring them into line with best practices of quantitative credit risk evaluation;
- Control over limits for borrowers and groups of related borrowers, concentration limits, authority limits and other structured limits.

### **Measures Taken in 2020 to Minimise this Type of Risk**

*In 2020, the bank faced global challenges driven by the complex epidemiological situation, subsequent governmental restrictive measures on business and the population, such measures being introduced in 1Q - 2Q 2020, and driven by the relevant impact on all economic and public activity sectors, including: suspension of operations of any production and trading enterprises, freezing of construction projects, change of business format, including transition to the online-format, a reduction in the revenues of counterparties, a drop of household income and a proportionate decrease in consumer demand, a moratorium on initiation of bankruptcy proceedings upon application of lenders in relation to certain debtors and, as a consequence, deterioration of the paying capacity of the bank's target counterparties and a general decrease of the credit quality of retail and corporate borrowers of the bank. Such challenges were the key assumptions for the development and introduction of a set of actions to respond to the existing challenges, both with regard to the risk assessment methodology and internal bank procedure changes, and in relation to any change of the credit policy concerning certain client segments:*

- Corporate customers were segmented based on the degree of exposure to any crisis developments. As a result, all customers were divided into three conventional zones: green, yellow and

red. The customer work procedure was altered dependent on the risk zone. For red zone customers, a ban was placed on assumption/increase of risk; for yellow zone customers, there is individual consideration along with an analysis of the customer-specific anti-crisis strategy. For green zone customers, the “green corridor” principle was implemented; simplified scenarios for reallocation of sub-limits within the approved limit were introduced, such scenarios allowing the offsetting of any customer needs for credit products as promptly as possible. The bank updated the internal stress tests and the covenant set against counterparties from different zones;

- The bank introduced new pledge haircuts for certain types of real estate properties, and the approaches to liquidity estimation for the complex epidemiological situation period;

- To record any increased risk level in the crisis period and to preserve the level of conversion and issue profitability, the credit risk premium was re-calculated and new lending rates for retail credit products were approved;

- The bank established channels to accept any remote restructuring applications, the conditions for submitting any supporting documents were adapted and the conditions for cancellation of any penalties and fines resulting from deterioration of financial condition due to the COVID-19 outbreak were added;

- The bank adjusted the procedures for collection of overdue debts from individuals subject to an increase in the number of applications for a loan repayment holiday and an increase in load at the soft collection stage;

- The bank introduced sectoral, limit and rating restrictions on the conditions for SME express product insurance to mitigate any risks arising out of the epidemiological restrictions on business in 2Q - 4Q 2020 and to reduce any integral losses arising from the previous-generation issues;

- The bank improved the approaches to monitoring corporate customers, and the procedure for monitoring customer strategic plans was included;

- A new methodology was drafted for assessing of the creditworthiness level for the specialised lending sub-class named “commodity financing”, and the methodology for the “project financing, capital investments into enterprises” was updated;

- The bank updated the modules of its corporate rating model, which improved the predictive strength of the model in general;

- A new model was developed for assessing the probability of claims under guarantees granted in accordance with 44-FZ and 223-FZ in the SME segment;

- Retail customers’ default probability scoring application models for general-purpose loans and credit cards were improved and commissioned for industrial operation;

- The bank revised the approaches to limit-setting: subject to the scoring group, the maximum lending amounts were decreased and the restrictions on payment-to-income (PTI) were introduced: the limit-income ratio was changed;

- The bank revised the approaches in favour of a tighter check of any loan applications by migrating previously automatic checks to a shorter route of checking performed by the Underwriting Division;

- The bank revised the powers for decision-making and issuing loans to customers classified into the low scoring group in relation to any non-standard applications;

- Approaches to the quantification of discounts under repos were updated;

- Guidance was drafted on quantification of limit utilisation on counterparties under repos. The key results include:

- limit utilisation on a counterparty is calculated based on the potential future exposure (PFE);
- the GARCH model of risk factor volatility is used to assess the PFE.

## COVID-19: Support Measures

- Focus on large corporates makes MKB potentially less vulnerable to economic shocks compared to the banks with higher exposure to individuals and SMEs, which were affected by COVID to a larger extent
- Wide support measures - mostly represented by bank's own programs - are favorable for the quality of loan portfolio

**5.8%** COVID-related restructurings in total loan portfolio<sup>(1)</sup>

### Corporate segment

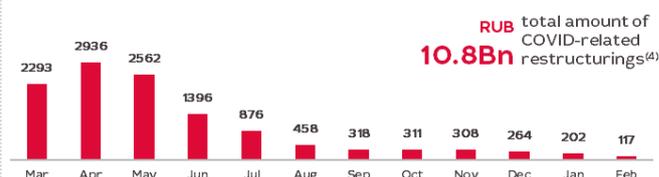
Approved corporate restructurings by month



**5.5%**<sup>(2)</sup> vs. **15.4%**<sup>(3)</sup> COVID-related restructurings in corporate loan portfolio: MKB vs. top-33 Russian banks<sup>(2)</sup>

### Retail segment

Approved retail restructurings by month



**8.1%** COVID-related restructurings in retail loan portfolio<sup>(4)</sup>

**c.90%** of outstanding restructured loans with credit holidays ending in Dec2020 returned to initial repayment schedule

Source: Company data, IFRS financial statements, public sources.  
Notes: (1) As of 31 Dec 2020. Calculated as total amount of COVID-related restructurings in corporate and retail segments divided by total gross loan portfolio. (2) In Apr-Dec 2020. (3) From 20 Mar to 1 Feb 2021, according to CBR. (4) In Mar-Dec 2020.

## Activities Planned for 2021 to Minimise this Risk

- Continue developing application and behavioural retail scoring models for assessing the probability of default, expanding the pool of processed information and improving data quality;
- Develop and improve the lending process methodology for financial institutions, expand the product line of the Investment business and reduce fees in a number of areas to expand the customer base;
- Improve the monitoring process for corporate customers, including an increase in process efficiency (allowing for planned automation);
- Develop the income assessment system for retail customers by connecting external services and economy-mathematical models for assessing customer income;
- Update the approaches to assessing counterparty credit risk in transactions with derivative financial instruments;
- Develop and improve the lending process methodology for the SME segment;
- Take steps to comprehensively accelerate decision-making within the lending process.

## Market Risk

The source of this type of risk is the bank's exposure to losses and negative consequences due to adverse changes in the market value of financial instruments in its trading book and derivatives, and in exchange rates of currencies and/or precious metals.

The market risk includes:

1) *instrument interest rate risk*, i.e. the exposure to adverse effects from unfavourable changes in interest rates of the trading portfolio instruments (in particular, the risk of negative revaluation of the trading portfolio as a result of changes in fixed income interest rates);

2) *instrument currency risk*, i. e. the exposure to adverse effects from changes in FX rates and/or precious metal prices through devaluation of FX-nominated financial instruments and/or precious metals in the trading portfolio; Trading portfolio FX risk is calculated based on interest rate and securities portfolio risks of FX-nominated instruments;

3) *securities portfolio risk*, i.e. the exposure to adverse changes in market prices of securities in the trading portfolio or derivative financial instruments due to factors related to both specific issuers and general fluctuations in market prices of financial instruments.

4) *commodity risk*, i.e. the exposure to losses due to adverse changes in market prices of commodities, save for precious metals (including commodity derivatives)

Operating in the financial market, the bank assumes risks of instruments in its trading portfolio (risks of adverse changes in the prices of equity instruments, changes in interest rates of fixed income debt instruments, as well as changes in currency exchange rates and the resulting negative revaluation of its trading portfolio).

The bank manages market risks as required by the Bank of Russia's regulations and also uses internal methods compliant with guidelines of the Basel Committee on Banking Supervision.

The bank manages its market risk by setting limits on open positions in financial instruments, interest rates, maturities and currency, and also stop-loss limits. Limits and positions are monitored on a regular basis and are reviewed and approved by the Asset and Liability Committee / Management Board. In addition, the bank uses stress tests to model the impact of different market scenarios.

The bank applies conservative approaches to building its securities portfolio so as to avoid significant losses that could affect its financial stability. The bank mostly deals in bonds of Russian issuers included in the Bank of Russia's Lombard List and having short durations.

The bank's exposure to market risks may be evaluated by calculating maximum possible loss per each security and Value-at-Risk / Stressed Value-at-Risk for the entire portfolio.

### **Measures Taken in 2020 to Minimise this Type of Risk**

– The risk profile of the securities portfolio was updated to reflect the new macroeconomic environment (increased market risk, reduced credit risk) through acquisition of any qualitative securities with high duration against some expectations of a key rate drop and the bank's position lowering in relation to securities from the sectors that are largely exposed to the COVID-19-related restrictions;

– Migration to a new methodology was completed for determining the current fair value of financial instruments, including automation of calculations.

The key outcome for debt securities:

- for inactive securities, for which any equivalents circulating in the active market can be selected, the cash flow discounting model was used;
- for inactive securities, for which no equivalents can be selected, expert assessments were used.

The key outcome for derivatives:

- models were added to access barrier options on a currency pair, coupon options on a share basket, and swaps on total return on shares.

– A project was put in motion to use any new approaches to market risk management (FRTB), preliminary need for capital was estimated in connection with the proposed changes in the sectoral standards, and a road map for project implementation was approved.

– Proposals for a trading portfolio instruments strategy were prepared. This strategy contributed positively to the bank’s financial instrument performance during the stress period caused by the COVID-19 outbreak.

– Stress tests were performed with regard to the market risk under several scenarios, including as part of requests from the Bank of Russia, reporting for the Authorised Bodies and analytical calculations to forecast levels of standards.

#### **Activities Planned for 2021 to minimise this risk**

– Apply new Basel Committee “Minimum capital requirements for market risk” approaches to improve the risk management system:

- update the approaches to segmentation of trading book instruments;
- develop a methodology for assessing the total market risk based on the Expected Shortfall model;
- develop a methodology for assessing specific market risk based on the DRC model.

#### **Operational Risk (incl. Legal Risk and Compliance Risk)**

The source of this type of risk is the exposure to adverse effects from the credit institution’s internal operating processes and procedures being inconsistent with the nature and scale of its activities and/or statutory requirements or being violated by its staff and/or other persons (by any unintentional or deliberate actions or omission), from its information, technological or other systems being functionally or otherwise inadequate and/or failing (malfunctioning), or from any external events.

Operational risks have the peculiarity of being inherent in all of the bank’s activities, rather than in individual products/processes.

To limit operational risk, the bank details a set of measures in its to mitigate the operational risk impact, minimise the probability of operational risk events resulting in losses and/or to minimise (limit) such losses. These are:

– Standardisation of transactions, procedures for collective decision-making in respect of major transactions, distribution of staff powers and responsibilities in making transactions, procedure for related reporting and follow-up control designed to prevent (limit) operational risk, and control over those procedures;

– Requirements pertaining to banking automation and InfoSec systems, and prospects of their development; granting and segregation of access rights to information and information systems;

– Insurance procedures, including property insurance (insurance of buildings, other assets, including money and securities, from loss (destruction), shortage or damage, in particular inflicted by third parties or staff, and business risk insurance covering losses resulting from banking risk events) and personal insurance (H&S insurance);

– Bylaw approval procedures requiring validation by subdivisions responsible for assessing operational risks.

The bank’s operational risk management procedures set forth methods to identify and assess operational risks assumed in various areas at its activities.

Operational risk includes:

1) *staff risk*, i.e. the risk of losses caused by errors or malfeasance of the bank’s staff, their insufficient qualification, work overload, unpractical working processes, etc.;

2) *process risk*, i.e. the risk of losses caused by errors in transaction execution, settlement,

booking, reporting, pricing and other processes;

3) *system risk*, i. e. the risk of losses caused by deficiencies of the bank's technologies such as insufficient capacity of its systems, their inadequacy for operations being made, rough data processing methods, or low quality or inadequacy of data used, etc.;

4) *external risks*, i. e. the risks of losses caused by changes in the bank's operating environment, such as changes in laws, politics, economy, etc., and risks of physical interference from outside;

5) *legal risk*, i.e. the exposure to adverse effects of the bank's failure to perform its contractual obligations to customers/counterparties, their failure to perform essential terms of supply and other agreements signed by them with the bank concerning provision of goods, works and services (except for credit-related agreements), unsatisfactory level of legal work in the bank, imperfection and instability of the Russian legal system, variability of laws and regulations governing the bank's operations.

6) *compliance (regulatory) risk*, i.e. the exposure to adverse effects from non-compliance with requirements of international and Russian laws, the bank's commitments to its shareholders and third parties, its bylaws, standards of self-regulatory organisations (if mandatory for it) as well as due to sanctions and/or other enforcement actions imposed by supervisory bodies.

7) *technological risk*, i.e. the exposure to losses from using outdated technologies or sunk costs of new technologies.

8) *Information security risk*<sup>5</sup>, i.e. the exposure to information security threats posed by drawbacks in information security processes, including technological and other procedures, flaws in the software of automated systems and applications, and the inadequacy of such processes for the bank's operations.

#### **Measures Taken in 2020 to Minimise this Type of Risk**

- The subsidiaries' operational risk management methodology was updated.
- Steps were taken to develop an internal operational risk management culture at the bank, including preparation of training materials, delivery of special training programmes on Operational Risk Management to employees, followed by the relevant testing.
- The composition of modules and the list of critically important internal processes within CREDIT BANK OF MOSCOW's BC/DR system (business continuity and/or disaster recovery in case of any non-standard or emergency situations) were updated, which allowed to respond promptly to a challenge coming from the complex epidemiological situation and to establish any anti-crisis headquarters for the coordinated introduction of the set of required measures and restrictions to ensure business continuity and to move the majority of employees to remote working as soon as possible, as well as to maintain such remote working until the relevant restrictions have been lifted.
- An annual operational risk self-appraisal test was performed using the Automated Operational Risk Management System.

#### **Activities Planned for 2021 to Minimise this Risk**

- Design and introduce new operational risk control tools and draft the corresponding new bylaws.
- Continue the risk management culture development efforts with respect to the Group's operational risks.
- Improve the operational risk management system in accordance with the Bank of Russia's new requirements;
- Update the list of key risk indicators as part of monitoring the level of operational risk in all

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<sup>5</sup> Upon completion of risk identification for 2021

areas of the bank's activities.

### **Concentration Risk**

The risk of significant losses that can pose a threat to the bank's solvency and ability to continue its business due to its exposure to large counterparty risks, risks in specific sectors, regions, markets, currencies, etc.

Concentration risk management procedures include the following:

- Concentration risk identification and measurement procedure;
- List of concentration limits on the existing structure of the bank's risk-bearing assets grouped into portfolios by various attributes, and aggregate indicators of its operations. The aim is to limit losses resulting from overconcentration on certain counterparties, groups of counterparties or groups of assets of the bank;
- Developing ways to control compliance with such limits, in particular control the bank's portfolios of instruments with the aim to identify risk concentrations that are new for it and are not captured by the concentration limit system, and ways to report limit violations to its management bodies, and corrective procedures.

### **Measures Taken in 2020 to Minimise this Type of Risk**

- A set of measures was implemented for monitoring the limitable indicators for all sub-types of concentration risk and the scheduled works were performed to reduce the level of concentration against the complex epidemiological situation. The relevant managerial resolutions concerning compliance with the permissible level of concentration, including in any crisis periods, were issued in respect of past reporting periods and resulted in the requisite effect.
- The scheduled validation of the concentration risk quantification models was performed, which confirmed compliance of the applied approach to risk assessment with international regulatory practices and the practices of Russian banks that apply a similar business model.
- CREDIT BANK OF MOSCOW's Quantification Guidance for Concentration Risk was updated.

### **Activities Planned for 2021 to Minimise this Risk**

- Validate and calibrate concentration risk quantification models, update the levels of concentration risk appetite indicators (KRIs) and adjust the risk quantification guidance if necessary;
- Unify the approaches to the concentration risk and sub-risk quantification procedure and methodology within the Banking Group.

### **Liquidity Risk**

The source of this type of risk is the possibility of the bank running short of cash to perform its obligations in full. Liquidity risk can arise as a result of a mismatch in the bank's financial assets and financial liabilities (in particular caused by a failure of one or more of its counterparties to perform their financial obligations in due time) and/or an unforeseen abrupt acceleration of its financial liabilities.

The bank exercises strict control on a daily basis over compliance with statutory liquidity ratios set by CBR (instant (N2) and current (N3) liquidity ratios). The bank also controls compliance with the long-term liquidity ratio (N4); and, starting from 2018, as CREDIT BANK OF MOSCOW was included in the list of systemically important credit institutions, the short-term liquidity ratio (N26) (the "STL"; calculated in line with Regulation on Calculating the Short-Term Liquidity Ratio (Basel III) by Systemically Important Credit Institutions No. 510-P dated 03.12.2015) has been calculated and

monitored on a daily basis.

The bank distinguishes the following liquidity risk types:

- 1) *risk of mismatch* between incoming and outgoing cash flows;
- 2) *risk of unforeseen liquidity requirements*, i.e. the risk of consequences of unexpected events in future that may require more resources than projected;
- 3) *market liquidity risk*, i.e. the risk of selling assets at a loss or inability to close an existing position due to insufficient market liquidity or insufficient amount of trades. The effects of this form of risk may be factored into the market risk evaluation;
- 4) *funding risk*, i.e. the risk associated with potential changes in cost of funding (individual and market credit spread) affecting the bank's future income.

The bank's liquidity risk management procedures include the following:

- Specific risk factors;
- Procedures to determine the bank's funding needs, including identification of liquidity surplus/shortage and limits of liquidity surplus/shortage (liquidity limits);
- Procedures for liquidity forecasting and time analysis of liquidity (short-term, current and long-term liquidity);
- Procedures for setting liquidity limits and developing ways to control compliance with such limits, to report limit violations to the bank's management bodies and suggest corrective actions;
- Procedures for daily liquidity management and longer-term liquidity management;
- Methods for analysing liquidity of assets and stability of liabilities;
- Liquidity recovery procedures, including procedures for making decisions on mobilisation (sale) of liquid assets and other possible (and most easily accessible) ways of additional funding in case of liquidity shortage.

Final decisions as to liquidity risk are taken by a collective body, the ALCO/Management Board, thus ensuring comprehensive and effective control over that risk.

The current and forecast liquidity risks are managed separately at the bank.

Current liquidity management is the main task of the bank's operative management of assets and liabilities, involving short-term forecasting and management of cash flows in terms of currencies and maturities to ensure performance of the bank's obligations, execution of customer payments and funding of assets-related transactions. Current liquidity is managed through prompt (intraday) estimation of the bank's current payment position and forecasting changes therein based on the payment schedule and different scenarios.

The main purpose of forecast (medium- and long-term) liquidity management is to develop and implement a system of ALM measures to maintain the bank's solvency and ensure the planned growth of the assets portfolio at an optimum balance between liquidity and profitability. This is done at the bank by making long-term liquidity forecasts and setting internal liquidity requirements (required liquid and highly liquid cushion, required amount of the liquid securities portfolio). Long-term liquidity forecasts go to the bank's ALCO/Management Board.

In addition, stress tests are run based on risk factors relevant to liquidity forecasts and the bank's capability to mobilise liquid assets in the event of a liquidity shortfall.

This prevents material liquidity gaps, ensures uninterrupted performance of obligations, saves costs of urgent fund raising in the case of emergency situations and makes assets-related transactions more profitable thanks to the right choice of instruments.

## **Measures Taken in 2020 to Minimise this Type of Risk**

– At the level of authorised bodies (ALCO), the bank paid special attention to compliance with the non-revolving credit facility (NRCF) indicator, which meant development and implementation of timely measures as to its tactical regulation, including measures to decrease any dependence on a revolving credit facility of the Bank of Russia (RCF), which is not currently used, as the bank has no relevant need, given that it has its own internal resources. Procedures were also improved for modelling bank's dynamic balance sheet and for forecasting the liquidity status, including the liquidity reserves and NRCF standard, which enhanced the forecast efficiency and accuracy. The bank's Regulation on Treasury Portfolio Management was approved. One of the principal objectives in creating the treasury portfolio is to maintain NRCF at the level set by ALCO subject to the risk appetite indicator set in the Risk and Capital Management Strategy.

– The procedures for stress testing of liquidity at the bank were improved, the scenarios and methods for stress testing were updated and calculation procedures were optimised;

– The target volume indicators to regulate NRCF effectively and to take steps to reduce dependence on RCF were updated. A set of restrictions on the portfolio of highly liquid securities, such restrictions aiming to mitigate the market risk, was approved;

– New limits were imposed for, and current limits and restrictions were updated in respect of, some of the bank's transactions to mitigate the liquidity risk and regulate mandatory liquidity ratios;

– The system of analytical reports to the bank senior managers for liquidity risk tactical management was amended in particular as regards the status and forecast of liquidity and mandatory ratios and liquidity reserve.

## **Activities Planned for 2021 to Minimise this Risk**

– Improve the liquidity risk limit system;

– Improve further the methodology for modelling the bank's dynamic balance sheet and stress testing the bank's liquidity;

– Automate further processes for modelling the bank's dynamic balance sheet and forecasting liquidity indicators and mandatory ratios;

– Continue improving the analytical reporting system for the bank's management in order to manage the liquidity risk tactically, including by detailing trend analytics for certain types of assets/liabilities, condition of the Treasury portfolio, liquidity forecast, mandatory ratios and the liquidity reserve.

## **Interest Rate Risk in the Banking Book (IRRBB)**

The risk of deterioration of the bank's financial condition through a decrease of its capital, income or assets value resulting from a change in market interest rates affecting its assets and liabilities other than its trading portfolio. Interest rate risk in the banking book stems from mismatches between maturities of, or between changes in interest rates on, assets and liabilities.

Interest rate risk in the banking book management procedures include the following:

– Gap analysis using interest rate stress tests;

– Identification of major sources of IRRBB inherent to operations (transactions) sensitive to interest rate changes;

– Modelling of maturities and cost of assets (liabilities), in particular setting target product maturities at the business subdivisions' level in the course of the business planning process;

– IRRBB limits and ways to control compliance with them, a system to report limit violations

to the bank's management bodies, and a correction process.

Final decisions as to interest rate risk in the banking book are taken by a collective body, the ALCO/Management Board, thus ensuring comprehensive and effective control over that risk.

The bank sets and regularly controls relevant limits linked to loan utilisation effectiveness, profitability and maximum interest rate gaps on various time horizons. To limit the impact of interest rate risk in the banking book on the bank's financial results, the bank analyses maturities of loans issued and funding raised to reveal any mismatches between its assets and liabilities exposed to interest rate changes. This analysis helps decide what structure of assets and liabilities is optimal and ensures maximum resilience to financial losses caused by interest rate risk in the banking book. On an ongoing basis, the bank optimises interest rates on the assets side and liabilities side in line with the current market situation and tariff policies of its main competitors.

### **Measures Taken in 2020 to Minimise this Type of Risk**

- Procedures were implemented for calculation and monitoring of the interest rate risk indicators pursuant to the new assessment methodology for interest rate risk in the banking book in line with the Bank of Russia's recommendations and Basel Committee standards concerning assessment of interest rate risk in the banking book and including application of behavioural models for the bank's assets- and liabilities-side products.

- The behavioural models were improved for active and inactive banking products to assess interest rate risk in the banking book and pricing subject to risk;

- Procedures were fully implemented for calculating compensations for the interest rate risk related to embedded optionalities in assets- and liabilities-side products;

- The bank's Regulation on Treasury Portfolio Management was approved. One of the principal objectives in creating the treasury portfolio is to manage an interest rate risk in the banking book pursuant to the bank's statutory documents, including subject to the risk appetite indicators set in the Risk and Capital Management Strategy, and under ALCO resolutions.

- The scope of regular analytical reports provided to the Assets & Liabilities Committee was supplemented with regard to the data on interest rate risk performance, such as assessment of impact to be produced from a shift of the interest rates to the economic value of the bank's capital ( $\Delta EVE$ ), and assessment of impact to be produced from a shift of the interest rates to the expected net interest income of the bank ( $\Delta NII$ ).

### **Activities Planned for 2021 to Minimise this Risk**

- Improve behavioural models of the bank's assets- and liabilities-side products designed for assessment of the interest rate risk in the banking book, and risk-based pricing.

- Improve the system of limits of interest rate risk in the banking book.

- Improve regular analytical reports provided to the Assets & Liabilities Committee as regards interest rate risk in the banking book.

### **FX Risk in the Banking Book (FXRBB)**

The exposure to potential losses due to changes in exchange rates/prices of foreign currencies/precious metals in which the bank has open currency positions (OCP) at the bank book level.

FX risk in the banking book represents potentially adverse effects from changes in FX rates and/or precious metal prices at the bank book level by measuring the aggregate long or short open currency position against the bank's capital.

FXRBB management requires limits to be set on the bank's OCP.

FXRBB management procedures include the following:

- The bank's compliance with Bank of Russia Instruction No. 178-I "On Setting Open Currency Position Limits, the Methodology for Calculating them, and Modalities of Supervision of Credit Institutions' Compliance therewith" dated 28.12.2016 is monitored on a daily basis: its designated subdivisions ensure that the open foreign currency position in any single foreign currency or precious metal does not exceed 10% of its equity (capital). The bank goes beyond the Bank of Russia's regulatory restrictions by setting more conservative internal limits on the size of its open foreign currency position in each currency;
- The bank monitors and forecasts on a daily basis its open foreign currency position in each currency and as a whole;
- The key FX risk factors, such as governmental, macroeconomic and financial ones are monitored on a daily basis.

#### **Measures Taken in 2020 to Minimise this Type of Risk**

- The assessment methodology for FXRBB was improved in terms of the back-testing approaches.

#### **Activities Planned for 2021 to Minimise this Risk**

- Introduce new Basel Committee "Minimum capital requirements for market risk" approaches to improve the risk management system.

#### **Reputational Risk**

The source of this type of risk is the bank's exposure to losses as a result of an outflow of the bank's customers (counterparties) due to a negative public perception of the bank's financial stability, quality of its services or the nature of its activity as a whole. The probability and amount of losses that can be caused by this risk depends on the level of this risk in the Russian banking sector as a whole.

Reputational risk management procedures include the following:

- procedures/tools/mechanisms for dealing effectively with all categories of stakeholders;
- ethical conduct in provision of services;
- ongoing monitoring of internal and external threats to the bank's reputation;
- understanding shareholders' and investors' expectations as to disclosure;
- maintaining an advanced corporate governance system and developing it in line with the bank's strategic goals and interests of all stakeholders;
- ensuring a high level of corporate culture;
- adherence to the code of professional ethics and culture;
- transparent and advanced staff remuneration, incentive, training and qualification upgrade system.

The bank meets all of its obligations on time and in full. The bank's credit history includes large loans from leading credit institutions of the world, syndicated loans and bond issues. The bank is also well-reputed in the national and international financial communities.

The bank makes considerable efforts to promote its image in the eyes of its customers and the public by increasing its information transparency. Reputational risk management is an integral part of the risk management system and is practiced with the direct involvement of the bank's management.

### **Measures Taken in 2020 to Minimise this Type of Risk**

– The bank promptly took and regularly maintains measures to prevent the spread of the new viral infection (COVID-19), which helped maintain the operability of all critically important processes and ensure continuity in providing services to customers and fulfilling obligations to partners:

- daily monitoring of the established control indicators to prevent the spread of coronavirus at the bank;
- the bank employees have remote access to their workplaces with all the necessary procedures for economic security and confidentiality of any bank secret and trade secret data;
- the premises are cleaned pursuant to the orders of sanitary inspectors, and bank employees and offices are provided with the necessary equipment and personal protective equipment;
- the employees who continue attending to the bank's offices undergo regular testing;
- interaction with the regulator and supervisory authorities for control over the employee infection rate and to report any measures taken at the bank in connection with the spread of COVID-19 and the introduction of the stay-at-home regime;

– The bank continued its efforts to develop the most promising methods and principles of business continuity:

- processes to ensure continuity and respond to the most critical (for the bank) factors of business interruption, including the IT systems, were updated to minimise any failures in their operation;
- the list of critically important internal banking processes was updated;
- the system of electronic document flow at the bank was optimised for prompt reporting and approval of the bank's bylaws.

These actions ensured compliance of the bank's BC/DR system with the Bank of Russia's requirements and international standards, created a material safety margin for the business processes and systems, and ensured a due level of reputational risk to match the bank's scale of operations.

– Development of a reputational risk management system, in particular by further integration of reputational risk assessment and management processes at various levels of the internal control and risk management system, was secured by establishing the bank's regulations for internal controls. The control processes ensured greater transparency and business openness of the bank for its stakeholders within the corporate governance system.

### **Activities Planned for 2021 to Minimise this Risk**

– BC/DR system development resulted in elaboration of a road map for updating and improvement of the BC/DR system in 2021 (BC/DR RM 2021). The road map incorporates plans for regular monitoring, risk assessment and evaluation of business discontinuity factors. The bank shall implement BC/DR RM 2021 in line with the most advanced methods and business continuity principles, which will both ensure compliance with the Bank of Russia's requirements and international standards and create a material safety margin for the business processes and systems.

– Develop a reputational risk management system, in particular by integrating further reputational risk assessment and management processes at various levels of the internal control and risk management system, ensuring greater transparency and openness of the bank for all stakeholders. Among other things, the bank plans to update existing regulations and its subsidiary financial institutions

in reputational risk management, including monitoring and assessment processes.

### **Strategic Risk**

This risk means the exposure to adverse consequences of mistakes (flaws) in strategic decisions such as oversight or underestimation of potential threats, wrong or inadequate choice of prospective business areas where it can gain an edge over its competitors, lack/insufficiency of resources (financial, material, technical, human) and organisational measures (managerial decisions) required to attain its strategic goals.

The main goal of the strategic risk management is to establish an interdisciplinary system allowing for appropriate managing decisions in respect of the bank's activities, aimed at reducing the impact of strategic risks on the bank in general.

Strategic risk management procedures include the following:

- Periodic revaluation of the bank's development strategy;
- Planning the development of new lines of business, new products, technologies and services, expansion of existing technologies and services and strengthening of the bank's infrastructure;
- Analysing competition so as to identify strategic risks such as the threat of new competitors entering the market, the threat of product substitution or the threat of continuous evolution of strategic risk factors during the lifetime of services provided.

The capital charge estimation stage was embedded into the product/service development procedure.

Key strategic risk indicators are limited in accordance with the bank's procedures. Limit control results, breaches and correction proposals are regularly reported to the bank's management bodies to ensure prompt control over achievement of the bank's strategic goals.

### **Measures Taken in 2020 to Minimise this Type of Risk**

- When the pandemic began, the bank promptly established a set of anti-crisis measures and determined the operating strategy in the complex epidemiological environment, which retained business marginality and ensured achievement of the financial targets in the reporting period;
- In order to enhance transparency of the procedures for allocating any administrative and business expenses, the bank introduced the automated system, which provides for a cascade method of distributing indirect expenses;
- As a result of introduction of the system, the expenses are allocated down to the bank's main business areas and down to key products. Introduction of this system allows to determine more exactly the price conditions for the products being developed at the bank and to outline steps required to increase their competitiveness;
- To preserve the required level of profitability in 2020 and as a reaction to drop in business activity, the bank took steps to reduce administrative and business expenses.

### **Activities Planned for 2021 to Minimise this Risk**

- Update the bank's development strategy for 2021–2023, which is drafted taking into account the risks assumed and based on the results of the internal procedures for assessing capital adequacy;
- Improve the bank's financial model, including with the use of dynamic balance methods;
- Implement the automated budget control system, which includes an end-to-end automated process from the business planning stage to the control stage of payments made for administrative and business expenses.

## Automated and Software Risk Management Solutions

	<ul style="list-style-type: none"><li>➤ Decision-making unit in retail lending process (scoring, limit setting, customer categorization)</li><li>➤ Development of credit risk quantification models (internal rating and scoring models)</li><li>➤ Automation of customer routing in Collection (automatic customer segmentation at early and late recovery stages)</li><li>➤ Operational risk management system</li></ul>
	<ul style="list-style-type: none"><li>➤ Routing of retail loan applications</li><li>➤ Standardised retail and corporate customer profiles transferred to all the bank's systems, including risk management systems</li><li>➤ Tracking corporate customers' group structures, in particular identifying affiliation criteria, including links to retail customers</li><li>➤ Feeding credit histories from credit bureaux into new applications entered in CRM</li></ul>
	<ul style="list-style-type: none"><li>➤ Routing of corporate loan/credit limit applications ("Loan pipeline")</li><li>➤ Monitoring of corporate customers and transactions</li><li>➤ Calculation of internal corporate credit ratings</li><li>➤ Online gathering and storage of data on overall counterparty exposures, including financial market and retail lending operations. Automation of the bank's common limit catalogue</li><li>➤ Control of limits, including structural limits and related authorities, control of regulatory ratios</li></ul>

## OVERVIEW OF OPERATIONS

### 1. Corporate Business

MKB is largest Russian non-state public bank and occupies leading market positions in the corporate segment. Corporate banking is the bank's main business area, accounting for 87% of its loan portfolio and 71% of customer deposits as at the end of 2020. The bank earned RUB 37.6 bln on corporate business, or 50% of its total income in 2020.

Key products include corporate lending, international finance and foreign trade support, trade finance and documentary operations, a full range of cash management and liquidity management services and products, e-commerce tools, factoring and corporate deposits.

*The contribution of corporate business<sup>6</sup> to the bank's key performance indicators:*

Share in total assets	33%
Share in deposits	47%
Share in net interest income	49%
Share in fee and commission income	72%
Share in comprehensive income	50%

#### Key Corporate Business Results of 2020:

- CREDIT BANK OF MOSCOW is a leader in corporate banking, ranked **No. 5 and No. 6<sup>7</sup>** by corporate loans and corporate deposits, respectively, as at the end of 2020;
- **The corporate loan portfolio grew during the year by 28.7%** to RUB 925.8 bln, primarily due to a high demand from quality corporate customers;
- **Expansion of regional presence:** in 2020, additional corporate centres were opened in Saint-Petersburg, Kazan and Yekaterinburg;
- The corporate segment is the **primary source of the bank's fee and commission income**. Guarantees and letters of credit remain the most important part of the transaction business, accounting for 26% of the total fee and commission income or RUB 5.1 bln;
- Special attention was given to **the quality of the services:**
  - Euromoney Cash Management Survey 2020 placed MKB first in the Best Service category;
  - Euromoney Trade Finance Survey 2021 placed MKB first in the Best Service category (the customer poll was conducted in 2020).
- **The strategy of developing services and offerings for SME customers was actively pursued** throughout the year:
  - MKB won the *Best SME Banking Programme 2020* competition of the Chamber of Commerce and Industry of the Russian Federation;
  - MKB became one of the top 3 banks in the category *The best bank for a POS with acquiring* according to Marksw Webb within the scope of Business Banking Fees Monitoring 2020;

<sup>6</sup> Calculated based on IFRS, note 30 "Segment analysis", excluding subsidiaries. Corporate business includes Cash Handling and Cash Operations.

<sup>7</sup> According to the Banki.ru ranking, as of 1 January 2021.

- A new product line was developed for settlement and cash services for SMEs (the leader in the Marksw Webb rating);
  - MKB was ranked first as “The best bank for entrepreneurs” according to Marksw Webb;
  - Bankchart recognised the “Light” settlement and cash services tariff as the best tariff for entrepreneurs and companies;
- During the year, **a unique product concept was developed for the Russian market** – Virtual Treasury banking support. In addition, the bank continued its active use of tools to support customers’ businesses through subsidies with governmental participation;
- Process **digitisation**:
- A completely new process was implemented, allowing customers to open an account in 2 hours with provisioning of accounts in three currencies;
  - Electronic document flow was launched for exchange of loan and collateral documentation;
  - The process of setting individual tariffs was automated;
  - As a part of the documentary business, the processing of Russian domestic letters of credit was launched via the Kontur.Diadoc electronic system;
  - In factoring, the bank implemented remote document exchange and signing with existing and potential counterparties via its own and third-party electronic services;
  - Pilot implementation of the electronic loan file was commenced;
  - A large-scale project for modernising of the lending process was initiated to introduce new lending technologies.

### *Business model*

MKB’s corporate business model is based on three main pillars:

1. Disciplined approach to client acquisition and underwriting, supported by predictive customer analytics and a well-balanced incentive system for corporate bankers.
2. Smart products, tailored to specific client needs and thus providing significant added value to these clients. With such an approach, it is much easier to become a real partner bank and stand out from the competition.
3. Operating within a risk-oriented pricing framework. The bank is not focused on how much it earns on a stand-alone loan product. The aim is to earn target risk adjusted return on capital for each customer and maximise customer wallet share.

### *Customers*

MKB’s corporate customer base is comprised of large and medium-sized companies operating in different sectors of the Russian economy. As at 31 December 2020, MKB had over 19,800 corporate customers. The bank offers its customers an effective system of comprehensive banking services, including remote banking, meeting all basic needs of companies and sole traders. MKB is focused on developing multi-product relationships with its corporate banking customers and seeks to cross-sell a range of products and services, including cash handling, guarantees, trade finance and other fee- and

commission-based products, to its existing corporate customers and to market retail products to their employees and customers.

### *Distribution Network*

MKB has 17 corporate banking business centres, located in different parts of the Moscow area, Saint-Petersburg, Kazan and Yekaterinburg, which specialise in fee-based services for corporate customers. At its corporate banking business centres, MKB assigns a dedicated manager to each corporate customer and provides on-going advisory services. MKB's corporate customers are also able to conduct banking business at any of MKB's offices.

MKB offers its corporate customers a special Internet banking system (called *Your Bank Online for Corporate Customers*), through which corporate customers can request bank statements and make payments. Certain features of this system are available via the MKB-Business mobile application, which is currently undergoing the pilot development and implementation phase. MKB has also launched an online foreign exchange platform MKB Exchange, which is in high demand among MKB's clients. As at 31 December 2020, 70% of MKB's corporate clients were active online banking users.

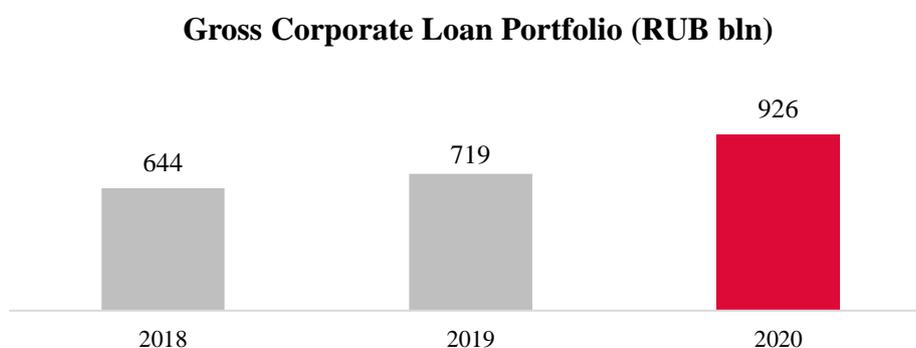
In 2020, MKB also started developing an online bank for SME clients, driven by the strategic acquisition of Vesta Bank, which has significant experience in working with SMEs and has built a quality platform for servicing such clients. MKB's online bank for SME clients will be primarily focused on transactional services and will provide SME clients with a comprehensive product offering covering all daily business needs, including, among others, acquiring, cash collection, account management and FX transactions.

### *Products and Services*

#### *Corporate Lending*

Corporate lending, which accounts for the largest portion of the bank's loan portfolio, is of significant importance in its business structure. MKB offers its corporate customers a wide range of lending products, including overdrafts, loans backed by sales receivables, current account facilities, working capital loans and short-term loans, and long-term fixed asset financing.

As at 31 December 2020, gross corporate loans represented 87.4% of MKB's total gross loan portfolio. The gross corporate loan portfolio expanded in 2020 by 29% to RUB 926 bln, mainly due to loans issued to large, high-quality corporate customers.



The bank is adapting to new economic conditions without compromising its traditionally low level of non-performing loans (NPL 90+) which amounted to 2.6% of the corporate portfolio in 2020.

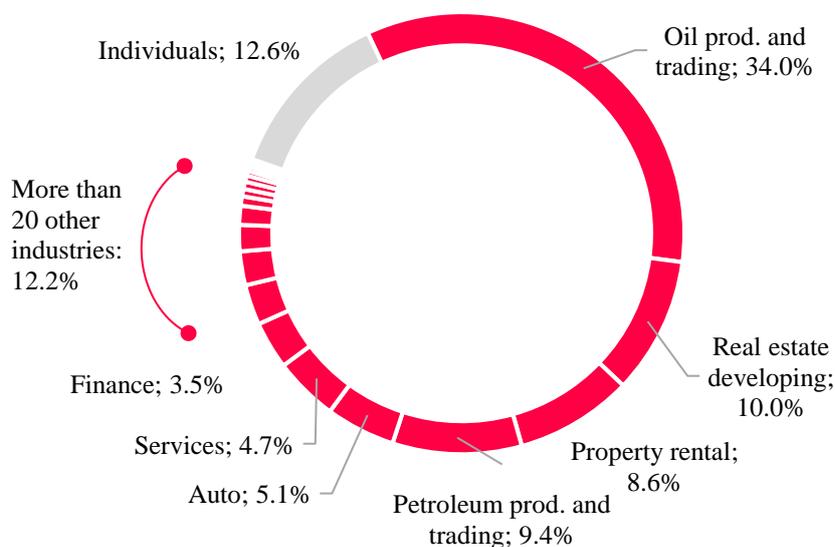
In recent years MKB’s client franchise was broadened towards large and medium-sized Russian companies operating in different industry sectors, with a strong emphasis on customers’ credit quality.

As at the end of 2020, oil production and trade as well as refining, accounting for 39% and 11%, respectively, dominate the corporate loan portfolio. Historically, the companies in this sector are the most stable, develop actively and are supported by the government.

MKB also actively pursues attractive niche opportunities in the real estate development sector, where residential construction volumes are expected to increase by 46% from 2020 to 2030 (according to the National Project passport approved by the Presidium of the President’s Council for Strategic Development and National Projects on 24 December 2018), and explores further opportunities in the project finance sector. In particular, since 1 July 2019, under a new regulation applied in Russia, residential property developers can finance new projects only via banks, as opposed to funding directly from customers. This shift has presented additional favourable opportunities for the Russian banking sector generally and MKB in particular to benefit from increased demand for corporate loans in the construction sector. As at the end of 2020, the construction and development sector, as well as property rent, accounted for 11% and 10% of the corporate loan portfolio, respectively.

Large borrowers also included companies in the automotive, service, service and financial sectors, accounting for 6%, 5% and 4%, respectively. The bank also lends to such key sectors as equipment leasing, metal products, industrial chemistry, food products, etc.

### Loan Portfolio by Sector



In 2020, the bank continued its active use of tools to support of customers’ business through subsidies with governmental participation. For example, the bank is successfully implementing the programme of the Ministry of Economic Development of Russia<sup>8</sup> for subsidising systemically important organisations and their subsidiaries for working capital replenishment, such as in the machine-building industry.

In 2020, the programme of the Ministry of Construction of the Russian Federation<sup>9</sup> for supporting developers in housing construction projects was implemented in significant volumes. The total amount

<sup>8</sup> Programme item No. 582

<sup>9</sup> Programme item No. 629

of subsidies under this programme in 2020 amounted to RUB 712 mln. MKB also takes an active part in implementation of the programme for subsidising agricultural producers. Also in 2020, the bank received approval from the line ministries for participation in subsidy programmes for digital transformation projects.

Using its vast experience in corporate lending, the bank plans to pursue further its balanced approach to analysis of corporate lending risks, further diversify its corporate loan portfolio and focus on lending in the segments that are most resilient to changes in the macroeconomic situation.

### *Trade Finance and Documentary Operations*

Trade finance is traditionally one of the bank's priority development areas. The main competitive advantages of the bank are a broad global network of partners, high credit ratings, experience and professionalism of the staff, a customer-oriented approach and the high quality of its services. They allow the bank to service different global trade flows and offer customers the most attractive terms using the entire range of trade and export finance tools. As a result, the bank is traditionally among the leaders of the trade finance market with the reputation of a professional and trustworthy financial institution.

The main tasks of the bank during the COVID-19 pandemic, which placed the global economy under significant pressure, were to maintain the portfolio quality and control risks, diversify partners, expand the product line to meet the needs of the bank's customers, reduce the cost of counterparty banks issuing documentary instruments and financing trade operations of MKB customers.

Despite the decline in Russia's foreign trade turnover, trade finance at MKB, like in preceding years, grew faster than the market. The bank's trade finance portfolio doubled in 2020 and exceeded USD 850 mln at the end of the year. The portfolio grew both due to development of the customer base, which increased by more than 70%, and to development of relations with the bank's existing customers.

The bank's documentary business as at the end of 2020 amounted to USD 470 mln, demonstrating an 80% YTD growth. The number of documentary transactions carried out in 2020 increased by 160% compared to 2019, which, together with reaffirmed high credit ratings of MKB, helped reduce average confirmation rates in foreign banks by 15 bp.

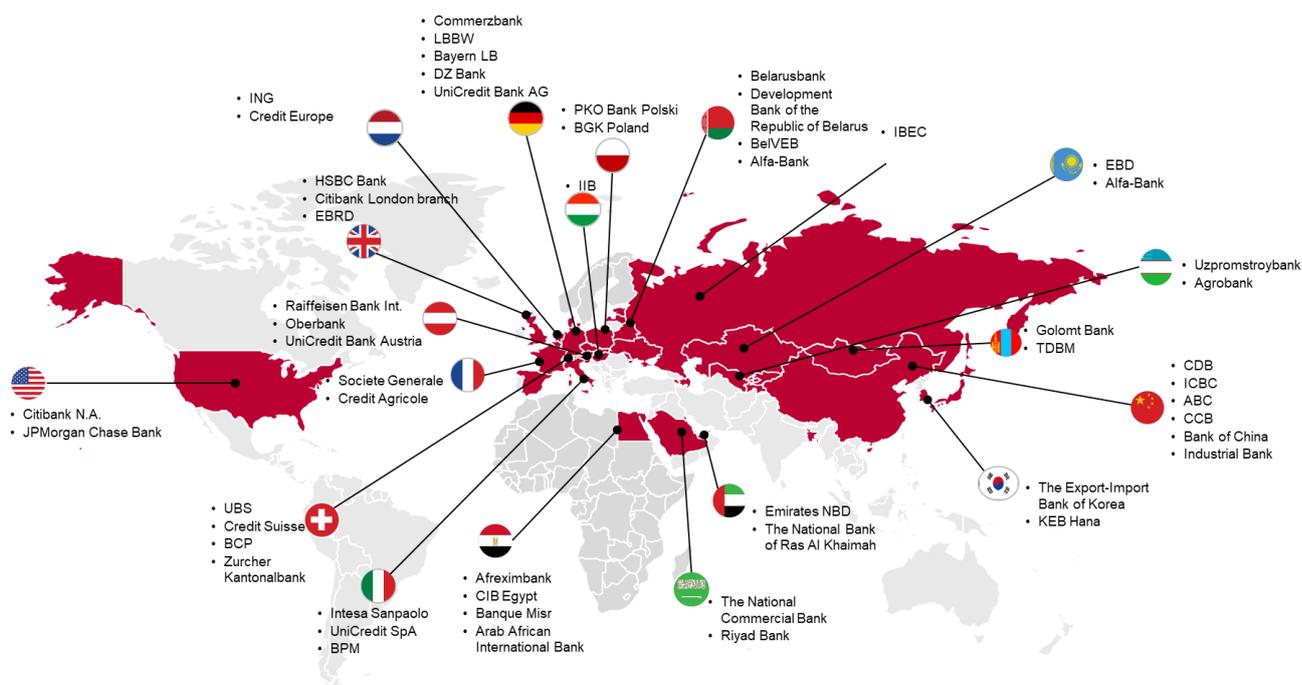
In 2020, the bank significantly expanded its network of counterparties, establishing relationships with new banks and renewing relationships with old partners.

As before, the key partners of the bank in documentary transactions and short-term and long-term finance include world-renowned financial market leaders such as Banco Popolare de Milano, BCP Bank, BGK Poland, Bayerische Landesbank, CaixaBank, S.A., Credit Europe Bank NV, Citibank, Commerzbank AG, Crédit Agricole, Crédit Suisse (Schweiz) AG, HSBC Bank, Industrial and Commercial Bank of China, ING Bank N.V, Intesa Sanpaolo S.p.A., JPMorgan Chase, KBC Bank N.V., Korea Eximbank, Landesbank Baden-Wuerttemberg (LBBW), PKO Bank Polski, Raiffeisen Bank International AG, Société Générale, UBS AG, UniCredit Group, Zürcher Kantonalbank, The National Bank of Ras Al Khaimah, Emirates NBD, The Saudi National Commercial Bank, Arab African International Bank, Banque Misr, Riyad Bank and others.

In 2020, the interbank business involving the assumption of foreign bank risk (confirming export letters of credit with discounting and post-financing, issuing guarantees against counter-guarantees, issuing reimbursement undertakings and interbank loans) demonstrated significant growth.

In this area, MKB developed cooperation with its key partners, which are still represented by banks in the Republic of Belarus, and entered new markets. In 2020, for the first time, the bank financed banks of Uzbekistan, supported documentary operations with major banks in China, actively developed

cooperation with such international financial organisations as International Investment Bank (IIB) and International Bank for Economic Co-operation (IBEC); with their support, the bank provided financing to banks in Mongolia and Uzbekistan. The portfolio of trade finance with financial institutions increased eightfold in 2020 compared to 2019, amounting to USD 180 mln.



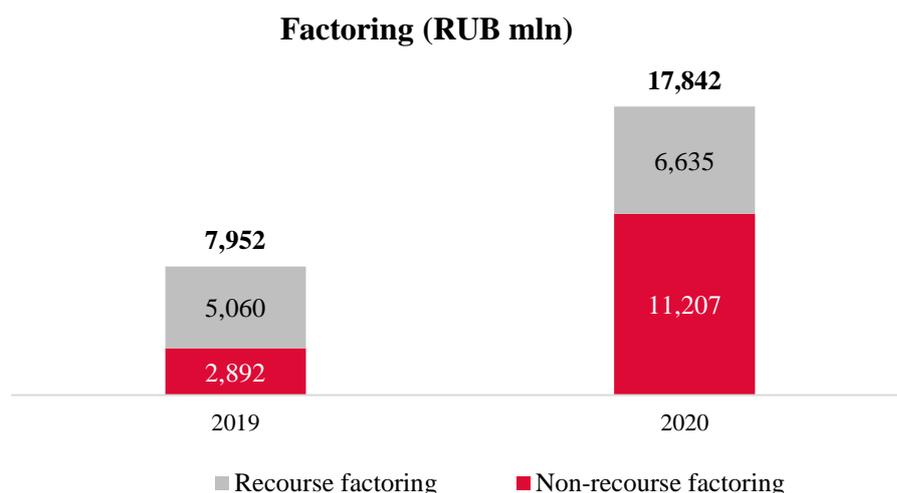
### *International factoring*

In 2020, MKB continued to expand its **international factoring** product line and launched two new products – non-recourse export factoring under a guarantee of a foreign bank and agency import factoring. The bank is expanding the geographical coverage of international factoring transactions. In 2020, transactions were executed in new jurisdictions – Kazakhstan and China. In general, the geography of international factoring transactions includes both the CIS countries and Southeast Asia.

As at the end of 2020, the international factoring portfolio amounted to RUB 752 mln, showing an increase of 80% compared to 2019 results. The financed deliveries volume grew by 2.3 times to RUB 1,012 mln. Business digitisation was the key direction of development in 2020. Solutions based on Kontur.Diadoc for international factoring document flow were developed, and the first electronic letter of credit transactions were launched.

### *Factoring*

In the challenging 2020, the bank’s factoring subdivision doubled its indicators and came close to the level of RUB 18 bln, keeping the high quality of the portfolio and without distressed assets. Furthermore, first-class receivables amounting to RUB 10 bln were purchased in 2020.



In the middle of the year, a new promising project Factoring Store (FaSt) was launched for quick review of customer applications with a register of debtors clear for the bank. By the end of the year, the number of FaSt customers had reached 46, and the total assets exceeded RUB 1.4 bln. Also in 2020, a Personal Account was launched for potential customers with the electronic signature functionality.

### *ESG Product Offering*

MKB actively develops its ESG business, offering clients a broad ESG product range, including sustainability-linked loans, ESG ratings-linked loans, green and social loans.

### *Payments*

MKB has a broad correspondent account network in all major currencies with leading financial institutions worldwide. MKB's correspondent network includes approximately 80 accounts held with domestic and foreign credit institutions, enabling MKB to effect payments to various parts of the world in a timely and cost-efficient manner. In acknowledgement of its superior services, MKB was awarded the title of *Best Service in Russia* in Euromoney's Cash Management Survey 2020.

## **Cash Handling**

The bank is one of the cash handling market leaders in Moscow and the Moscow Region, as well as in Russia as a whole. Since 2015, its Group includes Inkakhran, one of the largest cash handling companies in Russia.

The Russian economy remains cash-intensive, despite the pandemic and related restrictions, which supports the high demand for cash handling services, especially among retailers.

Provision of cash handling services sets the bank apart from the competition and represents a significant competitive advantage. The bank regularly develops and introduces new products in order to develop its business. One example is the collection of customers' revenues through self-service devices (ATMs and payment terminals) with online crediting of funds to the customer's account.

Main results of the cash handling business as at the end of 2020:

- more than 2,500 customers, including 105 credit institutions;
- more than 53,000 serviced points at the end of 2020;
- more than 480 cash handling routes.

In 2020, the bank actively attracted new large customers and expanded the geographical coverage of cooperation with existing ones, such as Russian Post, the Moscow Metro, Raiffeisenbank, Tinkoff Bank, RRDB, Pochtabank, Gazprombank and VTB. It also centralised administrative and back-office functions, changed cash counting business processes and automated logistics.

The bank has its own cash settlement centre and 27 centres elsewhere in Russia, not including Moscow. In the cash settlement centres, physical cash is accepted, counted and credited to customer accounts. The bank transported and counted more than RUB 4,300 bln and RUB 2,000 bln, respectively, in 2020. As at the end of 2020, the bank's fleet consisted of more than 750 armoured cash collection vehicles of varying capacity.

The bank earned RUB 2.9 bln in fee and commission income on cash handling services<sup>10</sup> in 2020 and intends to continue developing this strategically socially important franchise, which creates synergy with corporate business.

The bank has one of the largest cash handling centres in Moscow. To ensure technological leadership in this area, the bank's IT specialists developed and continually improve specialised software for automation of work of employees in this centre. Its capabilities allow the bank to reduce consistently the cost of cash handling services provided to its and other credit institutions' customers, to deliver cash to/from terminals and ATMs and other credit institutions' branches.

In 2021, it is planned, as part of implementation of the Strategy for 2021–2025, to develop cash handling further through deployment of the largest network and strengthening of the bank's positions in the cash handling market throughout Russia, to introduce a quality standard in the SLA format, to establish a centralised production factory and a unified cash turnover platform to combine the cash and cash handling capacities of the market participants.

### *Corporate Deposits*

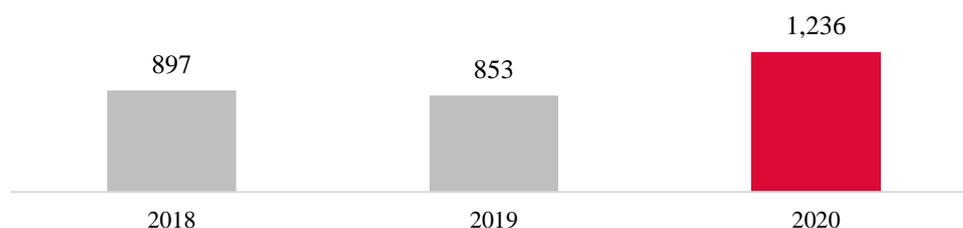
Corporate deposits are essential for building a stable funding base for the bank. Hence the provision of special deposit conditions and flexible terms to customers is an important task of the bank's product policy. The bank offers current accounts and term deposits for corporate customers and seeks to improve continuously its existing products and develop new ones to meet its customers' needs. The bank's deposit range ensures a comfortable choice for customers in terms of currencies, maturities, interest payment frequencies and liquidity management options. The bank offers competitive interest rates on corporate deposits. The bank's customers can also earn fixed interest income on the threshold balances of their current accounts.

Corporate deposits accounted for 46% of the bank's liabilities as at the end of 2020. In 2020, corporate deposits increased by 45% to RUB 1,236.0 bln to a large extent due to the bank's reliable market reputation, professional, customer-oriented product development, robust performance and minimal risks, attested by high international ratings.

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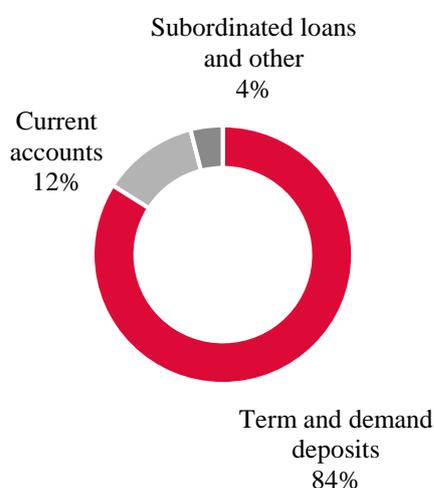
<sup>10</sup> Includes the fee and commission income from cash handling and other cash operations

## Corporate Deposits (RUB bln)



As at 31 December 2020, term deposits accounted for 84% of corporate accounts (or RUB 1,041.4 bln). Current accounts, which represent 12% of corporate deposits or RUB 149.0 bln, are also an important source of corporate deposits.

## Types of Corporate Deposits



## New Products and Introduced Technologies

In line with the development plans, in 2020, the bank paid special attention to product content, prompt implementation of new services into the bank's systems and improvement of internal processes. New products, services and technologies introduced for corporate customers during the year include:

- **Changes in the internal architecture of receipt of applications for the SME express guarantee product:** the new process facilitates checks in several systems simultaneously and to displays the information in one window for SME employees;
- **Dual currency deposit:** a transaction in which the bank which accepted a cash deposit from the customer returns the deposit to the customer and pays out the total income. Such a deposit may be repaid in a currency other than the currency in which it was placed.

- **Automation of approval of individual tariffs for cash and settlement services:** a system that allowed to transfers individual tariffs from the email system to a special software programme was implemented;
- **Implementation of the electronic signature in the Loan Pipeline:** a functionality was implemented for signing orders and decisions using the electronic signature in the Loan Pipeline software. As a result, paper document flow was reduced;
- **Creating a personal factoring account for a potential customer:** for potential customers to access a personal account with the electronic document flow functionality without the need to provide a package of documents in advance for registration in the bank’s customer systems. This tool helps to attract more customers for remote review of applications in a shorter time;
- **Implementation of an automated solution for execution of international factoring transactions:** a system was implemented to record factoring agreement data (international business), control information on supplies and payments under agreements, generate customer cards, and for user reporting;
- **A unified contract register:** a register of intra-corporate CRM<sup>11</sup>, to obtain data on all contracts and products in a few clicks, instead of collecting information in more than ten product and mono-product systems;
- **The updated status model of customers in CRM** automatically identifies customers falling within the scope of 115-FZ *On Anti-Money Laundering and Combating Financing of Terrorism*, significantly reducing regulatory risks for the bank;
- **Implementation of the desktop interface in CRM** – a user tool for quick access and processing of current tasks. Once implemented, the tool has made employees’ work with service and sales business processes much faster due to consolidation of all tasks in a single space with a convenient control interface;
- **Tariffs for bankrupts and bid organisers:** a specialised line of tariffs for settlement and cash services for legal entities undergoing bankruptcy procedures and legal-entity bid organisers.

The bank’s IT strategy focuses on fast delivery of high-quality, cost-effective and reliable digital products for both b2c and b2b. Further digital transformation unites groups of agile entrepreneurs focused on digital products and business goals, facilitating faster business growth driven by accelerated business hypothesis testing.

### **Corporate Business Development Plans for 2021**

- Building up the loan portfolio and development of international financing as a single ecosystem;
- Development of new products for large corporate customers:

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<sup>11</sup> Customer Relationship Management

- virtual treasury,
  - TMS system,
  - an integrated product for management of construction investment projects – MKB KapStroy (MKB Capital Construction)
- Expansion of electronic interaction with customers (30% of loan transactions in electronic format); a fully-featured electronic document flow from the first contact/application to after-sales service;
  - Launch of a mobile application for corporate customers;
  - Creation of a digital bank for SMEs and development of related services;
  - Optimisation and automation of customer acquisition and servicing;
  - Improvement of customer experience/customer journey.

## 2. Retail Business

Within the retail banking segment, MKB offers its customers a comprehensive set of services including traditional lending and deposit products, complemented by a broad selection of transactional services as well as private banking and investment products. MKB's customer-centric approach implies a thorough understanding of clients' essential needs and addressing those with a competitive and targeted product offering. As a result, MKB is able to become a real partner bank and stand out from the competition.

*The contribution of retail business to the bank's key performance indicators:*

Share in total assets	6%
Share in deposits	20%
Share in net interest income	28%
Share in fee and commission income	22%
Share in comprehensive income	21%

### Key Results of 2020:

- **Expansion of remote banking** was the highest development priority in retail business in 2020. The number of customers accessing remote banking rose by 21%, and the share of paying customers reached 65%.
  - The number of **active retail customers exceeded 900 thousand**, with 70% of the customer base being loyal repeat customers;
  - **The retail loan portfolio grew during the year by 21%** to RUB 133.3 bln, primarily due to growth of the mortgage portfolio by 57% to RUB 37.2 bln;
  - **Retail current accounts** increased by 67%, reaching RUB 100.8 bln;
  - **The debit card portfolio** grew by 39% from RUB 17 bln to RUB 23.6 bln;
  - **The active cards portfolio** grew to 370 thousand cards;
  - **The MKB Online mobile bank ranked 5th** in Markswebb Mobile Banking Rank 2020;
  - **New investment & savings products:** a range of mutual fund products and a combined Deposit + Universal Life Insurance product.
  - **The bank opened an investment platform MKB Investments**, uniting products and services for retail investors and the premium segment and Private Banking customers.

### Distribution Network

The most important retail business element is the end-to-end omnichannel customer service platform with both online and off-line channels. MKB offers a full range of products and services for customers on a mobile application, and, complementing digital services, it maintains and develops a cost-effective network of branches, still playing an important role in customer acquisition and servicing. As at 31 December 2020, the number of MKB branches reached 132, the number of ATMs exceeded 1,000, and the payment terminal network had more than 6,700 units.

In recent years, the market has been steadily moving online and MKB, on its part, is actively investing in mobile platform development. 2020 proved to be a turning point in the online and off-line competition, the share of RBS active users exceeded 50% and continues to grow, and the number of financial operations carried out in remote service channels increased by 32%. The share of newly opened

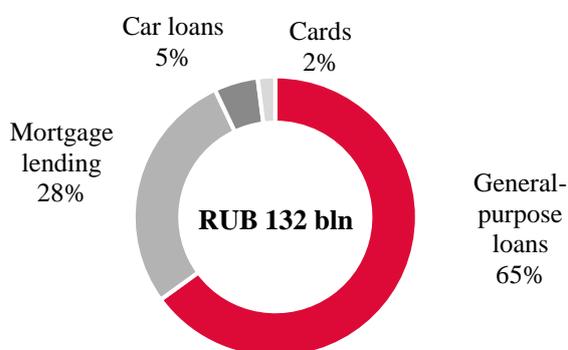
deposits and accumulation accounts in RBS increased by 1.5 times accounting for 40.4%; applications for general purpose loans increased by 4.5 times, accounting for 19.9%.

In 2018, the bank adopted a strategy for implementation of an updated on-line platform. A new team was created and in 2.5 years, the bank had become a mobile banking leader, ranking among the top 5 players according to Marksweb, having increased the product catalogue online availability to 80%. Besides product availability, UI/UX – user interface and user experience – play an important role. In addition to functionality, the goal is to strengthen positions in online banking by Usability improvement, and in order to achieve this, an agreement was concluded with a market leader Usability lab.

### *Products and services*

In its retail business MKB focuses on providing tailored offerings to each target client segment. Recently, MKB has been looking to develop a broad range of transactional services for a younger customer base, as it believes that transactional services contribute to enhancement of customer loyalty and engagement, and allow MKB to derive higher revenue per customer. MKB targets retail customers over the age of 25 with a higher education and who are employed at a stable company with a monthly salary of RUB 50–150,000 and a debt-to-income ratio of less than 50%. While MKB’s retail loan portfolio is primarily comprised of general-purpose consumer loans, it has also been increasing its focus on mortgage lending as part of its broader retail lending offering. In addition, MKB maintains a strategic focus on debit and credit cards and transactional products.

### **Retail Loan Portfolio Product Breakdown**



### *General-Purpose Loans*

General-purpose loans are unsecured loans to retail customers for various purposes. The bank offers general-purpose consumer loans to its customers to finance various purchases and other activities, with maturities from 6 months. The bank also offers insurance contract processing services in respect of its consumer loans, partnering with insurance market leaders.

In 2020, the total volume of general-purpose consumer loans increased by 4% to RUB 85.6 bln, while the share of consumer loans in the retail portfolio decreased to 65%.

In 2020, the bank’s general-purpose lending strategy focused on the following objectives:

- To achieve faster transaction processing;

- To launch remote processing to issue loans in the MKB Online mobile application;
- To introduce anti-crisis measures to comply with 106-FZ<sup>12</sup>;
- Introduction of loan repayment holidays;
- Implementation of a product range for the Premium segment.

### *Mortgage Lending*

MKB's mortgage loan products are focused on medium and high-income customers, particularly employees of its corporate customers and partner organisations, to finance the purchase of residential properties, particularly sales on the primary market (newly-built housing). As at 31 December 2020, MKB's outstanding mortgage loans comprised 28% of MKB's gross loans to individuals.

An attractive mortgage lending market is one of key development areas at the MKB retail segment. The mortgage portfolio of Russian banks was growing at a record pace of about 22% in 2020. In 2020, the volume of mortgage loans issued in the banking system amounted to a record RUB 4.3 trillion. The international rating agency S&P forecasts mortgage lending growth in the Russian Federation of about 15% in 2021 and 12–14% starting from 2022. The target indicators of the Strategy for the Development of the Russian Federation Construction Industry envisage that the volume of mortgage lending for purchasing housing in the primary market (secured against rights under an equity participation agreement) will reach 1.1 million loans by 2030 (against 0.4 million loans as at the end of 2019), and the volume of mortgage loans issued will grow to RUB 6.2 trillion in 2030, from RUB 2.8 trillion in 2019 and RUB 4.3 trillion in 2020. The share of construction of residential buildings financed by mortgage lending will grow from 17.5% to 53%. The current mortgage penetration in Russia of 7% of GDP is significantly lower than in other emerging markets, to say nothing of developed countries.

In 2020, MKB began implementing its partner-service model, establishing a new mortgage lending pipeline. MKB has fully digitised the mortgage underwriting process and has integrated with a number of real estate developers, enhancing its time-to-yes and time-to-money indicators. In the near future, MKB plans to establish an end-to-end digital mortgage underwriting process, encompassing all stages from mortgage application to servicing of the loan. MKB's competitive advantages in the mortgage lending business include its digital platform and effective synergy with the corporate business unit as part of the ecosystem for developers. These competitive advantages enabled MKB to grow its mortgage lending portfolio in 2020 by 57% to RUB 37.2 billion.

In 2021, mortgage lending will continue to move towards digitisation and automation of the mortgage pipeline. In the coming year, it is planned to implement such projects as:

- An electronic transaction/paper-free mortgage;
- A borrower's personal account;
- Remote services (letters of credit, escrow);
- Loan pipeline automation;
- Further reduction of the approval period;
- Implementation of the customer service system;
- Regional expansion;
- Launch of loyalty programmes.

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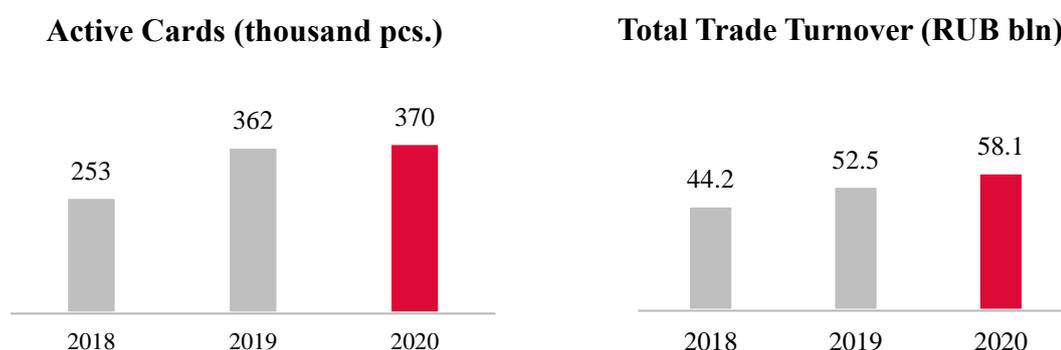
<sup>12</sup> Federal Law No. 106-FZ, dated 3 April 2020, 'On Amending the Federal Law *On the Central Bank of the Russian Federation (Bank of Russia)* and Certain Laws of the Russian Federation with Regard to the Specifics of Changing the Terms of a Loan Agreement'

## Car Loans

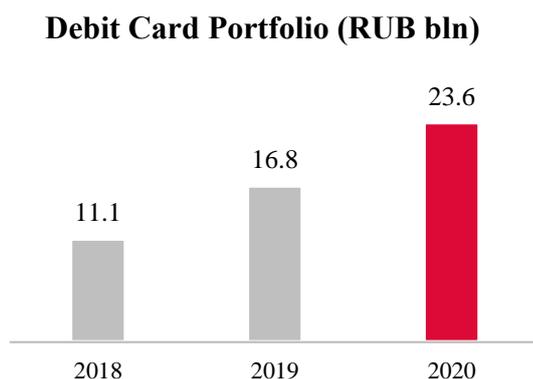
As part of its retail lending platform, MKB has been offering car loans, and has particularly strengthened its car lending operations upon the acquisition of Rusnarbank (a top-16 car lender in Russia by volume of car loans issued operating in 40 Russian regions) in May 2020. As at 31 December 2020, MKB's outstanding car loans (including Rusnarbank portfolio) comprised 4.2% of MKB's gross loans to individuals. MKB expects to expand its car lending operations further by leveraging Rusnarbank's partnerships with car dealers and partner banks and its presence in 40 Russian regions.

## Card Products

In 2020, MKB continued to create a new card image and card products. The portfolio of active cards<sup>13</sup> expanded from 253,000 cards in January 2019 to 370,000 cards as at the end of 2020.



Launch of the new onboarding, portfolio segment-oriented promotions for the bank's customers, and motivational contests jointly with international payment systems, aimed primarily at making the customer base more active, helped, among other things, increase average monthly card balances and total trade turnover by 39% and 16%, respectively. The debit card portfolio expanded by 39% from RUB 17 bln to RUB 23.6 bln.



A significant innovation, given the need for contactless issuance of banking products, was the launch of debit and credit cards in the Digital format. The sales channels for card products were also expanded: a referral programme was created and a project for sale of credit cards in the Svyaznoy chain was implemented. The geographical coverage of the bank's debit cards delivery to the regions expanded.

In 2020, the bank focused particularly on its Payroll Cards project, optimising the processes of onboarding, implementation and support of new payroll customers. The key market needs of payroll

<sup>13</sup> An active card is a card with at least one financial card transaction initiated by the customer (changing the payment limit) completed in the last month.

customers were met, bringing the product to the leading position in the market in terms of the service level and range of services. New credit products were also implemented: the “Balance transfer” option (repayment of loans provided by third-party banks in the mobile application) and issuance of credit card packages (sale of credit cards to payroll customers).

One of the main customer incentive programmes is the MKB Bonus loyalty programme, which has been in place since August 2013. In 2020, the MKB Bonus loyalty programme was recognised as the best according to Loyalty Awards Russia 2020.

During the year, the bank continued the trend providing an increasingly wide range of instruments to its customers under the loyalty programme:

- In October, a new service for travellers, MKB Travel, was launched in the MKB Online mobile bank. The service allows customers to purchase flight and railway tickets and rent cars when travelling. A hotel booking functionality will be added soon;
- In December 2020, a loyalty platform was launched to connect partners from various segments to the bank’s loyalty programme and target their offers to our customers.

Implementing the sustainable development strategy and focusing on the latest responsible technologies, the bank launched a joint campaign with the Trashback environmental FinTech project in November. The project involves the bank’s customers in separate waste collection and motivates them to behave in an environmentally responsible manner.

The pension programme and support for socially significant events held for pensioners together with our partner, the Union of Pensioners of Russia in Moscow, remains a key social area in the activities of the MKB Retail business. To meet the needs of the older generation, the bank provides a product that combines security and convenience, and which benefits from storage and spending of funds, Pension Card Mudrost (*Pension Card Wisdom*). Since the product launch, more than 170 thousand pension cards have been issued.

Currently, MKB employees are present in two branches of the Pension Fund of Moscow and the Moscow Region, as well as in two branches in Saint-Petersburg to provide consultation, issue pension cards instantly and provide customers with information materials. By the end of 2021, it is planned to increase the number of Pension Fund branches in which the bank’s consultants are located.

### *MKB Private Banking*

According to Banki.ru, in 2020 MKB private bank ranks 7th in the Russian market for banking and investment services. MKB continues to grow both the volume of borrowings and its customer base in this part of its business.

Development of MKB private bank business will improve the quality of services, help enter the market with new competitive offers, and become a reliable assistant for customers, providing a fully-featured service infrastructure.

The main product matrix rule is a tailored approach combined with a wide product line, as well as expansion of the range of non-financial (“lifestyle”) services.

The ability to maintain a dialogue with each customer on the whole range of their life goals and translate them into financial solutions is the key competence of the new team of MKB private bank managers.

## **Retail Deposits**

Retail deposits remain one of bank's key funding sources, accounting for 19% of its total liabilities. In 2020, retail deposits increased by 3% to RUB 501.5 bln.

During the year, the deposit line underwent significant changes, in particular:

- In March, a combined deposit Vygodny Podkhod (*Profitable Approach*) with an individual investment account (IIS) was added to the permanent product line;
- In June, a special deposit Grand + was launched. Its terms envisage an increased interest rate on the deposit when the pension is credited to the bank accounts. This product has no equivalents on the market;
- To expand the combined product offering, the Vam Plus (*Plus for You*) programme was introduced for individuals who conclude all inclusive bank deposit agreements and get a universal life insurance policy with an annual premium;
- In October, the deposit MKB. Practichny (*MKB. Practical*) with a differential interest rate was launched for promotional marketing purposes;
- In November, the MKB. Nadezhny (*MKB. Reliable*) deposit was added to the product range as part of the promotional New Year offer;
- Special tariffs were introduced for the Savings Account for the Premium and Private Banking segments, with an increment to the rate.

## **Letters of Credit**

In 2020, special attention was given to development and implementation of additional services when providing letters of credit to individuals and developers, which facilitated growth of the demand in the real estate market and increase of the amount of funds raised by issue of letters of credit from RUB 2.5 bln to RUB 5.7 bln per month.

Additional activities aiming to increase the partner base of developers, inter alia, through mortgage lending, resulted an overall increase in the letter of credit balances to RUB 4.0 bln.

The following was achieved in 2020:

- Automatic notifications of partner developers about opening letters of credit were implemented;
- The time required to issue a letter of credit was reduced;
- The customer acquisition agency scheme was simplified;
- Communication was built and support implemented for developers of the bank's partners.

## **Commission partner products**

The year 2020 forced adjustments in the development of all areas – in the challenging epidemiological situation, a line of commission products was developed and launched for development of RBS channels within the shortest possible time. Now, the remote service channels mean the following products can be procured on a self-service basis:

- COVID insurance;
- Tax service;
- Legal assistant.

In addition, a separate line of Universal Life Insurance was developed, with a service component and a check-up for each customer.

For development of the investment and savings business, the mutual funds sales technique was optimised, which scaled sales across the entire retail network.

In May 2020, the updated strategy was launched for the Moscow Capital individual investment account (IIA) with an updated combined deposit. In 2020, the year-end borrowings amounted to about RUB 5.4 bln, with the total amount of funds on individual investment accounts amounting to RUB 9.3 bln. In 2020, it became possible to open combined deposits with an increased interest rate when any of the products of the Individual Investment Account and Universal Life Insurance was opened.

In mid-2020, sales of commission products were launched for the first time using a new subscription technology. Card insurance programmes (Card Protection and Protection Plus) are now available for connection and payment on a monthly basis, with observance of all the necessary legal and partner requirements. The regulatory framework for fee-generating product sales in the Paper-Free Bank project was also fully prepared.

In 4Q 2020, the line of insurance products was updated. Insurance products accessible for use immediately after payment appeared, including *Zabota o Zdorove (Health Care)*, with a check-up included, *Uverenost i Zashita Dokhoda (Confidence and Income Protection)*, which ensures no interest is lost on a deposit in the event of early termination. New products accounted for more than 30% of the amount collected for all insurance products, bringing the earnings of about RUB 29 mln in a few months.

### **New Products and Introduced Technologies**

In 2020, the world faced a new challenge that made significant adjustments in our normal lives. Analysing the new needs of its customers and seeking to meet market requirements in the best way, the bank pays special attention to digital transformation mechanisms, provision of new infrastructure opportunities, business applications and services. Ensuring strict control of operational efficiency, the bank's development strategy provides for maximum use of remote customer service systems. New functions became available in the bank's remote channel: digital debit and credit card issuance, online loan processing and granting, online loan restructuring, remote document signing and consultations with the operator in the chat.

At the same time, the remote banking services product line significantly expanded beyond traditional banking products – brokerage accounts and fee-generating products appeared (the COVID insurance policy, tax deduction and legal consultation). In addition to new products, the variety of payment functions and their convenience were significantly improved, international transfers, QR code payments for utilities and other services were developed, and the base of payment providers was expanded. In 2Q 2020, the bank implemented the PayControl solution for legal entities, which allows customers to access the Internet bank Your Bank Online using a QR code, without a username and password, and to sign transactions securely and receive interactive notifications about documents on a mobile device.

Speech analytics technology was introduced as part of Contact Centre development, which made it possible to automate control of the work of operators advising customers and launch regular studies of the sales process quality in the telemarketing department to increase the share of requests resulting in product delivery to the customer. In 2020, end-to-end automation of customer claims processing was accomplished based on Oracle Siebel CRM. The new functionality means there is no need for analysis

to be made by multiple bank subdivisions or for decisions on customer requests to be made via the corporate email system.

On the basis of SAS MA and Oracle Siebel CRM platforms, a technology was introduced to form and conduct campaigns for offering products to MKB customers both through the bank's call centre and through external call centres.

For retail customers, the Next Best Offer service was launched on the SAS MA platform, which analyses the behaviour and needs of the customer and forms the most suitable products from the bank's line. Thanks to integration of the SAS RTDM decision-making system with external data sources (SMEV.FNS – the interdepartmental electronic interaction system of the Federal Tax Service, the antifraud system of the National Bureau of Credit Histories), automation of internal checks and introduction of robots for routine checks, analysis of loan applications of individuals was significantly optimised. The average application processing time decreased by 45% for mortgage loans, by 50% for credit cards.

In the retail processes, the voice bot technology based on Ziax and Card Garant solutions was piloted. The technology has displayed its potential both in sales and in servicing typical customer service requests in the call centre.

In e-commerce (Internet acquiring), new services were launched: A2C (transfers from an account of a legal entity to an account of an individual, which is in fact a payment to a card account), C2A (transfers from an account of an individual to an account of a legal entity for replenishment of wallets and accounts), C2B (instant transfer to a legal entity through the Faster Payments System of the National Payment Cards System), and payment through ApplePay, SamsungPay, MiBand Pay and Swatch Pay wallets. A unique system of differentiated tariffs (with more than 21 thousand options) was developed for customers.

### **Retail Business Development Plans for 2021**

One of the key tasks for 2021 is transition to a model generating a stable and predictable income from the portfolio of target customers relying on products and services with high customer value. Therefore, the emphasis will be on the following:

- Development of special-purpose credit transfers (payroll projects and pensioners);
- Development of the card transaction business;
- Increasing the share of funds on demand;
- Development of the mortgage business and growth of the mortgage portfolio in the bank's retail loan portfolio;
- Customer management – a segmented product and service approach aiming to increase customer loyalty, respectively LT (lifetime) and LTV (lifetime value);
- Development of the digital platform – implementation of new functionalities for servicing and sales, and connection of new partners;
- Increased penetration of remote services into the active customer base.

### 3. *Investment banking business*

MKB is continuously developing its expertise in providing a wide range of investment banking services, including capital markets operations for MKB's corporate clients (fixed income instruments, trading in stocks and metals, repo transactions, hedging operations and structured financing), investment management and asset management, depository services (including custody and maintenance of records of property rights with respect to any Russian and foreign securities, acceptance and withdrawal of securities and collateral operations), brokerage services (stocks, futures, foreign currency, foreign and over-the-counter markets), M&A advisory services and PESS (private equity and special situations, and pre-IPO financing) segment.

*The contribution of investment <sup>14</sup> business to the bank's key performance indicators:*

Share in total assets	62%
Share in deposits	34%
Share in net interest income	23%
Share in fee and commission income	6%
Share in comprehensive income	30%

#### **Key Results of 2020:**

In 2020, the bank confirmed its stable positions in the Russian financial and investment markets, providing a full range of investment products built on structured solutions for various customer segments:

- MKB became a **top-5 organiser of bond issues** according to Bloomberg. In just a year, 75 issues were placed, with a combined value of more than RUB 1 trillion. According to Cbonds, the bank's share as an organiser in the DCM market is more than 10% (excluding its own placements);
- The bank is **one of the top 3 participants in market-making programmes** for development of long-term stock exchange financing practice at PJSC Moscow Exchange.
- Thanks to the consistent strategy of building long-term relationships with its customers and development of the product line, MKB's Investment Block **was growing transaction volumes and opened new business lines** despite the global coronavirus pandemic crisis:
  - The FX Online widget was successfully launched for real-time execution of the conversion transactions of legal entities.
  - The bank is actively expanding its positions in the CIS markets: it became a co-organiser of the issue of bonds of the Ministry of Finance of Kazakhstan and participated in the placement of Belarus's largest retailer.
- In its work, MKB adheres to high quality standards and follows the principles of responsible business conduct (ESG): **the bank acted as the organiser of the issue of perpetual "green" bonds** of Russian Railways, amounting to RUB 100 bln for the first time in the market and **the**

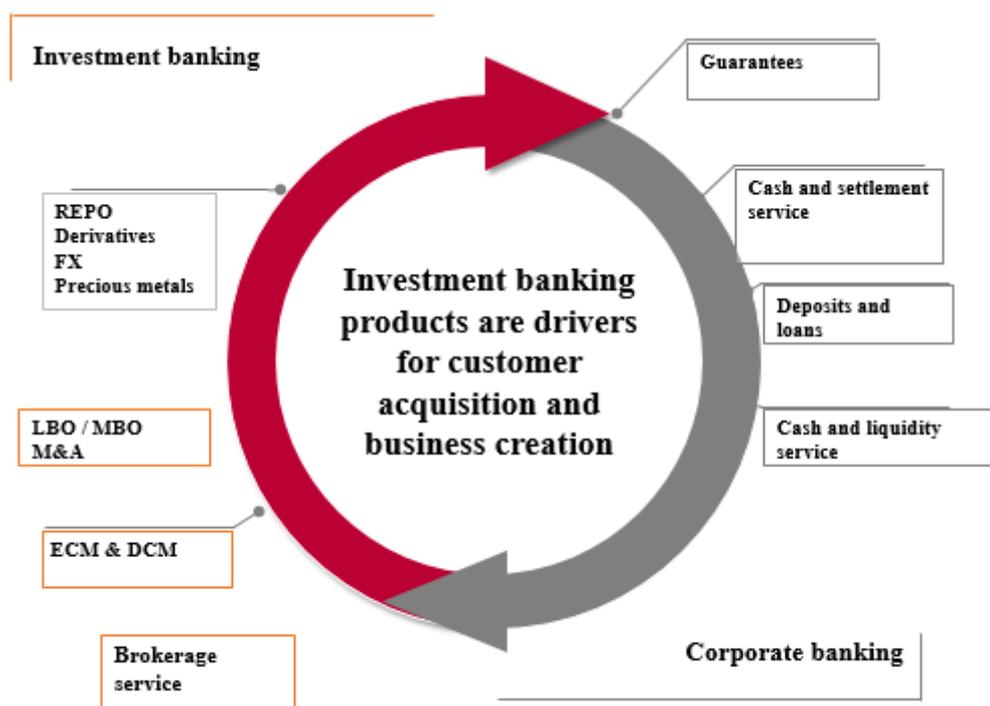
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<sup>14</sup> Calculated based on IFRS, note 30 "Segment analysis", excluding subsidiaries. The investment business includes the Treasury segment.

**first issue of social Eurobonds of Russian Railways among Russian issuers**, amounting to RUB 25 bln).

In 2020, the bank continued to form the infrastructure of investment services and products for its customers, always demonstrating a high service quality. The challenges of 2020 gave a special impetus to the development of MKB-based digital products and services for both corporate and retail customers of the bank.

### Synergy Effect of Investment and Corporate Banking



In 2020, work continued on building synergistic processes with SOVA Capital to expand opportunities granted by the investment products and to strengthen competitive advantages in local and international capital markets.

### Debt Capital Markets (DCM)

In 2020, MKB organised 75 issues of corporate customers' bonds with a total par value of over RUB 1 trillion. MKB ranks 5th among organisers of bonded loans in Russia in the Bloomberg ranking.

The largest customers for which transactions were completed in 2020 include: Gazprom Neft, Avtodor Group, Rostelecom, Rosseti, Slavneft, Dom.RF, FSK, GTLK, EuroChem, Metalloinvest, MTS, Magnit, X5, SUEK, Chelyabinsk Pipe Plant, TMK, Sberbank, VEB, Gazprombank, Uralkali, TMK, AFK Sistema, RUSAL, Lenenergo and many others.

MKB continues to develop its business in the CIS. The bank acted as the organiser of the rouble-denominated debut bond issue of the Ministry of Finance of Kazakhstan. In 2021, the bank plans to expand its activities in the CIS, including the new market of Uzbekistan.

MKB received the following awards at the annual **Cbonds Awards 2020**:

- The Best Primary Non-Financial Sector Bond Deal (as the organiser of the Segezha Group issue);
- The Best Primary Energy Sector Bond Deal (as the organiser of the Rosseti issue);
- The Best Primary Retail Bond Deal (as the organiser of the Magnit issue);
- The Best Primary Telecommunication Sector Bond Deal (as the organiser of the AFK Sistema issue);
- The Best Primary Placement of the Metallurgical Industry (as the organiser of HC Metalloinvest issue);
- ESG issue of the year (as the organiser of the Russian Railways issue);
- Debut of the Year (as the organiser of the issues in Kazakhstan).

In addition, MKB acted as the organiser of the social Eurobonds issue of Russian Railways. This transaction in the ESG segment is unique – Russian Railways was the first Russian borrower to place social Eurobonds on the international debt capital market.

In addition, one of the remarkable transactions of the year was the restructuring of Alliance Oil Company Eurobonds in the amount of USD 500 mln.

### **Structured Finance and Repo Portfolio**

In 2020, the bank reaffirmed its status as a leading operator in the market of structured market financing and repo transactions:

- The bank's share (average portfolio) in the total volume of the repo market in US dollars accounted for 25%;
- The bank's share (average portfolio) in the total volume of the rouble repo market accounted for 13%.

The growth of the repo structured book was supported by the growing customer base in direct and reverse repo transactions. The objectives of the bank include further development of the structured finance and repo portfolio secured by high-quality tradable assets, inter alia, through development of existing partnerships and creation of new ones with the country's largest holdings. This will improve the structure of liabilities (refinancing of asset operations) and increase the bank's net interest margin.

### **FX and Derivatives Market**

In 2020, MKB significantly increased the number of its customers on the derivatives market. The bank achieved outstanding results thanks to development of the MKB Exchange trading platform. The core of the platform is a quotation aggregator, which allows customers to create their own better-quality quotation feed based on quotations from counterparty banks and Moscow Exchange.

The bank is implementing digital services for its customers more extensively: real-time pilot transactions were executed on the FX Online widget for corporate customers' conversion. The service will become available to all bank customers in early 2021.

The first overnight indexed swap (OIS), dual-currency deposit and Bank of Russia key rate swap transactions were executed. The derivatives market is becoming more accessible for retail investors: The bank's FX liquidity is available to customers of MKB Investments. Conversions were performed for multicaud accounts in British pounds and Swiss francs.

The bank's 2021 strategy is aimed at development and expansion of interaction with major foreign and Russian banks and improvement of services for corporate and retail customers.

### **Equity Capital Market (ECM), Mergers and Acquisitions (M&A), PESS (Private Equity and Special Situations)**

At the end of 2020, the bank's Investment Block has several mandates for organisation of transactions in the M&A and ECM markets in the pipeline. At least 3–5 projects are expected to be implemented with MKB's participation in 2021.

A special task MKB will address is **PESS** development to the level of leading Russian and foreign banks. Against the backdrop of the market revival after the COVID crisis, special interest and prospects are anticipated in this segment. MKB has the necessary brand and expertise of the Investment Block team for development in this area. MKB has already planned several Private Equity transactions and pre-IPO financing of companies for 2021.

**MKB Investments – a platform providing access to a range of investment products and services.** During the unprecedented influx of new investors into the Russian stock market in 2020, MKB strengthened its investment products and offered the market a solid and comfortable service infrastructure and an understandable product line developed to meet customer needs.

The MKB Investments platform is a special product introduced by MKB in 2020, which opens up the following opportunities for customers:

- A brokerage account opening from a mobile application in 5 minutes without an office visit and without signing hard-copy documents.
- Considerable attention is given to wide-scale opening of individual investment accounts (IIA), increasing the return for their holders through tax deductions.
- Currency exchange at the stock exchange rate.
- Trade in Russian and foreign stocks, bonds, Eurobonds, ETFs, exchange-traded investment funds (BPIF).
- Participation in the placement of bond issues.
- Premium and Private segments can buy exotic instruments on the OTC market.
- Mutual funds, standard trust management strategies are available for the bank's customers, and individual trust management is available for large-size customers.
- The bank offers various types of mutual funds: bonds, Eurobonds, equities, a mixed fund with a balanced strategy, and the Technological Perspective fund focusing on investments in shares of high-tech companies with the best growth potential.

As at the end of December 2020, MKB Investments ranked 7th among the leading by turnover of shares and units in the Moscow Exchange rating and 3rd by foreign shares turnover.

The latest MKB Investments application allows bank customers to invest conveniently in a wide range of instruments. In 2021, the bank intends to improve digital services for brokerage and trust management customers and to offer competitive solutions to a wide range of customers (from market beginners to large-size premium customers with large portfolios). The service development strategy of the MKB Investments platform is based on a customer-oriented approach and is aimed at long-term mutually beneficial cooperation with customers.

## **New Products and Technologies**

In 2020, new products and technologies were introduced in many segments of the Investment Block, which allowed to optimise business processes and improve customer service. The following was implemented:

- Update of the investment sections in the MKB Online mobile application (bank customers can open a brokerage account with the bank (or MKB Investments) and trade with an artificially limited list of financial instruments, including buying currency);
- Launch of FX-online in the Your Bank Online Internet banking portal (the functionality is in place allowing corporate customers to perform conversion operations in Your Bank Online with RUB/USD, RUB/EUR and USD/EUR);
- Sale of precious coins;
- Launch of the Investor’s Personal Account (a web-version of the personal account for individuals);
- Launch of dual-currency deposits for legal entities (on the IB side – record keeping of options);
- Transfer of the back office that services securities to a new way of calculating the current fair value for bonds at the behest of the Bank of Russia;
- Launch of the new Stock Basket Options product;
- Implementation of a brokerage report on the securities portfolio market value;
- Reporting for the Bank of Russia (information on foreign currency purchase/sale volumes, submission of information on affiliated party transactions);
- Transition to new formats of data exchange with NSD (with respect to depository reporting).

## **Investment Business Development Plans**

In the mid-term and long-term outlook, MKB’s Investment Block is an integral driver of the bank’s growth and development in the Russian and foreign markets. MKB adheres to the principles of product line development and growing the customer business share, including an effective strategy of participation in M&A transactions with the minimum risk level for the bank.

MKB set itself the goal to become the base bank for key corporate customers for the entire range of investment banking operations (a one-stop-shop approach), which means:

- focus on cross-sells with CBD<sup>15</sup>;
- growth of the fee and commission income share;
- growth of the customer business share;
- product diversification.

The mid-term target positions for MKB as one of the leaders, both in the quality of its services and in financial results, are:

- Top 3 in the local DCM market;
- Top 5 in the repo market;

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<sup>15</sup>The Corporate Business Department

- Top 5 in markets of specific investment products;
- Organisation of 3–5 M&A and ECM transactions annually.

Achievement of the goals will help achieve a synergistic effect and serve as a driver for better operational efficiency, increase brand awareness and, as a result, augment MKB's shareholder value.

#### ***4. Information Technologies***

The bank's IT-development policy is aimed at improving its banking technologies, and developing, optimising and upgrading its IT systems. The IT Directorate is responsible for development and implementation of the IT strategy, improvement and maintenance of the entire IT infrastructure, software development, deployment and maintenance, i.e. measures intended to support implementation of business initiatives and for compliance with the requirements of the regulator.

The bank is committed to building a failsafe IT infrastructure. As it needs to ensure guaranteed execution and high efficiency of banking and, first and foremost, customer transactions, the main IT infrastructure design criteria are the elimination of Single Points of Failure and the ability promptly to expand IT systems' processing capacities. The cost efficiency of the created infrastructure is also taken into account.

As part of the IT strategy to improve the fault tolerance of critical information systems, the bank approved a new version of the Technical Policy which included a description of common architectural solutions that provide specified disaster recovery times depending on the level of service criticality in accordance with the Business Impact Analysis (BIA). Approving such common architectural solutions will reduce the time and expenses for design and operation of the bank's information systems through the use of classifiers and standard architectures at the early stages of design.

The bank's IT infrastructure is located in two data centres (DC) equipped with several levels of engineering support redundancy and monitoring tools. In order to ensure further scaling while increasing the level of security and reliability, the bank has begun to deploy its infrastructure at the sites of two commercial operators of the data processing centres that meet the Tier 3 requirements. In 2020, two commercial and two proprietary data processing centres were clustered by a fiber-optic communication line network that connects the sites along the main and backup non-overlapping routes.

In terms of improving the IT infrastructure fault tolerance, considerable attention is paid to the practical aspects of ensuring business continuity. During 2020, in accordance with the developed plan, the bank performed disaster recovery testing in the data centre of information systems (DR-testing), which was aimed at checking and confirming the target recovery periods set for the relevant categories of system criticality. In the course of the tests, the employees of the IT Directorate practice switching components of information systems between the nodes of the DC and recovering systems in conditions close to real ones. In 2020, the bank held 32 DR-tests which covered 64 information systems tested.

As part of the solution to increase the availability of the bank's business applications, special attention is paid to expanding the coverage and increasing the effectiveness of IT infrastructure monitoring. A dedicated group of specialists for the development of this area was created at the IT Directorate in 2020. An architectural concept for building an integrated monitoring system was developed and approved. The architecture of the target system is based, on the one hand, on open-source solutions for the technical monitoring of infrastructure components and, on the other, on the productivity monitoring and end-to-end transaction monitoring software of world leaders. In accordance with the approved target architecture, the bank removed monitoring from non-target systems, expanded the number of monitoring metrics, deployed the target technical monitoring architecture and launched pilot operation of end-to-end transaction monitoring solutions.

MKB uses software purchased from such vendors as Oracle, Microsoft, IBM, SAS, and proprietary software developed by the bank's specialists. All of the bank's systems are regularly tested and updated to ensure data security.

The bank is a principal member of Visa, MasterCard, MIR, JCB and UPI, and issues a wide range of cards: debit, credit, prepaid and virtual cards, both for the mass and premium segments. To provide a

comprehensive and high-quality plastic card service, the bank operates its own processing centre based on the Compass Plus solution. The bank operates its own card personalisation centre to ensure prompt card issuance. State-of-the-art bank card technologies are being actively adopted: Google Pay, Samsung Pay, Apple Pay, Garmin Pay services, and payment rings are all supported.

As part of the AML/CFT control procedures, the AML Adviser system continued to be developed in 2020. The bank has launched the processes of on-line customer payment monitoring, made the migration to the target process of mandatory reporting preparation and submission within 4936-U (along with the migration to the new CBS CFT Bank), and launched the functions of identifying bank customers and payment participants in the event they match with the negative KYC lists.

In 2020, MKB finalised an upgrade of its Core Banking System (“CBS”), which significantly reduced the cost of back-office system operations, and the time to market for its proprietary software. The migration to the CBS has also enabled MKB to upgrade its IT landscape as a whole and improve its IT processes, which, in turn, has facilitated faster and more efficient processing of large volumes of customer transactions. The introduced CBS has also contributed to MKB’s compliance with regulatory requirements.

The bank pays considerable attention to information security and cyber resilience issues. The most important information security processes are those identifying and remedying both purely technical vulnerabilities of information systems and logical vulnerabilities affecting customer service processes and products.

The following threat prevention projects were initiated and successfully completed:

- A solution to counter targeted attacks which use malicious email messages or malicious sites, which, in turn, use 0-day vulnerability and are not detected by standard protection tools, for example, antiviruses. The system intercepted more than 650 targeted attacks;
- To ensure customer protection, the bank finalised the implementation of a fraud monitoring system for payments that are received from customers through the remote banking system and fully modified the fraud monitoring process. As a result, no corporate customers incurred material losses as a result of the fraudulent actions of cyber criminals;
- A fraud monitoring system for remote banking;
- A staff training system that simulates mailing of malicious file attachments and phishing links and automatically starts testing if employees open such attachments or enter their passwords on linked websites;
- An anti-fraud system for detecting abnormal and illegal payments transmitted to the Bank of Russia or SWIFT;
- For the execution of internal controls, the bank implemented a system for identifying and preventing information leaks, which covers the maximum technical channels of potential information leaks;
- As part of the external and hacker attack protection system, the WAF protection system was implemented for web resources;
- To protect its ATMs and payment terminals, the bank launched a project to create an isolated software environment for them.
- Servers with operating systems no longer supported by the manufacturer were decommissioned;

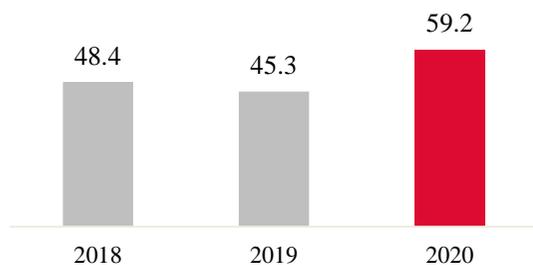
- The bank continued actively to implement CI/CD together with a solution for analysing source codes, which will reduce the time-to-market and will release more secure products. Developers are being trained within the project framework.
- The introduction of an update management system was initiated to automate the fixing of vulnerabilities;
- The bank has implemented a code analysis system and is integrating it into development processes, while actively developing SSDLC.

## FINANCIAL RESULTS

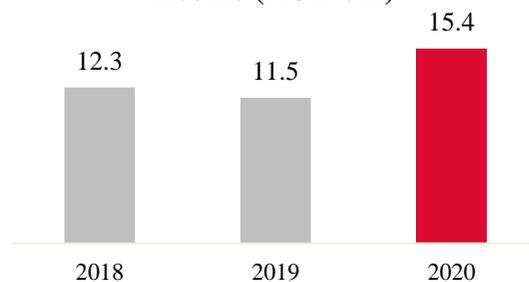
### 1. Key Financial Results

#### Income Statement

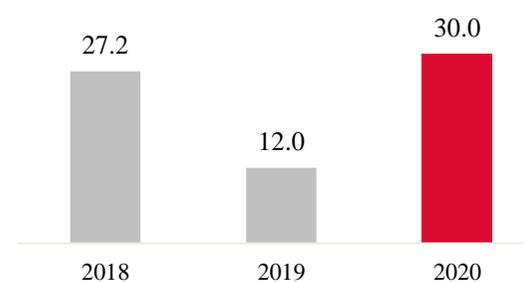
Net Interest Income (RUB bln)



Net Fee and Commission income (RUB bln)

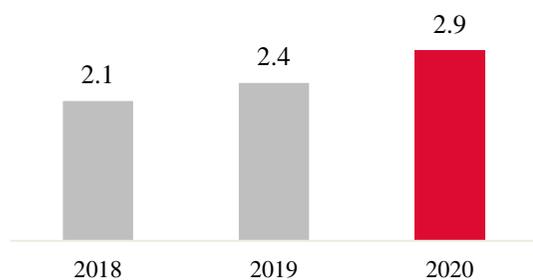


Net Income (RUB bln)

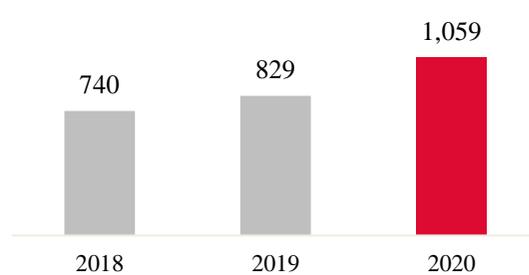


#### Balance Sheet Indicators

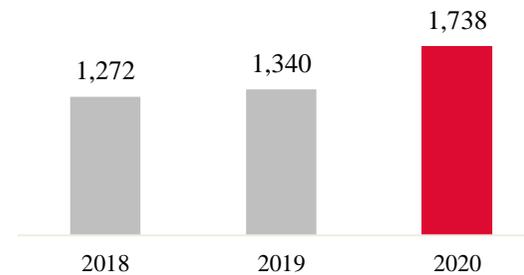
Assets (RUB tln)



Loan Portfolio (gross) (RUB bln)

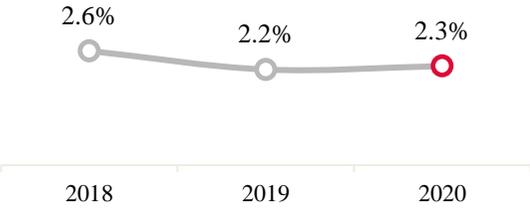


Deposits by Customers (RUB bln)

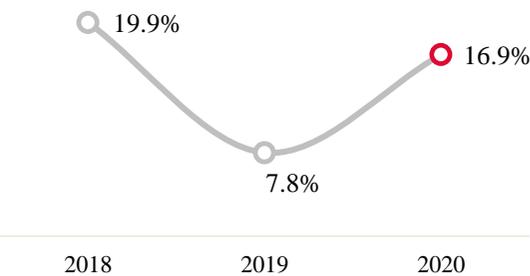


**Financial Ratios**

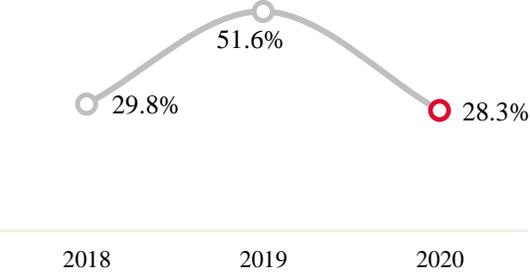
**Net Interest Margin (%)**



**Return on Equity (%)**



**Cost to Income Ratio (%)**



## 2. *Key Results*

- Assets increased by 20.3% to RUB 2.9 tln.
- Return on equity grew to 16.9% compared to 7.8% last year. Return on assets also grew, to 1.1% compared to 0.5% as at end-2019.
- Gross loan portfolio rose by 27.7% to RUB 1,059.1 bln.
- Ratio of NPLs (90+ days) to gross loan portfolio fell from 3.6% to 3.1%.
- Ratio of NPL90+ to corporate loan portfolio decreased by 0.9 pp to 2.6%.
- Cost of risk (COR) stood at 1.8%.
- Customer deposits increased by 29.7% to RUB 1.7 tln. Corporate customer deposits increased by 44.8% y-o-y to RUB 1.2 bln.
- Basel III capital grew by 9.7% to RUB 332.3 bln. Core capital expanded by 12.4% to RUB 191.3 bln.
- Capital adequacy ratio remained high at 21.3%, Tier 1 capital ratio was 15.0%.
- Net interest income (before provisions) grew by 30.8% to RUB 59.2 bln.
- Net income increased by more than 2.5 times to RUB 30.0 bln.

### 3. Income Statement Analysis

#### Interest Income

For the year ended 31 December 2020, MKB's interest income increased by RUB 9.1 bln, or 6.1%, to RUB 156.4 bln from RUB 147.4 bln for the year ended 31 December 2019.

	2020		2019		Change
	RUB bln	% of total	RUB bln	% of total	%
Loans to customers	69.2	44.3 %	65.6	44.5%	+5.5
Due from banks, other financial institutions and CBR	66.2	42.3%	67.0	45.5%	-1.2
Debt financial assets and other financial instruments	21.0	13.4%	14.8	10.0%	+42.3
<b>Total interest income</b>	156.4	100.0%	147.4	100.0%	+6.1
<b>Average yield on interest-earning assets (%)<sup>16</sup></b>		6.1%		7.2%	

The interest income grew by RUB 21.0 bln (+42.3%), the boost was mostly driven by the debt financial assets and other financial instruments due to significant securities portfolio expansion. Another driver was the growth of interest income on loans to customers which increased by 5.5% to RUB 69.2 bln. The average yield on interest-bearing assets decreased from 7.2% as at 31 December 2019 to 6.1% as at 31 December 2020 amid a decline in interest rates.

#### Interest Income on Loans to Customers

Interest income on loans to customers rose by 5.5% or RUB 3.6 bln y-o-y and reached RUB 69.2 bln. The growth was driven by the increasing average loan portfolio volume and partly offset by declining interest rates as CBR's key rate hit its all-time low. The average yield on loans to customers decreased from 9.1% for the year ended 31 December 2019 to 7.7% for the year ended 31 December 2020 in line with the general market trend to lower interest rates.

#### Interest Income on Due from Credit and Other Financial Institutions and the CBR

Interest income on due from credit and other financial institutions and CBR represented 42.3% and 45.5% of total interest income for the years ended 31 December 2020 and 2019, respectively.

For the year ended 31 December 2020, interest income on due from credit and other financial institutions and CBR decreased by RUB 0.8 bln, or 1.2%, to RUB 66.2 bln from RUB 67.0 bln for the year ended 31 December 2019. This slight reduction was due to the average yield on such sources of interest income declining from 6.2% as at 31 December 2019 to 5.1% as at 31 December 2020. A substantial share of interest income on due from credit and other financial institutions and CBR reflects a significant amount of reverse repo transactions allowing the bank to generate stable income

<sup>16</sup> Average yields and values are averaged to quarters

with minimum levels of risk and capital consumption, while maintaining a comfortable “liquidity cushion” for any eventual instability of the financial market.

### **Interest Income on Financial Assets and Other Financial Instruments**

Interest income on debt securities (including trading financial assets and investment financial assets) represented 13.4% and 10.0% of total interest income for the years ended 31 December 2020 and 2019, respectively. In 2020, interest income on financial assets rose by RUB 6.3 bln, or 42.3%, to RUB 21.0 bln thanks to a balanced liquidity management strategy and a timely decision to expand the portfolio of bonds – mostly federal bonds (OFZ).

The average yield on debt securities fell to 5.8% in line with the market trend and the growing share of governmental bonds with lower interest rates.

### **Interest Expense**

For the year ended 31 December 2020, MKB’s total interest expense decreased by RUB 4.9 bln, or 4.8%, to RUB 97.2 bln.

	<b>2020</b>		<b>2019</b>		<b>Change</b>
	RUB bln	% of total	RUB bln	% of total	%
Due to customers	61.1	62.9%	67.1	65.8%	-8.9%
Due to credit institutions and CBR	25.0	25.7%	25.5	25.0%	-2.0%
Debt securities issued	11.0	11.3%	9.4	9.2%	+16.6%
<b>Total interest expense:</b>	97.2	100.0%	102.1	100.0%	-4.8%
<b>Average rate on interest-bearing liabilities (%)</b>		3.9%		5.2%	

The average interest rate paid by the bank on interest-bearing liabilities was 3.9% and 5.2% for the years ended 31 December 2020 and 2019, respectively.

### **Interest Expense on Due to Customers**

Interest expense on due to customers remained the largest component of MKB’s total interest expense, representing 62.9% and 65.8% of it as at 31 December 2020 and 2019, respectively.

As at end-2020, interest expense on customers’ current accounts and deposits decreased by RUB 6.0 bln, or 8.9%, to RUB 61.1 bln. This was caused by the general decrease in the average interest rate on current accounts and deposits by customers from 5.4% in 2019 to 4.2% in 2020.

### **Interest Expense on Due to Credit Institutions and CBR**

Interest expense on due to credit institutions and the Bank of Russia represented 25.7% and 25.0% of total interest expense as at 31 December 2020 and 2019, respectively.

For the year ended 31 December 2020, interest expense on due to credit institutions and the Bank of Russia decreased by 2.0%, to RUB 25.0 bln, due to a decrease in the average interest rate from 4.4% to 2.9%, in line with the market trend.

### Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 11.3% of total interest expense for the year ended 31 December 2020.

In 2020, interest expense on debt securities issued increased by 16.6% to RUB 11.0 bln. This was mostly attributable to the placement of US dollar-nominated debt securities in January 2020, and the weakening rouble. The average interest rate on debt securities issued was 6.2% in 2020, while the average amount of debt securities issued rose by 17.5% to RUB 177.8 bln.

### Net Interest Income

Net interest income has historically been the largest component of the bank's operating income.

	2020	2019
	(RUB bln)	
Interest income	156.4	147.4
Interest expense	(97.2)	(102.1)
<b>Net interest income before charge for credit losses</b>	59.2	45.3
<b>Net interest margin</b>	2.3%	2.2%
<b>Net interest income as percentage of average RWA</b>	4.0%	3.6%

For the year ended 31 December 2020, net interest income increased by RUB 14.0 bln, or 30.8%, to RUB 59.2 bln. MKB's net interest margin was 2.3% and 2.2% as at 31 December 2020 and 2019, respectively. The net interest margin widened to 2.3% in the reporting period. Net interest income of RWA rose by 0.4 pp y-o-y to 4.0% as a result of effective utilisation of the bank's funding base taking advantage of globally declining interest rates.

### Charge for Credit Losses

Loan impairment provisions and charge for credit losses are the main indicators of the bank's loan portfolio quality and reflect its approach to risk management.

RUB mln	Year ended 31 December	
	2020	2019
<b>Charge for credit losses on loans to customers:</b>		
<b>Loans to corporate customers .....</b>	<b>7,954</b>	<b>3,753</b>
Auto loans .....	53	(19)
Mortgage loans .....	55	(144)
Credit cards.....	307	189

Consumer loans .....	8,610	3,960
<b>Total loans to individuals .....</b>	<b>9,025</b>	<b>3,986</b>
<b>Total charge for credit losses on loans to customers</b>	<b>16,979</b>	<b>7,739</b>
<b>Cost of risk .....</b>	<b>1.8%</b>	<b>1.0%</b>

For the year ended 31 December 2020, MKB recognised a charge for credit losses on loans to customers of RUB 17.0 bln. The charge for credit losses on loans to customers increased as the macroeconomic adjustments in the provisioning model were changed in the first half of 2020 amid the overall macroeconomic instability and the COVID-related slump in business activity. Another contributing factor was the growing origination of credit products, mainly to corporate customers. The cost-of-risk ratio was 1.8% at end-2020.

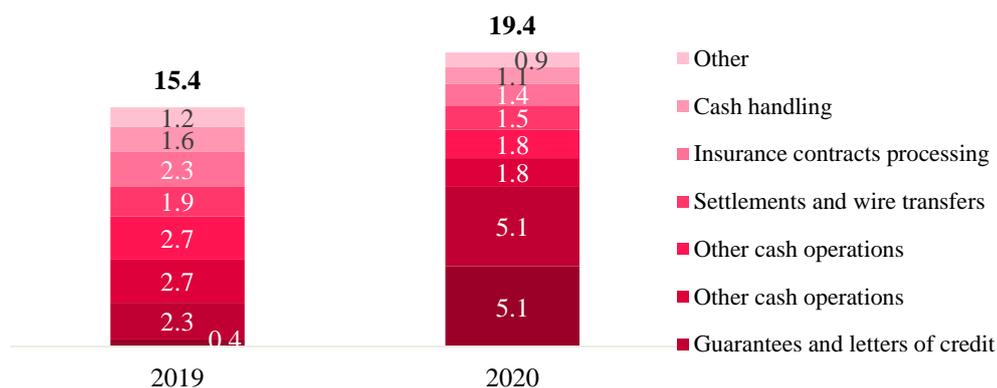
### Non-Interest Income

	Year ended 31 December	
	2020	2019
	RUB mln	
Fee and commission income	19,433	15,398
Fee and commission expense	(3,995)	(3,864)
Net loss on loans to customers at fair value through profit or loss	1,234	(1,590)
Net gain or (loss) on financial assets at fair value through profit or loss	5,226	793
Net gain or (loss) from sale and redemption of investment financial assets at fair value through other comprehensive income	584	(272)
Net realised gain or (loss) on investment financial assets at amortised cost	149	200
Net gain or (loss) on investment financial assets at fair value through profit or loss	2,320	-
Net gain on derecognition of financial instruments measured at AC	-	295
Net foreign exchange gains or (losses).....	(9,261)	(13,252)
Net gain on change in financial liabilities measured at fair value through profit or loss	26	162
Impairment gain or (loss) on other non-financial assets, credit gain or (loss) on other financial assets and credit related commitments and other provisions	(133)	3,318
Operating lease income .....	42	44
Other net operating income or (expense).....	3,362	(3,356)
<b>Non-interest income or (expense)</b>	<b>18,987</b>	<b>(2,124)</b>

### Fee and Commission Income

The largest source of MKB's non-interest income is its fee and commission income. Fee and commission income primarily comprises financial services fees and brokerage commissions, commissions generated by guarantees and letters of credit, plastic cards, cash operations, settlements and wire transfers, etc.

## Fee and Commission Income (RUB bln)



The bank's total fee and commission income increased by RUB 4.0 bln, or 26.2%, to RUB 19.4 bln as at 31 December 2020, mainly because financial services fees and brokerage commissions grew to RUB 5.1 bln. Guarantee and letter of credit issuance fees remain an essential source of fee and commission income, having more than doubled to RUB 5.1 bln. Fees from other cash operations, cash handling and insurance contract processing declined, mainly due to the quarantine restrictions in the first half-year.

### Fee and Commission Expense

For the year ended 31 December 2020, fee and commission expense increased by RUB 0.1 bln, or 3.4%, to RUB 4.0 bln. The increase in fee and commission expense in 2020 compared to 2019 was mainly driven by the growing share of transactional and fee-generating products offered by MKB.

### Net Fee and Commission Income

For the year ended 31 December 2020, MKB's net fee and commission income increased by 33.8% to RUB 15.4 bln. The share of net fee and commission income in operating income (before provisions) declined by 8.0 pp from 28.0% in 2019 to 20.0% in 2020.

### Net Gains on Securities

MKB's net gains on securities increased from RUB 0.7 bln as at 31 December 2019 to RUB 8.3 bln as at 31 December 2020. The growth was mainly driven by the portfolio of bonds – mostly federal bonds (OFZ).

MKB enters into securities operations mainly to obtain interest income and to use extra liquidity.

### Net Foreign Exchange Gains

The bank's foreign exchange gains or losses primarily comprise net gains or losses from foreign exchange transactions, net gains or losses on open foreign currency positions and on the

purchase and sale of foreign exchange derivatives for hedging the foreign exchange risks of its clients. The bank generates net income from foreign exchange transactions where its sale price for a particular instrument exceeds its purchase price, and typically incurs losses on its derivative transactions, which losses represent the cost of hedging arrangements made to limit the bank's foreign currency exposure and to manage its liquidity position.

The bank's net foreign exchange loss for the year ended 31 December 2020 was RUB 9.3 bln compared to a net loss of RUB 13.3 bln for the year ended 31 December 2019. That net loss was mainly due to the currency revaluation effects of the rouble exchange rate's volatility during the reviewed period, which was partly offset by income from derivative financial instruments.

### **Other Net Operating Income or (Expense)**

For the year ended 31 December 2020, MKB's other net operating income was RUB 3.4 bln as compared to other net operating expense of RUB 3.4 bln in 2019. Other operating income in 2020 was mainly due to the application of advance payments received previously under corporate loans prepaid or sold in the 4Q 2020. Other operating expense in 2019 mainly comprised state deposit insurance scheme contributions.

### **Operating Expense**

As at end-2020, the bank's operating expense increased by RUB 0.6 bln, or 2.7%, to RUB 21.8 bln, in part as a result of the consolidation with Rusnarbank and Vesta Bank acquired in May 2020.

	<b>2020</b>		<b>2019</b>	
	<b>RUB mln</b>	<b>%</b>	<b>RUB mln</b>	<b>%</b>
Salaries and employment benefits	13,877	63.7%	14,167	66.7%
Administrative expenses .....	6,026	27.6%	5,155	24.3%
Depreciation of property and equipment	1,898	8.7%	1,903	9.0%
<b>Operating expense .....</b>	<b>21,801</b>	<b>100.0%</b>	<b>21,225</b>	<b>100.0%</b>
<b>Cost-to-income ratio (%)</b>		<b>28.3%</b>		<b>51.6%</b>

The cost-to-income ratio was 28.3% and 51.6% as at 31 December 2020 and 2019, respectively. The operational efficiency improved mainly due to stronger non-interest income, coupled with only slightly higher operating expense in the year.

### **Salaries and Employment Benefits**

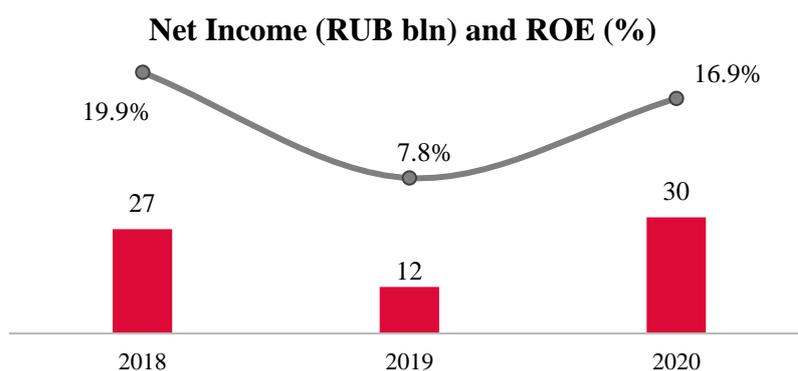
Salaries and employment benefits increased by RUB 0.3 bln, or 2.0%, to RUB 13.9 bln as at 31 December 2020, primarily due to the staffing optimisation in the cash collection and retail business segments during the year.

## Administrative Expenses

For the year ended 31 December 2020, MKB's administrative expenses decreased by RUB 0.9 bln, or 16.9%, to RUB 6.0 bln. The increase was primarily driven by advertising and development business expenses, which grew by RUB 0.4 bln.

## Net Income

**Net income for 2020** grew by more than 2.5 times y-o-y to RUB 30.0 bln. The increase was driven by a growth in net interest income, fee and commission income and income from securities trading.



#### 4. Structure of Assets and Liabilities

##### Balance Sheet

RUB mln	2020	2019	Change
<b>Assets</b>			
Cash and cash equivalents	683,283	953,645	-28%
Obligatory reserves with the Bank of Russia	22,244	16,944	+31%
Due from credit and other financial institutions	778,837	348,794	+123%
Trading financial assets	78,816	38,550	+104%
Investment financial assets	323,365	258,168	+25%
Loans to customers	1,009,165	788,655	+28%
Investments in associates	2,446	2,350	+4%
Property and equipment	8,950	9,515	-6%
Other assets	9,359	6,876	+36%
<b>Total assets</b>	<b>2,916,465</b>	<b>2,423,497</b>	<b>+20%</b>
<b>Liabilities and equity</b>			
Due to the Bank of Russia	10,041	-	-
Due to banks	721,682	677,936	+6%
Due to customers	1,737,515	1,339,535	+30%
Financial liabilities measured at fair value	19,330	9,874	+96%
Debt securities issued	171,465	168,549	+2%
Deferred tax liability	5,399	3,370	+60%
Other liabilities	16,537	13,801	+20%
<b>Total liabilities</b>	<b>2,681,969</b>	<b>2,213,065</b>	<b>+21%</b>
<b>Equity</b>			
Share capital	30,692	30,692	-
Additional paid-in capital	58,210	58,210	-
Perpetual debt issued	41,950	37,871	+11%
Revaluation surplus for buildings	536	407	+32%
Fair value reserve for securities	(1,107)	1,146	-197%
Change in fair value of financial liability attributable to changes in the credit risk	225	64	+252%
Retained earnings	103,990	82,042	+27%
<b>Total equity</b>	<b>234,496</b>	<b>210,432</b>	<b>+11%</b>
<b>Total liabilities and equity</b>	<b>2,916,465</b>	<b>2,423,497</b>	<b>+20%</b>

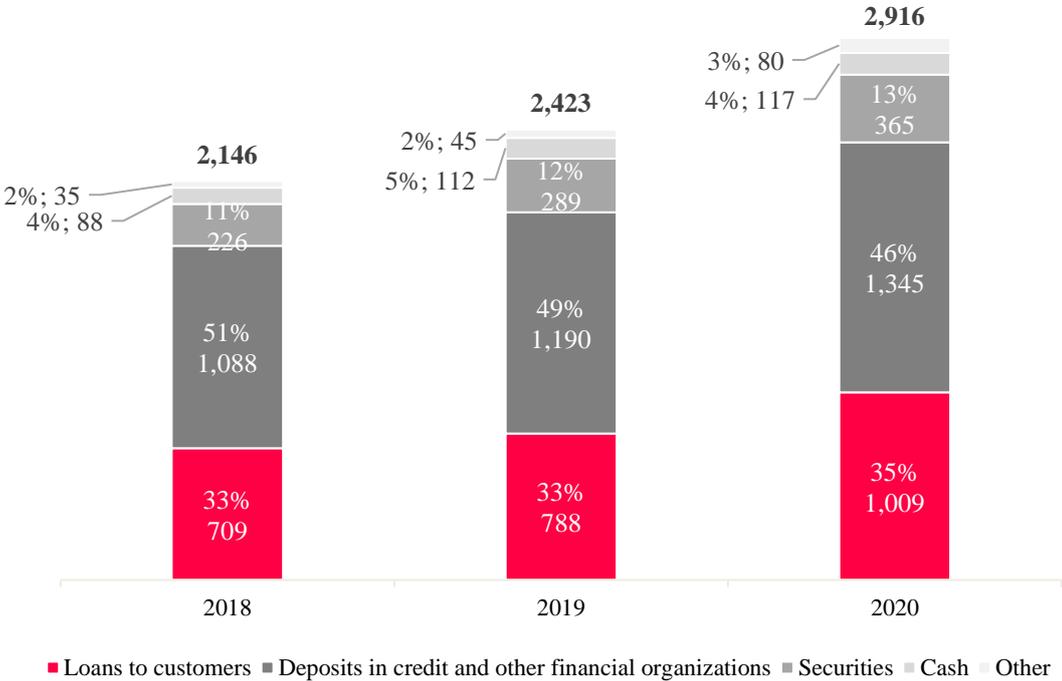
##### Assets Structure

As at 31 December 2020, the bank's total assets increased by 20.3% or RUB 493.0 bln and reached RUB 2,916.5 bln, driven primarily by the securities portfolio growing by 35.5% to RUB 402.2 bln due to the acquisition of OFZ, currency revaluation, and the net loan portfolio expanding by 28.0% to RUB 1,009.2 bln.

Loans to customers remain one of the largest components of MKB's assets, accounting for 34.6% thereof. Liquid assets, which include cash and cash equivalents, due from banks and the

securities portfolio, rose in 2020 by RUB 265.1 bln or 16.6% to RUB 1,864.3 bln or 63.9% of the total assets.

**Asset Structure (RUB bln)**



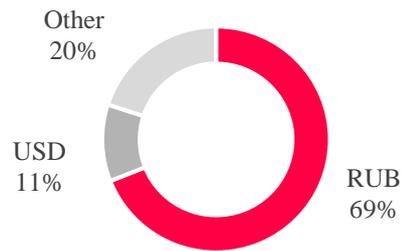
**Loan Portfolio**

The gross loan portfolio (before credit loss allowance) grew in 2020 by 27.7% (19.6% net of currency revaluation) to RUB 1,059.1 bln. It had an 87.4% share of corporate loans and a 12.6% share of retail loans. The corporate loan portfolio expanded in 2020 by 28.7% (19.4% net of currency revaluation) to RUB 925.8 bln due to high demand from prime corporates and revaluation of loans nominated in foreign currencies.

The retail loan portfolio expanded by 21.4% to RUB 133.3 bln, mainly driven by mortgage lending which increased by 56.9% to RUB 37.2 bln as mortgage loans became more affordable with all-time low interest rates and governmental loan subsidy programmes. The mortgage portfolio also benefited notably from the consolidation with Rusnarbank and Vesta Bank in 2Q 2020.

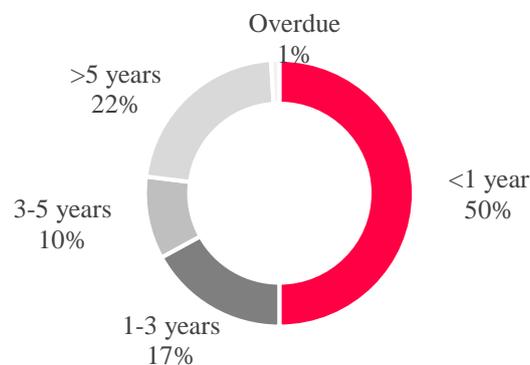
Being an active player in the international finance market, the bank has liabilities nominated in foreign currencies. For a more balanced currency structure of its assets and liabilities, the bank now only gives foreign currency loans to customers with a foreign currency component in their business. As at 31 December 2020, 69% of the bank’s loan portfolio was nominated in roubles, 11% in US dollars and the remaining 20% in other currencies.

### Loan Portfolio by Currency



As at end-2020, the total portfolio had a large, 50%, portion of loans with maturities of up to 1 year. Long-term loans (with maturities exceeding 5 years) accounted for 22%.

### Total Loan Portfolio by Maturities



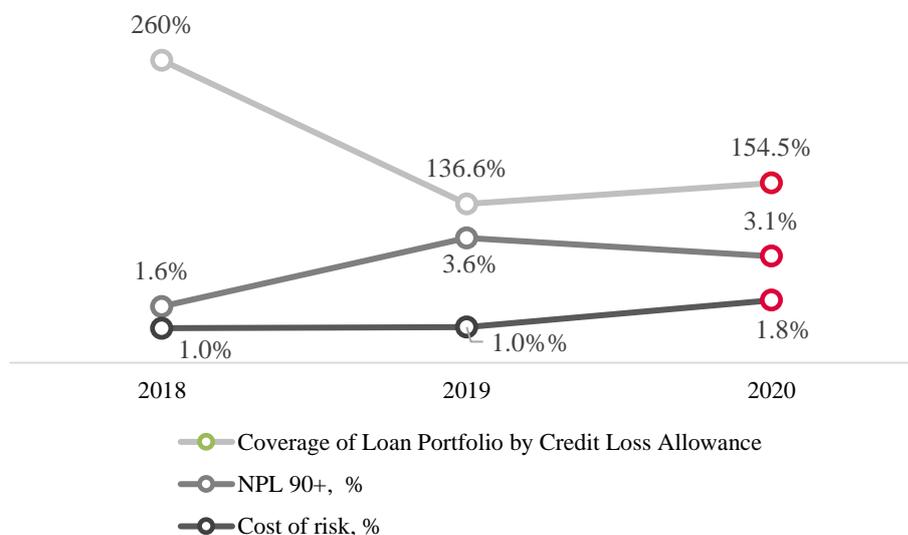
### Loan Portfolio Quality

2020 saw more restructurings than 2019, under both state and in-house programmes designed to support borrowers amid the pandemic. Most restructurings served as a preventive support measure ahead of financial difficulties. The actual volume of COVID-related restructurings reached RUB 2.335 tln in the corporate loan portfolio and RUB 185 bln in the retail loan portfolio. As at the year-end, the restructured loans showed good payment discipline.

2020 brought a high degree of economic instability, with some lockdown-affected customers facing financial challenges. Despite the thorny operating environment, the bank managed to sustain not only high growth rates, but also the quality of its loan portfolio, thanks, primarily, to the effective work of its risk management system. The share of second and third basket loans remained at the level of 2019 and was equal to 7.4%, while the NPL 90+ ratio declined by 0.5 pp to 3.1% in 2020.

The cost of risk increased by 0.8 pp y-o-y to 1.8% as the macroeconomic adjustments in the provisioning model were changed in the first half of 2020, which also prompted the NPL90+ coverage ratio to grow to 154.5%. Credit loss allowance stood at RUB 50.0 bln as at end-2020, as compared to RUB 40.5 bln as at end-2019, representing a 0.2 pp reduction to 4.7% as percentage of the gross loan portfolio.

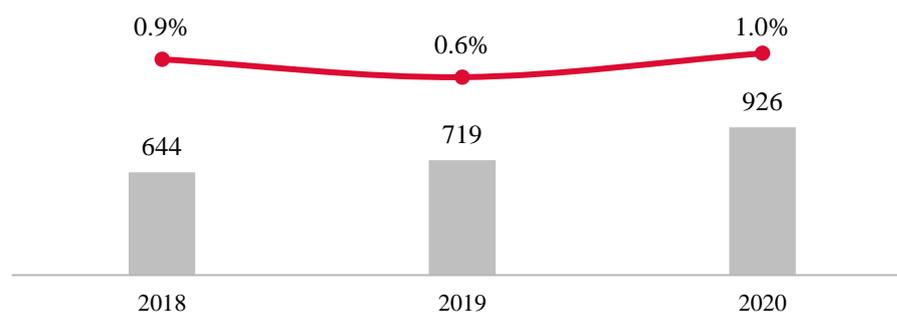
### NPL 90+, Cost of Risk and Coverage of Loan Portfolio by Credit Loss Allowance



The loan portfolio quality is maintained at a high level: the ratio of NPL90+ to the gross corporate loan portfolio decreased by 0.9 pp to 2.6% as at 31 December 2020. The share of third basket and POCI loans in the gross corporate loan portfolio fell from 5.5% to 4.8% as at end-2020.

The corporate loan portfolio provisioning rate declined by 0.7 pp to 4.0%, with the LLP/NPL coverage ratio rising from 132.3% as at end-2019 to 151.5% as at end-2020. The cost of risk rose in the first half of 2020 to 1.4%, but then stabilised at 1.0% as at the year-end.

### Gross Corporate Loan Portfolio (RUB bln) and Cost of Risk (COR) (%)

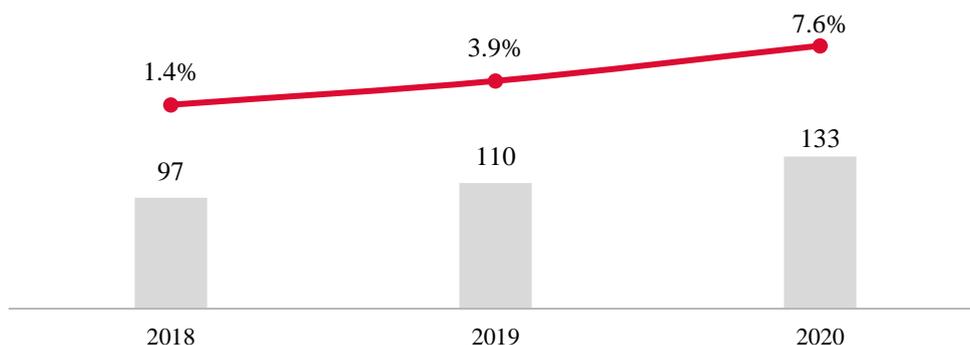


The NPL90+ percentage in the gross retail portfolio rose to 5.9% (from 3.6% as at end-2019) as the pandemic the financial condition of some retail borrowers.

The NPL coverage ratio for the retail portfolio was 163.9% as at end-2020. The provisioning rate for the retail portfolio rose by more than 1.5 times to 9.7%.

The cost of risk of the retail loan portfolio increased in 2020 by 3.7 pp to 7.6% as the macroeconomic adjustments in the provisioning model were changed in the first half of 2020.

### Gross Retail Loan Portfolio (RUB bln) and Cost of Risk (COR) (%)



#### Cash and Cash Equivalents

As at 31 December 2020, MKB had cash and cash equivalents of RUB 683.3 bln as compared to RUB 953.6 bln as at 31 December 2019, a fall of 28%. The decrease in cash and cash equivalents resulted from decreases in due from credit and other financial institutions with maturities below one month, which mostly represent reverse repo transactions, such decreases stemming from MKB's liquidity management strategy as applied to its interbank lending operations.

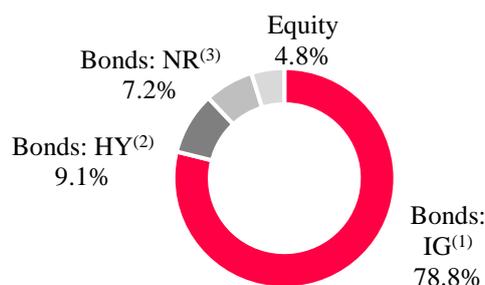
#### Due from Credit and Other Financial Institutions

Accounts and deposits with banks expanded from RUB 348.8 bln as at end-2019 to RUB 778.8 bln as at end-2020. The increase in deposits in credit and other financial institutions was attributable to an increase in the volume of reverse repo transactions with maturities exceeding one month, from RUB 344.0 bln to RUB 751.4 bln as at end-2020 in line with counterparties' needs. Importantly, more than 90% of securities pledged under reverse repo agreements were rated BBB- or higher as at 31 December 2020.

#### Securities Portfolio

MKB's securities portfolio comprised 13.8% and 12.2% of its total assets as at 31 December 2020 and 2019, respectively. MKB classifies its securities portfolio into trading financial assets and investment financial assets. Its securities portfolio consists primarily of Russian government and municipal securities, corporate bonds and Eurobonds of top-tier Russian companies with solid credit ratings. As at end-2020, 78.8% of the securities portfolio was attributable to bonds rated BBB- or higher, with 73% of the debt securities portfolio being on the Bank of Russia's Lombard List.

## Securities



1. IG – investment grade
2. HY – high yield
3. NR – not rated

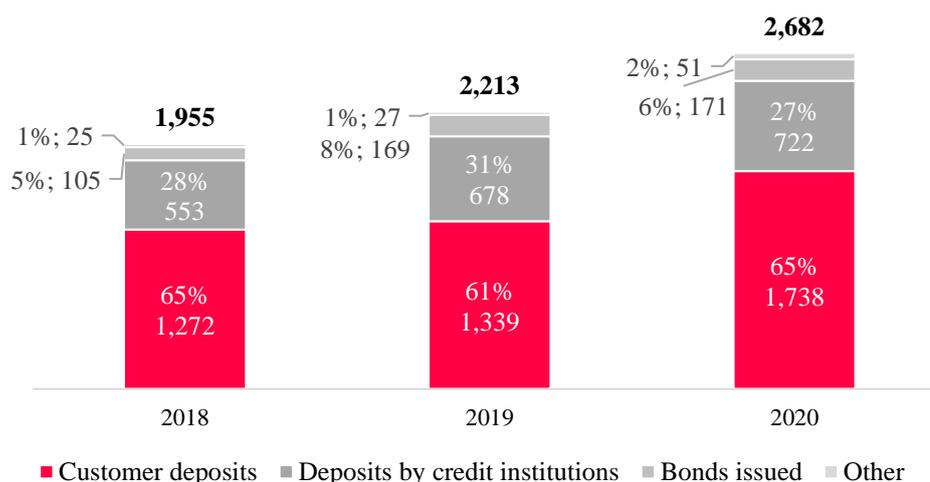
As at 31 December 2020, MKB's securities portfolio totalled RUB 402.2 bln compared to RUB 296.7 bln as at 31 December 2019. The increase in its securities portfolio is primarily attributable to an increase in the volume of federal bonds (OFZ), aimed at generating stable low-risk income in the period of volatility and enhancing MKB's liquidity ratios.

## Liability Structure

The bank's liabilities consist primarily of deposits from corporate and retail customers. Other sources of funding include domestic bonds and Eurobonds, borrowings in the Russian interbank market, borrowings from international financial institutions and syndicated loans. The bank also has access to the Bank of Russia's financing on a secured and unsecured basis.

MKB's funding strategy pursues diversification in order to achieve an optimal balance between its equity, domestic and international borrowings to cover the growing needs of its business, in terms of both currency and maturity.

### Liability Structure (RUB bln)



As at 31 December 2020, MKB's liabilities totalled RUB 2,682.0 bln, having increased by RUB 468.9 bln, or 21.2%. This increase was mainly driven by corporate deposits and direct repo operations.

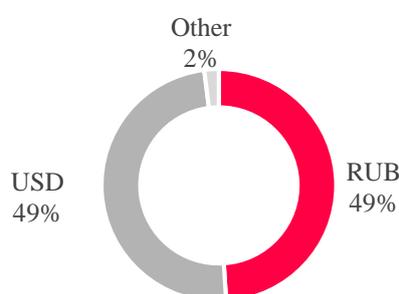
## Funding Base

### Current Accounts and Deposits by Customers

Accounts and deposits by customers represented 64.8% of total liabilities or RUB 1,737.5 bln in 2020, having grown by 29.7% y-o-y. The deposit base expanded mainly due to a strong 44.8% inflow of corporate deposits that reached RUB 1,236.0 bln or 71.1% of total deposits, and due to revaluation of foreign currency deposits. Retail deposits increased by 3.2% y-o-y to RUB 501.5 bln. Customer deposits are a strong source of liquidity for the bank as they grow steadily with the expansion of its customer base even in periods of turbulence.

Term deposits increased by 26.9% to RUB 1,442.1 bln, representing 83% of the total deposit base. They account for 84% of all corporate deposits or RUB 1,041.4 bln and 80% of all retail deposits or RUB 400.7 bln.

### Deposit Portfolio Breakdown by Currencies

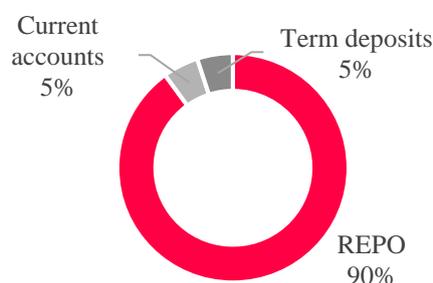


Customer deposits are denominated mainly in roubles and US dollars (98% of the total deposit base as at end-2020).

### Due to Credit Institutions

Due to credit institutions include payables under repurchase agreements, term deposits and current accounts. Due to credit institutions represented 26.9% and 30.6% of total liabilities as at 31 December 2020 and 2019, respectively.

### Due to Credit Institutions



Due to credit institutions increased by RUB 43.7 bln, or 6%, to RUB 721.7 bln as at 31 December 2020. The increase in 2020 was attributable to a 237% increase in term deposits to RUB

33.8 bln, and a 209% increase in current accounts to RUB 34.9 bln. Payables under repurchase agreements rose by 3.7% in 2020 to RUB 653.0 bln.

**Due to CBR**

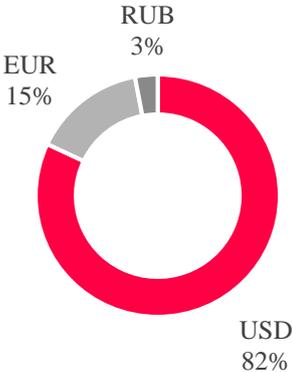
As at 31 December 2020, deposits by the Bank of Russia stood at RUB 10.0 bln. In 2018-2019, favourable market conditions and solid ratings allowed MKB to raise short-term financing in the interbank market at lower rates than CBR deposits. In 2020, amid the COVID-related market uncertainty, the bank raised short-term financing from the Bank of Russia at an attractive rate.

**Debt Instruments**

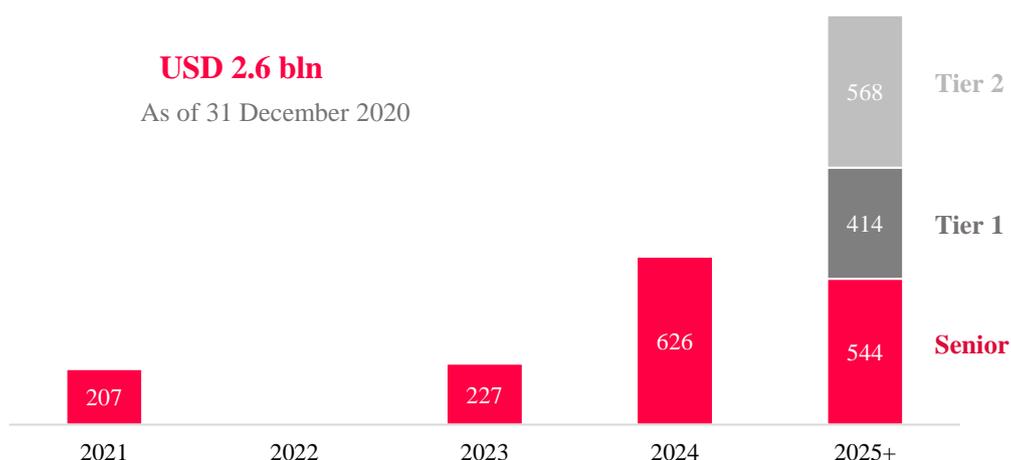
	2020		2019	
	RUB bln	% of total	RUB bln	% of total
Bonds	135.8	79.2%	136.0	80.7%
Subordinated bonds	35.6	20.8%	32.5	19.3%
Total debt securities issued	171.5	100.0%	168.5	100.0%

MKB issues debt securities in the domestic and international markets to fund its business growth. Debt securities issued represented 6.4% and 7.6% of its total liabilities as at 31 December 2020 and 2019, respectively. The total amount of debt instruments rose by 1.7% y-o-y to RUB 171.5 bln. The volume of debt securities issued fluctuates mainly in connection with the refinancing of repaid debt instruments, and also due to new debt issues and currency revaluation of Eurobonds denominated in US dollars and euro.

**Breakdown of Eurobonds by Currency**



## Eurobond Redemption Schedule



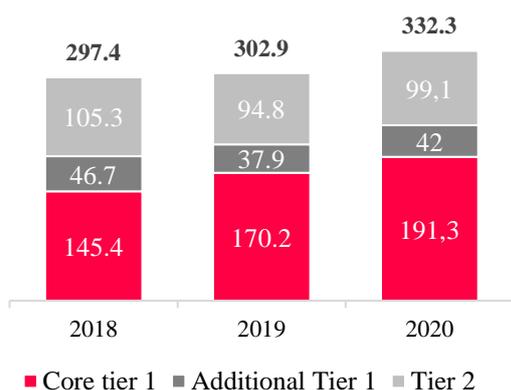
### Equity

#### Equity Capital

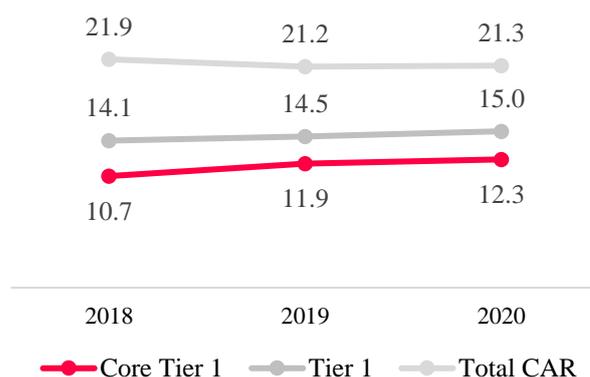
The bank's **total capital** according to the Basel III standards rose by 9.7% y-o-y to RUB 332.3 bln. This growth was mainly driven by retained earnings and positive revaluation of foreign currency-denominated subordinated debt reflecting the weakening rouble.

The Tier 1 capital ratio, calculated in accordance with Basel III, rose from 11.9% as at end-2019 to 10.7% as at end-2020. The total capital adequacy ratio increased from 21.3% to 21.2%. The **core capital** increased by 12.4% y-o-y to RUB 191.3 bln.

#### IFRS Capital (Basel III) (RUB bln)



#### IFRS Capital Adequacy (Basel III)



## **CORPORATE GOVERNANCE SYSTEM**

### ***1. Controlling Shareholder's Memorandum***

CREDIT BANK OF MOSCOW recognises the importance of developing its corporate governance system and due observance of stakeholders' interests.

The bank regularly monitors topical issues of corporate governance and changes in corporate governance laws and regulations.

The bank seeks to meet the best international and Russian standards by continuously improving its governance system in line with the Russian Corporate Governance Code recommended by the Bank of Russia and international corporate governance standards setting out most important principles shared by the bank's shareholders, directors and officers.

The commitment of the bank's shareholders, Supervisory Board members and employees to the Corporate Governance Code is attested by the fact that its principles and provisions are incorporated into the bank's bylaws, and its corporate governance system is being developed according to a plan approved by the Supervisory Board. The development of corporate governance practices in the bank is overseen by the Compensation, Corporate Governance and Nominations Committee of the Supervisory Board.

The controlling shareholder is a Supervisory Board member himself and confirms his commitment to best corporate governance practices by making sure each year that as many independent directors are elected to the Supervisory Board as necessary to comply with the listing rules and corporate governance principles. The controlling shareholder also participates in annual shareholders meetings, thus giving minority shareholders an opportunity to ask him directly about the bank's development.

The Supervisory Board pays much attention to the protection of minority shareholders' interests and to the quality of the bank's disclosures to all stakeholders. To protect shareholders' interests and facilitate the achievement of the bank's goals, the Supervisory Board regularly monitors the risk management and internal control system's effectiveness.

The bank grows and develops actively, strengthening its capital base in particular by way of equity capital market exercises, and seeking to comply, now and going forward, with high corporate governance standards.

The bank promptly responds to new challenges. That is why the strategy and budget, information security, IT and sustainable development issues were important in the agendas at meetings of the Supervisory Board and its committees in 2020. As the initiator of the implementation of the best international corporate governance (in 2008) and social and environmental standards (in 2012), and as the founder of the *Arifmetika Dobra* charity to support orphans and children in foster families, the controlling shareholder plays an important role in developing and supporting the bank's sustainable development initiatives. It is also a member of the Strategy and Sustainable Development Committee and takes an active part in discussing the bank's strategic areas in ESG.

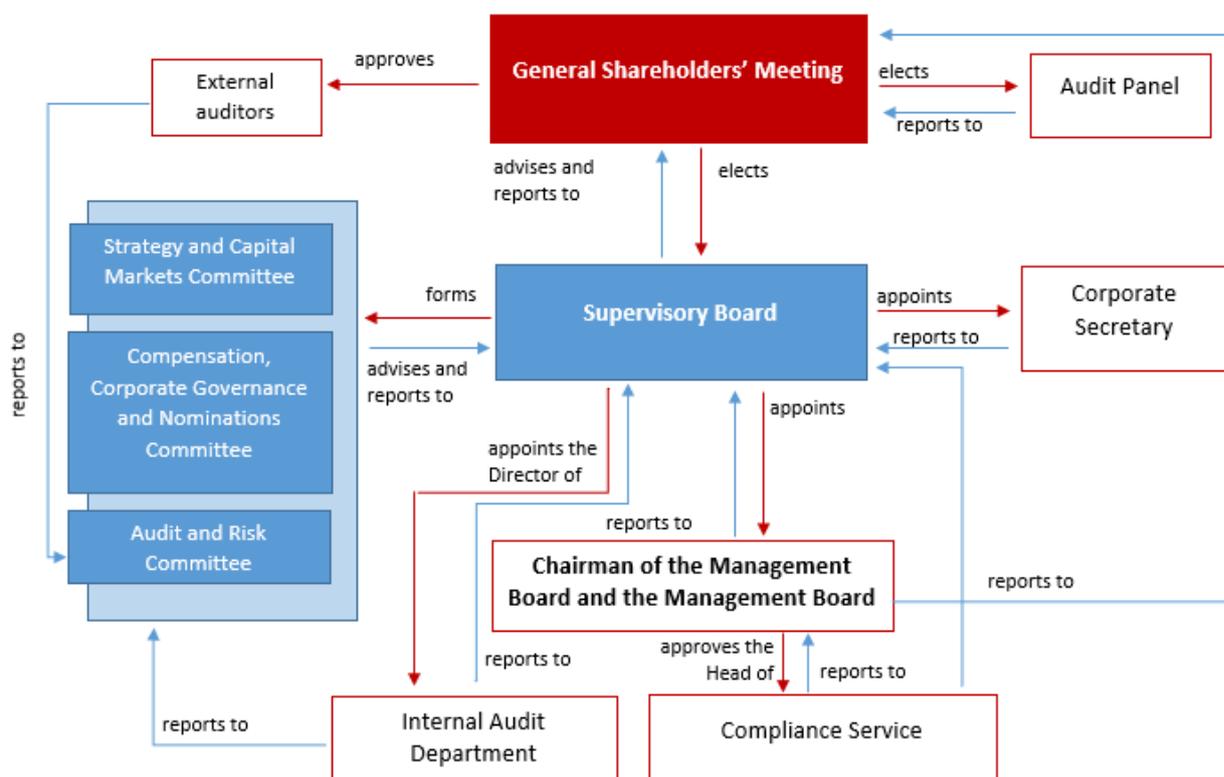
The controlling shareholder, as a member of the Supervisory Board, recognises the importance of the issues listed above and is interested in their comprehensive consideration in order to protect the interests of the bank's stakeholders.

## 2. Corporate Governance System

The bank's corporate governance system is a system of principles and standards, balancing interests of its shareholders, management and other stakeholders, facilitating effective performance of its management bodies and enhancing its investment appeal.

The bank recognises the importance of the corporate governance development. In this respect, improving its corporate governance, applying the best Russian and international practices in its activities, and analysing its corporate governance occupies an important place on the agendas at the meetings of the Supervisory Board and its competent committees.

### The Bank's Corporate Governance Structure



### 2.1. Corporate Governance Principles

The bank has committed to the following corporate governance principles (as set forth in its Corporate Governance Code):

#### **In respect of the shareholders**

- Equal and fair treatment;
- Equal and fair opportunity to participate in profits;
- Equal terms and conditions;
- Reliable and efficient means of recording title to shares.

### **In respect of the Supervisory Board**

- The Supervisory Board is responsible for the strategic management of the bank, determines major principles of and approaches to creation of a risk management and internal control system within the bank and monitors the activity of the bank's executive bodies;
- The Supervisory Board reports to the General Shareholders' Meeting;
- The Supervisory Board should be an efficient and professional governing body of the bank which is able to make objective and independent judgements and pass resolutions in the best interests of the bank and its shareholders;
- The Supervisory Board should include a sufficient number of independent directors;
- The Chairman of the Supervisory Board should help it carry out the allocated functions in the most efficient manner;
- Supervisory Board members should act reasonably and in good faith in the best interests of the bank and its shareholders;
- Meetings of the Supervisory Board, preparation for them and participation of Supervisory Board members therein should ensure the efficient operation of the Supervisory Board;
- The Supervisory Board may form committees for preliminary consideration of the most important issues of the bank's business;
- The Supervisory Board should provide for an evaluation of the quality of its work and that of its committees and members.

### **In respect of the Corporate Secretary**

- The Corporate Secretary should ensure efficient interaction with its shareholders, coordination of the bank's operations designed to protect the rights and interests of its shareholders, and support the efficient work of the Supervisory Board.

### **In respect of the bank's Supervisory Board member and executive remuneration system**

- The level of remuneration paid by the bank shall be sufficient to enable it to attract, motivate and retain persons having the required skills and qualifications;
- Remuneration due to the Supervisory Board members and executives of the bank should be paid in accordance with the remuneration policy approved by the bank;
- The system of remuneration of the Supervisory Board members should ensure harmonisation of the financial interests of the directors with the long-term financial interests of the shareholders;
- The bank's executive remuneration system should ensure harmonisation of the directors' financial interests with the shareholders' long-term financial

interests.

#### **In respect of the risk management and internal control system**

- The bank should have an efficient internal control and risk management system in place;
- The bank should arrange for an internal audit to independently appraise, on a regular basis, the reliability and efficiency of its risk management and internal control system and corporate governance practices.

#### **In respect of the bank's information disclosure and its information policy**

- The bank and its activities should be transparent to its shareholders, investors and other stakeholders;
- The bank should disclose, on a timely basis, full, up-to-date and reliable information about its activities;
- The bank should provide any information or documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.

#### **In respect of material corporate actions**

- Any material corporate actions should be taken on fair terms and conditions, ensuring that the rights and interests of the shareholders as well as other stakeholders are observed;
- The bank should make provision for a procedure for taking any material corporate actions that would enable its shareholders to receive full information about such actions in due time and to influence them, and that would also guarantee that the shareholders' rights are observed and duly protected in the course of such actions.

### **2.2. Improvement and Development of the Bank's Corporate Governance System in 2020 and Plans for 2021**

The bank follows changes in corporate governance legislation and, in line with best Russian and international practices, took the following actions for corporate governance improvement:

- Due to the coronavirus pandemic, the annual shareholders meeting was held for the first time by absentee voting;
- Despite the coronavirus pandemic, Supervisory Board meetings were held in 2020 as per the approved annual work plan using videoconference tools;
- A long-term motivation programme for Management Board members was implemented;
- The Supervisory Board was given the remit to pre-approve board nominees for the bank's subsidiary and controlled companies;
- As recommended by the Bank of Russia, the Audit and Risk Committee was given the remit to control information security matters;

–As recommended by the Bank of Russia, the Strategy and Sustainable Development Committee (until 02.02.2021, Strategy and Capital Markets Committee) was given the remit to control IT strategy and IT policy matters, and to review sustainable development matters, which prompted its renaming;

–Supervisory Board committees and the Board itself began a regular review of information security, IT and sustainable development matters, understanding their importance and relevance for the bank's and the banking group's business expansion;

–The Supervisory Board's performance was appraised, which resulted in a list of refresher courses for its members, such as cyber security training organised by NACD and Harvard University,

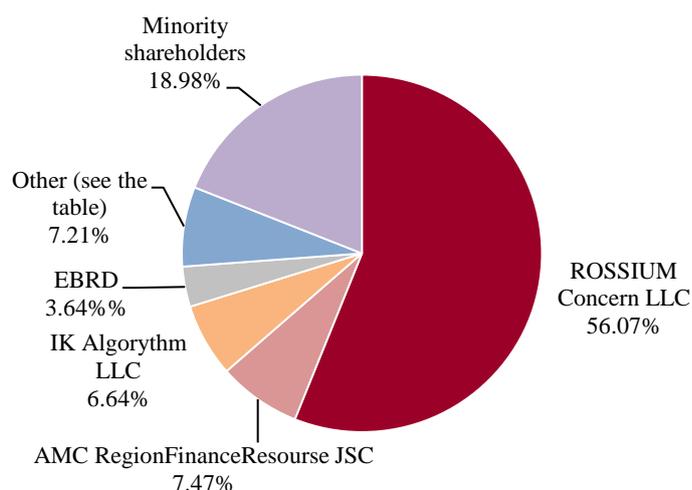
–A new D&O insurance agreement was signed upon annual revision of insurance terms;

–A corporate governance improvement plan was produced following an internal audit of corporate governance;

–As part of an ongoing monitoring of laws, certain bylaws were drafted and approved, and some existing ones were amended: the Bank's Charter; Regulation on the General Shareholders' Meeting; Regulation on the Supervisory Board; Regulation on the Management Board and the Chairman of the Management Board; Internal Audit Department's Work Manual; Internal Audit Planning Guide; Regulation on the Internal Audit Department; Regulation on the Audit and Risk Committee of the Supervisory Board; Regulation on the Compensation, Corporate Governance and Nominations Committee of the Supervisory Board; Supervisory Board Member Induction Regulation, Corporate Governance Code; Regulation on the Strategy and Capital Markets Committee of the Supervisory Board; Bank's and Banking Group's Risk and Capital Management Strategies; Banking Group's Risk Management Policy; Payroll and Overall Remuneration Regulation; Regulation on Remuneration of Members of the Management Board and Selected Senior Executives; Anti-Corruption Policy; Internal Control Rules for Preventing, Detecting and Obstructing Insider Information Abuse and/or Market Manipulation; Manual for Performance Appraisal of, and Determining Additional Quarterly Bonuses Based Thereon for, the Risk Modelling Unit of the Integrated Risk Division of the Methodology and Retail Risk Department of the Risk Management Directorate; Supervisory Board Succession Policy; Regulation on Remuneration of Risk Takers and Internal Control and Risk Management Employees; Banking Group's Financial Recovery Plan; Internal Auditors Code of Professional Ethics; HR Policy.

The bank plans to improve and develop its corporate governance system in 2021 by monitoring laws on a regular basis, implementing best corporate governance practices, and amending its internal procedures and documents in line with the corporate governance improvement plan as approved annually by the Supervisory Board.

### 3. General Shareholders' meeting



#### Share Capital Structure<sup>17</sup>

Shareholder	Percentage
REGION Trust LLC (PPF Evolution JSC)	3.1684%
REGION Trust LLC (PPF FUTURE JSC)	2.3722%
VektorInvest LLC	1.0877%
REGION Trust LLC (PPF Evolution JSC)	0.5407%
Vladimir A. Chubar	0.02328%
AMC REGION Investments JSC (Moscow Income strategy)	0.0085%
Andrey A. Kryukov	0.0005%
REGION Investment Company JSC	0.003%
REGION EsM JSC (Moscow Income strategy)	0.0011%
<b>Total:</b>	<b>7.20538%</b>

Registered, issued and placed equity of the bank consists of 29,829,709,866 ordinary shares of 1 rouble par value each. The bank's shares are admitted to trading on Moscow Exchange in the first level quotation list.

#### 3.1. Information About the Bank's Shares

Categories (classes) of shares	
Type and category of shares	Ordinary registered
Issue form	Uncertificated
Number of shares issued	29,829,709,866
Par value of 1 (one) security, RUB	1

<sup>17</sup> As at 20.01.2021

### **3.2. Preparations for General Shareholders' Meetings**

The General Shareholders' Meeting is the bank's supreme managing body. Shareholders' participation in general meetings is the basic form of exercising their right to participate in the bank's management. The shareholders exercise their right to participate in managing the bank primarily by voting. In particular, shareholders' meetings have the power to approve the annual report and annual accounting statements, elect the bank's key management and control bodies, approve major transactions and interested party transactions and a number of other important matters.

The procedure for preparing and holding General Shareholders' Meetings is governed by the bank's Charter and Regulation on the General Shareholders' Meeting, which are intended to ensure observance of shareholders' rights and comply with all requirements of Russian laws and recommendations of the Bank of Russia's Corporate Governance Code. The Supervisory Board shall, when acting on any matters related to the calling or preparing of the General Shareholders' Meetings, observe, *inter alia*, the following rules:

- The bank shall send to the shareholders, and post on its website, a notice of the General Shareholders' Meeting at least 21 (twenty one) days or, if the bank's reorganisation is on the agenda, 30 (thirty) days before the date thereof, at the same time giving the shareholders access to the materials, and enough time to prepare for the agenda items, of the General Shareholders' Meeting; if the agenda of an extraordinary General Shareholders' Meeting includes election of Supervisory Board members or reorganisation of the bank by way of merger, spin-off or demerger and election of the board of directors (supervisory board) of the company so created, the bank notifies the persons entitled to participate therein and named in the shareholder register about calling thereof at least 50 (fifty) days before the date thereof.
- To ensure equal treatment of all its shareholders, including foreign shareholders, the bank may provide materials and voting ballots in Russian and English;
- The bank shall disclose the information about the date of drawing up a list of persons entitled to participate in a General Shareholders' Meeting at least 7 days prior to such a date;
- During the preparation for the General Shareholders' Meeting, the shareholders can ask questions by sending them to the [Corporate Secretary's](#) e-mail address;
- The General Shareholders' Meetings shall be held in Moscow, and the venue and time shall be chosen with account taken of the number of shareholders and the possibility of personal attendance at such meetings by all of the bank's shareholders;
- Each shareholder can participate in an in-person General Shareholders' Meeting exercising his/her right to vote in a way convenient for him/her: mailing the voting ballot or attending in person;
- In contemplation of the General Shareholders' Meeting, the shareholders shall be given such information and in such manner as will enable them to get a comprehensive view of the bank's performance and make well-grounded decisions on the items of the agenda thereof.

### **3.3. General Shareholders' Meetings in 2020**

The annual General Shareholders' Meeting was held on 19 June 2020 to consider the following issues:

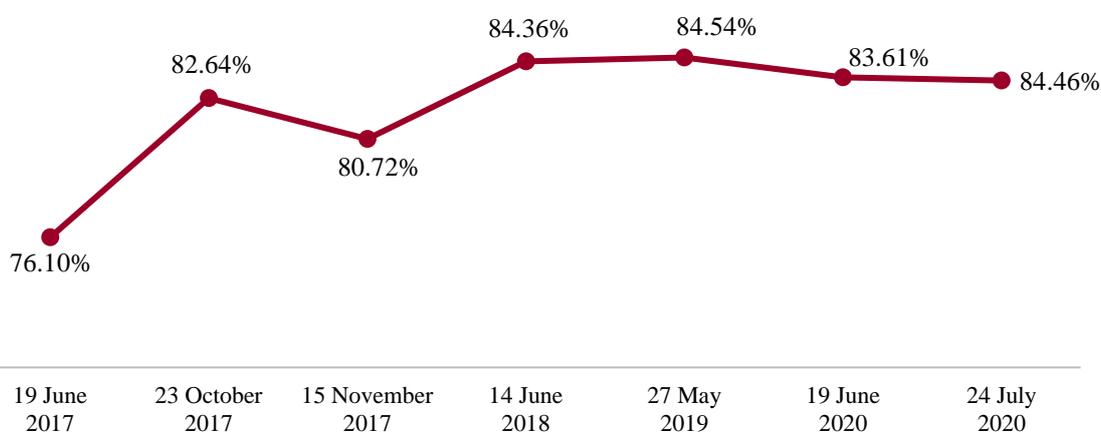
1. Approval of the bank's annual report for 2019.
2. Approval of the bank's annual accounting (financial) statements for 2019.
3. Distribution of the bank's income for 2019, including payment (declaration) of dividends.
4. Approval of the bank's auditors.
5. Determination of the number of Supervisory Board members.
6. Election of the Supervisory Board members.
7. Determination of remuneration and compensation for Supervisory Board members.
8. Election of the Audit Panel members.
9. Approval of the revised Charter of the bank.
10. Approval of the Regulation on the General Shareholders' Meeting.
11. Approval of the Regulation on the Supervisory Board.
12. Approval of the Regulation on the Management Board and Chairman of the Management Board.

An extraordinary General Shareholders' Meeting was held on 24 July 2020 to consider the following issue:

Approval of the bank's auditor for the audit of its net income for the 6 months of 2020 in accordance with Russian Accounting Standards for the purpose of including the same in its capital.

The list of agenda items of the annual General Shareholders' Meeting and its resolutions are available on the bank's website in the [disclosure](#) section, and on the [website](#) of information agency accredited by CBR for disclosures (the "Interfax website").

#### **Quorum of the General Shareholders' Meetings in 2017-2020**



### **3.4. Dividend Policy**

The Supervisory Board's approach to recommending dividend size and payment mechanics is set forth in the bank's Dividend Policy.

Any decision to pay (declare) dividends, including any decision on dividend size and payment procedure for shares of each category (type) shall be taken by the General Shareholders' Meeting based on the Supervisory Board's recommendations.

In February 2021, the Supervisory Board approved amendments to the dividend policy to improve the corporate governance practices and ensure compliance with the best international practices.

Thus, the Supervisory Board will recommend the dividend amount for any reporting year to the General Shareholders' Meeting based on the bank's IFRS net income (instead of the RAS net income), its compliance with covenants and mandatory capital adequacy ratios, maintenance of a balance between the bank's and its shareholders' interests, including the bank's compliance with other mandatory ratios set forth by the Bank of Russia. In addition, the bank will seek to maintain dividend payments at 25% or more of the IFRS net income (instead of at least 10% of the RAS net income).

### **3.5. Dividend History**

The Annual General Shareholders' Meeting of CREDIT BANK OF MOSCOW held on 19 June 2020 decided not to pay (not to declare) any dividends for 2019 to the bank's shareholders.

In 2019, it was decided to pay out RUB 2,978,768,085.26 as dividends for 2018 on ordinary registered shares. For each of the preceding years, it was decided not [to pay any dividend](#):

2020: no resolution to pay (declare) dividends was made.

2019: dividends were paid for 2018.

2018: no resolution to pay (declare) dividends was made.

2017: no resolution to pay (declare) dividends was made.

2016: no resolution to pay (declare) dividends was made.

2015: no resolution to pay (declare) dividends was made.

2014: no resolution to pay (declare) dividends was made.

### **3.6. Registrar**

As a means to safeguard the shareholders' title to shares, the bank's share register is maintained by an independent registrar. The bank's registrar since December 2016 has been JSC IRC – R.O.S.T. (former JSC R.O.S.T. Registrar) who also has the statutory duty to act as the counting commission.

## ***4. Supervisory Board***

The Supervisory Board is a collective body and the key element of the bank's corporate governance system. It represents shareholders' interests and is responsible for increasing the value of the business by formulating the long-term strategy, defining principles and approaches to arranging a risk management system and internal controls, and by monitoring performance of the bank's executive bodies.

The Supervisory Board’s competence is set out in the bank’s Charter and the Regulation on the Supervisory Board of CREDIT BANK OF MOSCOW, which also specifies the procedure for convening and holding Supervisory Board meetings, and formulates the basic qualification requirements for Supervisory Board members.

Supervisory Board meetings are called according to a timetable of meetings to be approved by the Supervisory Board, and cover main issues of the bank’s operations.

**4.1. Preparation of Supervisory Board Meetings and Their Quorum**

The Charter requires that materials relating to the agenda be provided to Supervisory Board members 15 days prior to the relevant meeting so as to allow them to make reasonable decisions. The Supervisory Board seeks to make any resolutions on agenda items at in-person meetings after they are first considered at meetings of the Supervisory Board committees. The Supervisory Board’s work plan pre-defines which committee is to examine and scrutinise which matter. The Regulation on the Supervisory Board covers the procedure for preparing and holding Supervisory Board meetings.

When holding in-person meetings, Supervisory Board members also have business meetings as business dinners, where they informally discuss colleagues’ (including the Chairman of the Management Board and a representative of the majority shareholder) viewpoints in respect of agenda items.

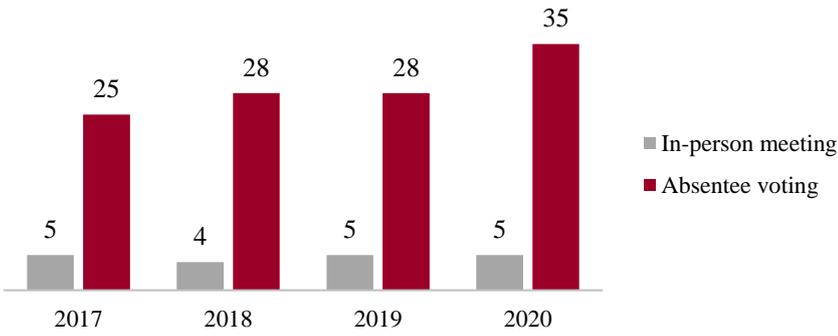
No Supervisory Board meeting was adjourned for want of quorum.

**4.2. Supervisory Board’s Report for 2020**

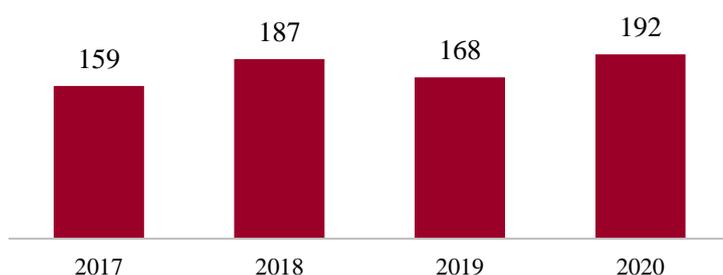
40 Supervisory Board meetings were held in 2020 (of which five were in-person meetings), 7 meetings more than in 2019.

The full list of items of agenda of Supervisory Board meetings, and their resolutions are available on the bank’s website in the disclosure section and on the [website](#).

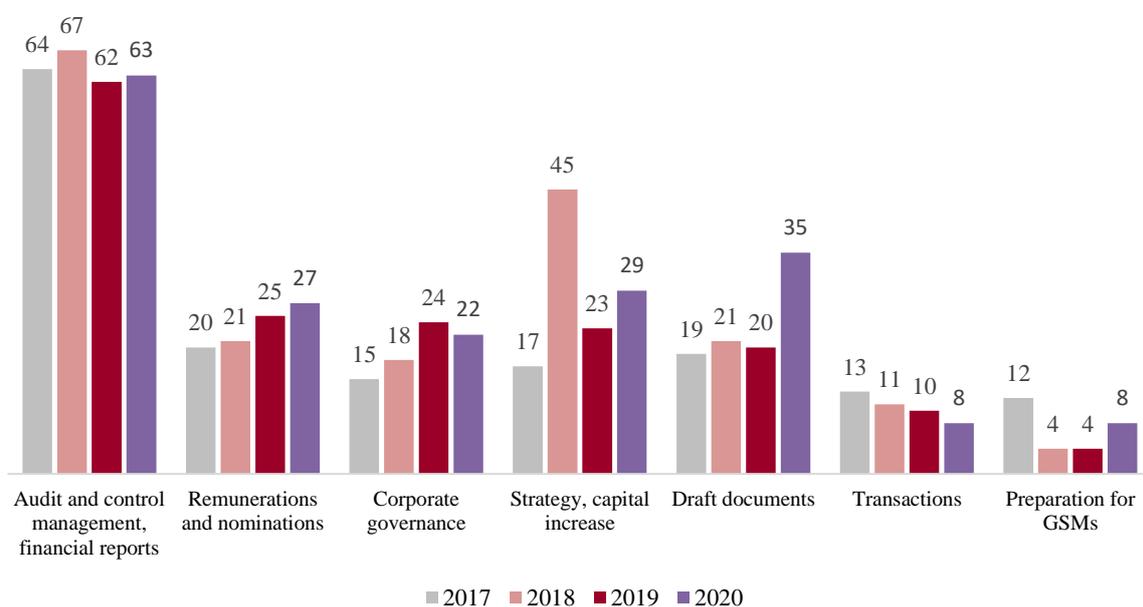
**Number of Supervisory Board Meetings**



**Number of Issues Transacted at Supervisory Board Meetings**



**Statistics of Issues Discussed**



**4.3. Attendance of Supervisory Board and Supervisory Board Committees Meetings by Directors in 2020**

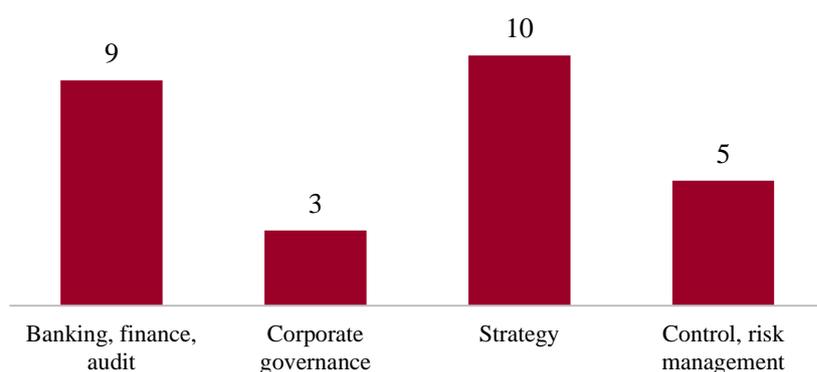
Director	Supervisory Board	Audit and Risk Committee	Compensation, Corporate Governance and Nominations Committee	Strategy and Capital Markets Committee
William Forrester Owens	40/40 (100%)	-	16/16 (100%)	12/12 (100%)
Roman I. Avdeev	39/39 (100%)	-	-	11/12 (91,7%)
Andrew Sergio Gazitua	40/40 (100%)	-	16/16 (100%)	12/12 (100%)

Thomas Günther Grasse	40/40 (100%)	30/30 (100%)	-	12/12 (100%)
Lord Daresbury (Peter)	40/40(100%)	-	16/16 (100%)	12/12 (100%)
Andreas Klingen	40/40 (100%)	30/30 (100%)	-	12/12 (100%)
Sergey Yu. Menzhinsky	40/40 (100%)	-	-	12/12 (100%)
Ilkka Seppo Salonen	40/40 (100%)	30/30 (100%)	-	11/12 (91.7%)
Alexey A. Stepanenko	40/40 (100%)	-	-	-
Vladimir A. Chubar	39/39 (100%)	-	-	12/12 (100%)

#### **4.4. Supervisory Board Members as at 31 December 2020**

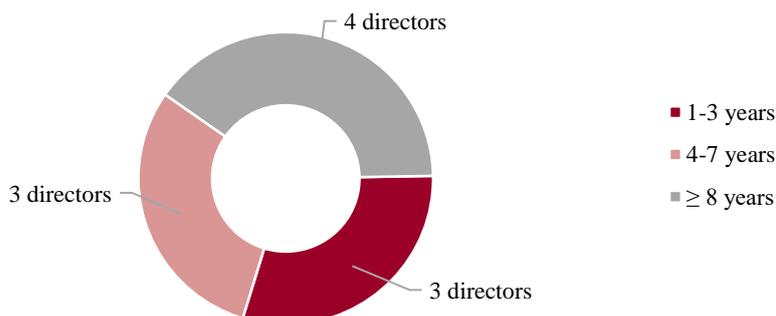
The current Supervisory Board members were elected by the annual General Shareholders' Meeting on 19 June 2020 by cumulative voting and will serve until the next annual shareholders' meeting.

#### **Key Competences of Supervisory Board Members**

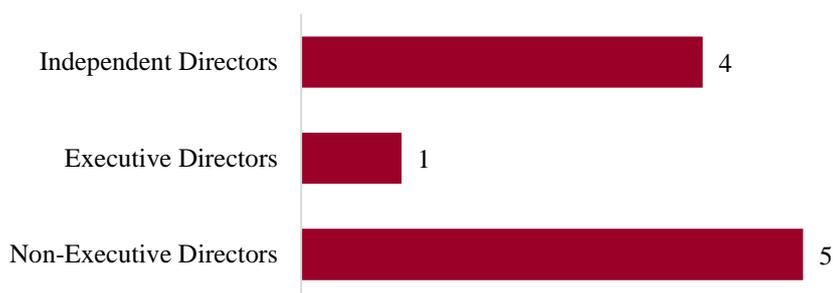


<b><u>Director</u></b>	<b><u>Banking, finance, audit</u></b>	<b><u>Corporate governance</u></b>	<b><u>Strategy</u></b>	<b><u>Control, risk management</u></b>
William Forrester Owens	±	±	±	
Roman I. Avdeev	±		±	
Andrew Sergio Gazitua	±	±	±	±
Thomas Günther Grasse	±		±	±
Lord Daresbury (Peter)		±	±	
Andreas Klingen	±		±	±
Sergey Yu. Menzhinsky	±		±	
Ilkka Seppo Salonen	±		±	±
Alexey A. Stepanenko	±		±	±
Vladimir A. Chubar	±		±	

### **Breakdown of Supervisory Board Members by Years of Service**



### **Breakdown of Supervisory Board Members by Degree of Independence**



### **4.5. Changes in the Supervisory Board in 2020**

There were no changes in the Supervisory Board in 2020.

As at 31 December 2020, there were 10 Supervisory Board members, five directors recognised as independent directors under the independence criteria set out by the bank's Charter and Corporate Governance Code and Moscow Exchange's Listing Rules. This proportion of independent directors corresponds to international practice and ensures unbiased, prudent and independent decision-making.

One of the independent Supervisory Board members with extensive business experience, in particular in financial, investment and strategic management, is elected as the Senior Independent Non-Executive Director.

### **4.6. Supervisory Board Members as at 31 December 2020**

#### **William Forrester Owens**

*Independent Non-Executive Director, Chairman of the Supervisory Board  
Member of the Strategy and Capital Markets Committee, Chairman of the Compensation,  
Corporate Governance and Nominations Committee*

**Year of birth:** 1950

**Education:**

1973: bachelor's degree in Science from Stephen F. Austin State University (USA).

1975: master's degree in Public Affairs from University of Texas (USA).

**Main employment:**

Senior Director of Greenberg Traurig, LLP

**Stake in the bank's charter capital and percentage of ordinary shares held in the bank:**

No stake in the bank's charter capital.

**Shares of the bank acquired or disposed of:**

None

**Roman I. Avdeev**

*Non-Executive Director, member of the Supervisory Board*

*Member of the Strategy and Capital Markets Committee*

**Year of birth:** 1967

**Education:**

1994: certificate in banking from the Moscow International University of Business and Information Technologies.

1996: degree in Industrial and Civil Construction from Lipetsk State Technical University.

1999: Ph.D. in Engineering Science from Penza State Academy of Architecture and Construction.

**Main employment:**

None

**Stake in the bank's charter capital and percentage of ordinary shares held in the bank:**

No stake in the bank's charter capital.

**Shares of the bank acquired or disposed of:**

None

**Andrew Sergio Gazitua**

*Senior Independent Non-Executive Director, member of the Supervisory Board*

*Member of the Compensation, Corporate Governance and Nominations Committee, Chairman of the Strategy and Capital Markets Committee*

**Year of birth:** 1962

**Education:**

1985: bachelor's degree in Arts in Political Science from Haverford College.

**Main employment:**

None

**Stake in the bank's charter capital and percentage of ordinary shares held in the bank:**

No stake in the bank's charter capital.

**Shares of the bank acquired or disposed of:**

None

### **Thomas Günther Grasse**

*Non-Executive Director, member of the Supervisory Board*

*Member of the Strategy and Capital Markets Committee and the Audit and Risk Committee*

**Year of birth:** 1955

**Education:**

1977: bachelor's degree in Banking from Frankfurt School of Finance and Management.

1999: training in investment and banking activities and corporate finance in J.P. Morgan, New York.

**Main employment:**

None

**Stake in the bank's charter capital and percentage of ordinary shares held in the bank:**

No stake in the bank's charter capital.

**Shares of the bank acquired or disposed of:**

None

### **Lord Daresbury (Peter)**

*Independent Non-Executive Director, member of the Supervisory Board*

*Member of the Compensation, Corporate Governance and Nominations Committee and the Strategy and Capital Markets Committee*

**Year of birth:** 1953

**Education:**

1971: graduated from Eton College.

1975: Master of Arts' degree from Magdalene College, Cambridge.

1980: attended Sloan fellowship in London Business School.

**Main employment:**

Director of Daresbury Estates Limited

**Stake in the bank's charter capital and percentage of ordinary shares held in the bank:**

Stake in the bank's charter capital: 0.00168%.

Percentage of ordinary shares held in the bank: 0.00168%.

**Shares of the bank acquired or disposed of:**

None

### **Andreas Klingen**

*Independent Non-Executive Director, member of the Supervisory Board*

*Member of the Strategy and Capital Markets Committee and the Audit and Risk Committee*

**Year of birth:** 1964

**Education:**

1993: Master of Business Administration degree from Rotterdam School of Management.

**Main employment:**

None

**Stake in the bank's charter capital and percentage of ordinary shares held in the bank:**

No stake in the bank's charter capital.

**Shares of the bank acquired or disposed of:**

None

### **Sergey Yu. Menzhinsky**

*Non-Executive Director, member of the Supervisory Board*

*Member of the Strategy and Capital Markets Committee*

**Year of birth:** 1971

**Education:**

1993: degree in Mechanics and Applied Mathematics from Lomonosov Moscow State University.

2011: degree in State and Municipal Administration from the Russian Presidential Academy of National Economy and Public Administration.

2009: advanced training courses at the Institute of Stock Market and Management.

2011: MBA qualification under the "Master of Business Administration – Strategic Management and Entrepreneurship" programme of Moscow International Higher Business School MIRBIS.

**Main employment:**

Advisor at REGION Investment Company JSC

**Stake in the bank's charter capital and percentage of ordinary shares held in the bank:**

No stake in the bank's charter capital.

**Shares of the bank acquired or disposed of:**

None

### **Ilkka Seppo Salonen**

*Independent Non-Executive Director, member of the Supervisory Board*

*Member of the Strategy and Capital Markets Committee, Chairman of the Audit and Risk Committee*

**Year of birth:** 1955

**Education:**

1981: Master of Political Science degree (major in Economics) from Helsinki University.

1994: completion of management courses at Kansallis-Osake-Pankki Bank (Finland).

2004: completion of executive education programme at IESE business school.

**Main employment:**

Executive Chairman of the Board of Directors of East Office of Finnish Industries

**Stake in the bank's charter capital and percentage of ordinary shares held in the bank:**

No stake in the bank's charter capital.

**Shares of the bank acquired or disposed of:**

None

**Alexey A. Stepanenko**

*Non-Executive Director, member of the Supervisory Board*

**Year of birth:** 1981

**Education:**

2004: degree in Finance and Credit from the Financial University under the Government of the Russian Federation.

2003: broker / dealer firm executive / comptroller / specialist qualification from the Federal Commission for the Securities Market.

**Main employment:**

CFO at Limited Liability Company ROSSIUM Concern

**Stake in the bank's charter capital and percentage of ordinary shares held in the bank:**

Stake in the bank's charter capital: 0.00229%.

Percentage of ordinary shares held in the bank: 0.00229%.

**Shares of the bank acquired or disposed of:**

None

**Vladimir A. Chubar**

*Executive Director, member of the Supervisory Board, Chairman of the Management Board  
Member of the Strategy and Capital Markets Committee*

**Year of birth:** 1980

**Education:**

2005: degree in Finance and Credit from the Finance Academy under the Government of the Russian Federation.

2007: course *Budgeting and Financial Planning in Commercial Banks* at the Association of Russian Banks' Institute of Banking Business.

**Main employment:**

Chairman of the Management Board of CREDIT BANK OF MOSCOW

**Stake in the bank's charter capital and percentage of ordinary shares held in the bank:**

Stake in the bank's charter capital: 0.02328%.

Percentage of ordinary shares held in the bank: 0.02328%.

**Shares of the bank acquired or disposed of:**

None

**Corporate Secretary**

The Corporate Secretary is an officer independent from the bank's executive bodies and reports to its Supervisory Board.

The Corporate Secretary's main functions include:

- Arranging preparation and holding of the bank's General Shareholders Meetings;
- Ensuring operation of the Supervisory Board and its committees;
- Assisting in implementation of the disclosure policy and keeping the bank's corporate documents;
- Managing the bank's relationships with its shareholders and contributing to the prevention of corporate conflicts;
- Ensuring the bank's interactions with regulators, trading facilities, the registrar and other professional stock market participants;
- Ensuring and checking the fulfilment of statutory and internal procedures intended to give effect to shareholders' rights and lawful interests;
- Informing the Supervisory Board immediately of any identified violations of laws or the bank's bylaws;
- Contributing to improvement of the bank's corporate governance.

Svetlana S. Sukhareva has been the Corporate Secretary of the Supervisory Board and its committees since December 2014.

Born on 29 November 1984 in Moscow, Russia.

2007: degree in Finance and Credit from the Plekhanov Russian University of Economics, 2013: degree in Translation and Translation Studies from the Russian State University for the Humanities.

2014: specialised course *Corporate Secretary* at the Russian Institute of Directors, and qualification upgrade course *Corporate Secretary* in 2017.

Svetlana Sukhareva started her career in 2007 at VTB Bank's FI Department. In 2014, she joined CREDIT BANK OF MOSCOW's Corporate Secretary Section, and, in December 2014, was appointed the bank's Corporate Secretary by resolution of its Supervisory Board.

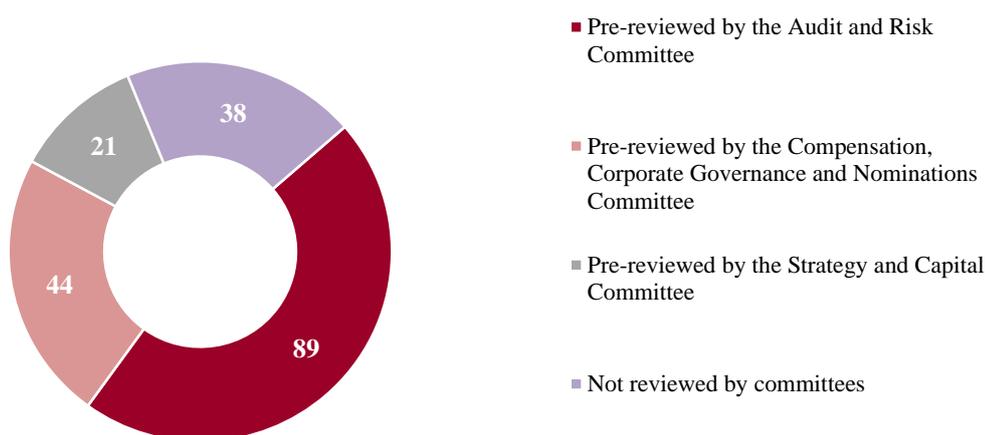
In addition, the bank's Corporate Secretary supervises the holding of its subsidiaries' Board proceedings.

No stake in the bank's charter capital.

#### **4.7. Supervisory Board Committees**

The Supervisory Board committees were created to undertake a preliminary study of the most important matters reserved to the competence of the Supervisory Board and to provide relevant recommendations. They serve as a venue for the open exchange of opinions and an in-depth study of the matters being considered.

**Number of Supervisory Board Issues Pre-Reviewed by its Committees**



**4.8. Changes in the Supervisory Board Committees in 2020**

	Audit and Risk Committee		Compensation, Corporate Governance and Nominations Committee		Strategy and Capital Markets Committee	
	Elected on 28 May 2019	Elected on 22 June 2020	Elected on 28 May 2019	Elected on 22 June 2020	Elected on 28 May 2019	Elected on 22 June 2020
William Forrester Owens (Independent Director)			+	+	+	+
Roman I. Avdeev (Non-Executive Director)					+	+
Andrew Sergio Gazitua (Independent Director)			+	+	+	+
Thomas Günther Grasse (Non-Executive Director)	+	+			+	+
Lord Daresbury (Peter) (Independent Director)			+	+	+	+
Andreas Klingens (independent director)	+	+			+	+
Sergey Yu. Menzhinsky (Non-Executive Director)					+	+

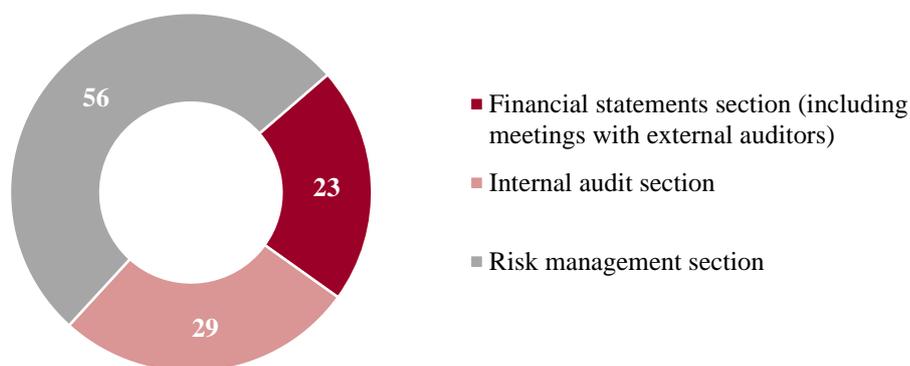
Ilkka Seppo Salonen (Independent Director)	+	+			+	+
Vladimir A. Chubar (Executive Director)					+	+

The Committees consist of Supervisory Board members who do not serve in the bank’s executive bodies. According to Moscow Exchange’s requirements for the first level quotation list which includes the bank’s securities, most members of the Audit and Risk Committee and all members of the Compensation, Corporate Governance and Nominations Committee are independent directors.

**4. The Audit and Risk Committee** advises the Supervisory Board on the issues within its competence, controls reliability and efficiency of the bank’s risk management and internal control system, controls measures taken to ensure the bank’s financial (accounting) statements are complete, accurate and true, ensures implantation and promotion of a risk management culture in the bank, ensures independency and fairness of internal and external audit functions and controls performance of the system alerting of potential malfeasance by staff or third parties, and controls the setup of information security risk management processes.

The full list of the Committee’s functions and competences is given in the [Regulation of the Audit and Risk Committee of the Bank’s Supervisory Board](#).

**Issues Addressed by the Audit and Risk Committee in 2020**



**Audit and Risk Committee’s Report**

The Audit and Risk Committee (ARC) was formed to analyse the efficiency of the bank’s internal control and risk management procedures. Based on its work the Committee brings initiatives for the decision of the Supervisory Board ensuring the continuous improvement of the audit, risk management and internal control processes of the bank.

Responsibilities, duties, competencies of the Committee and its accountability to stakeholders are outlined in the [regulation of the Audit and Risk Committee](#) as approved by the Supervisory Board and is published on the website of CREDIT BANK OF MOSCOW.

The Audit and Risk Committee minutes are tabled for the Supervisory Board's meeting for consideration and the Committee Chairman updates the Board at each meeting verbally on the Committee proceedings and recommendations on areas within its responsibility.

The Committee has three members: Thomas Grasse (Non-Executive Director), Andreas Klingen (Independent Non-Executive Director) and Ilkka Salonen (Independent Non-Executive Director, Chair). Its members have a wide range of skills and experience in finance, internal audit, risk management and compliance. As a general practice a majority of the Members of the Supervisory Board participate in the meetings of the Committee, with the right to comment on the agenda items. The CEO, CRO, CFO, the Head of Internal Audit and the external auditors of the bank also attend the ARC meetings. Key members of the management team, Risk Management Group and the Head of Internal Control who is also responsible for the Compliance function of the bank are also invited to attend as appropriate. Following the practice for systemically important financial institutions in the Russian banking system, a representative of the regulator is also invited to attend the Committee meetings.

During 2020 the ARC held 10 meetings in person and 20 in absentia. All committee members participated in each of the 30 meetings.

The extraordinary conditions created by the COVID-19 pandemic also impacted on the work of the ARC: the committee was able to meet only once in person during the year and conducted all other meetings online. Despite the induced changes in its mode of operation, the intensity and quality of its work and interaction did not suffer. The Committee constantly evaluates options for improving its operations.

In addition to the aforementioned meetings, the Committee had one online meeting in which matters related to financial reporting were discussed. The discussions were attended by the bank's senior management and the International Financial Reporting Standards (IFRS) Auditor.

In each of its meetings, the ARC evaluates the professional level of the personnel in the functions it supervises, the prevailing procedures and policies, and assesses their conformity to the bank's operational environment and the risks it faces. Based on our findings, we are comfortable with the quality of the human resources involved and the processes used in the management of the Finance, Risk Management and Internal Control Functions at CREDIT BANK OF MOSCOW and note with satisfaction that the bank acknowledges the need to develop them continuously.

The ARC routinely covers financial statements, risk management, internal control, internal audit (including relevant corporate governance issues), external audit and information security. Other topics are considered as they arise in coordination with the Chair of the Supervisory Board. The meetings are split in to three sections, Finance, Internal Audit and Risk Management.

## **Finance**

In Finance the ARC's duty is to control that the bank's financial statements are produced by bank's management in such a way that they comply with International Financial Reporting Standards, Russian Accounting Practices and overall governance requirements, and to prepare approval by the Supervisory Board. The Committee closely reviewed and considered the annual and interim financial

statements and financial reporting, principal risks, areas where material accounting judgements and management estimates have been made as well as the scope and clarity of disclosures. It received regular updates from the bank's financial management and the external auditors.

The Committee reviews the letters to management sent by external auditors and monitors the implementation of recommendations, as required, with the involvement of the head of the internal audit.

An essential part of this process is assessment of the effectiveness and independence of the Auditors and their Senior Partners engaged in the audit process. The Committee looked closely at the issue and concluded that in 2020 this requirement was met in a fully satisfactory manner.

The bank's IFRS Auditor is KPMG Russia. During 2020, Ekaterina Tatarinova acted as the Auditing Partner. The KPMG reported at each of the ARC meetings. In addition the members of the ARC met from time to time with the Auditing Partner without the presence of the bank's representatives.

The RAS Auditor is Business Systems Development (RBS), whose representatives made an in-person report twice during the year. In addition members of the Committee arranged a preliminary conference call with the Auditor to discuss annual financial statements.

With the migration to IFRS9, the importance of models used in assessment of the quality of the bank's loan book has grown substantially. This means that these models have to be regularly validated. At CREDIT BANK OF MOSCOW, validation is the responsibility of the finance function and, consequently, this topic was discussed in depth at the Finance section during the year. The Committee noted with satisfaction that the bank has started to build proprietary validation capacity.

As should be expected, the potential impact of the pandemic on the International Financial Reporting Standards and the rules set in the extraordinary circumstances by the Russian Regulator were discussed extensively in the financial reporting section of the meetings. In this context, the Committee supervised and scrutinised the accounting judgements for which management is responsible around macroeconomic forecasts, forecast-based information under multiple economic scenarios in light of Covid-19 uncertainty factors and closely examined risk scenario simulations as well as Expected Credit Loss measurement for IFRS9 purposes.

The Committee held audit planning meetings with KPMG where it focused on areas at greatest risk, the external auditor articulated their responses and testing strategies. We have also discussed with the IFRS Auditor Key Audit Matters, current methodology used by the bank and enhancements made for both collective and individual loan risk assessment, the reasonableness of assumptions and the adequacy of provisions for performing, restructured and non-performing loan portfolios in the Covid-19 risk environment.

### **Internal Audit**

The Committee's responsibility is to ensure the independence of the Internal Audit, including ensuring that the IAD is allocated sufficient resources and that its planned audits reflect the risks inherent in the internal control processes. In addition to the annual budget of the Internal Audit Department, the Committee also recommends to the Supervisory Board the level of remuneration (both the fixed and variable parts) of the Head of the Internal Audit.

Bringing the Internal Audit function to meet the highest industry standards continued to be high on the agenda of the ARC in 2020. In the summer the Head of the Internal Auditing unit changed

as Evgeniy Taturin left the bank. A replacement was found from within the bank in Maxim Badmaev, who had previously headed the bank's Internal Control function.

The Committee also devoted considerable attention to ensure that the audit processes at the bank and its subsidiaries are properly coordinated and that the head of the bank's Internal Audit Department has full information on the audits conducted at the subsidiaries. This issue became even more relevant in 2020 when, in the spring, the bank announced its intention to acquire two new subsidiary banks, Rusnarbank and Vesta.

The Internal Audit staff grew to 31 persons during the year, which corresponds to increased resources requirements. The budget for professional training was also brought to the level corresponding to the new headcount. The IAD personnel continued their efforts to obtain Certified Internal Auditor certificates.

In October, the ARC reviewed the regulation of MKB Internal Audit Department, as amended to reflect changes in professional practices of internal auditing, the Institute of Internal Auditors' Code of Ethics and the Bank of Russia regulations and recommended it for the Supervisory Board's approval.

In 2020 the Head of Internal Audit remained functionally subordinate directly to the Committee.

### **Risk Management**

In respect to risk management functions, the ARC monitors the reliability and effectiveness of the bank's risk management, internal capital adequacy assessment procedures and internal control systems. This includes reviewing and evaluating the risk management and internal control policies.

The Committee focuses on supervising and reviewing both the bank's and the banking group's risk strategy, risk management framework, risk appetite statement, risk tolerance and in all its meetings monitored key risk indicator developments as per reports provided by the Chief Risk Officer. Furthermore, the ARC reviewed regular stress testing results for several risk categories and management's key assumptions underlying each test scenario to assess resilience and regulatory compliance with minimum standards set by the Bank of Russia.

The Committee also comprehensively reviews and monitors strategic plans and projects developed by the Risk Management Division, addressing complex risk management solutions involving several business lines and business functions. The ARC promotes enhancement in risk management tools and techniques, implementing mitigation actions against prevailing financial and non-financial risks. It strives for a holistic understanding of bank's risk management ecosystem and new potential emerging risks to assist the Supervisory Board in its decisions. In addition the ARC pledges continuously to guide the bank to a risk management culture and risk governance structure appropriate to an institution of its position.

The effectiveness and status of sanctions risk compliance controls, scrutinising the Anti Money Laundering and Counter Terrorism Financing risk profile of the bank and the Know Your Customer policies, procedures and processes implemented by the bank aimed at mitigating operational and reputational risks are constant focus areas in the work of the committee.

All ARC members were involved together with the Strategy and Sustainable Development Committee in discussion and approval by the Supervisory Board of MKB's ESG strategy and principles which will have an impact also on the bank's risk management strategy and risk matrix.

Another important item was the assessment of the Business Continuity and Disaster Recovery Plan and its consequent development to close the gaps existing vis-à-vis industry best practices.

Considering the global threat landscape, the Committee increased its coverage in IT- and cyber-risks. The Information Security function reported at every meeting of the committee regarding the progress of ongoing projects.

Notwithstanding the growing weight of non-financial risks, the credit risk and all related portfolio aspects remain a central risk consideration for the bank. This was actually underlined in the conditions of the pandemic. The Committee paid close attention to the approach taken by the bank vis-à-vis its borrowers – both corporate and retail – impacted by the pandemic. The implications on the bank's asset portfolio quality, operations and financial conditions (including profitability, capital adequacy, liquidity and funding positions) were pro-actively and closely monitored and assessed in the meetings of the Committee.

In each of its meetings, the ARC continued to receive reports on management of the liquidity and market risks from the separate Treasury function.

To reflect recent developments in the Bank of Russia's recommendations, the Committee updated its Regulation and it was subsequently approved by the Supervisory Board. The Committee also performed a self-assessment to consider its performance.

It is likely that the visibility regarding the dynamics of the Russian economy will remain low for a good part of the ongoing year 2021. This will accentuate the importance of the processes monitored by the Committee for the bank's success.

**4.10. The Compensation, Corporate Governance and Nominations Committee** formulates the bank's remuneration policy, principles and criteria for Supervisory Board members, Management Board members and the Chairman of the Management Board, preliminarily appraises the Management Board and the Chairman of the Management Board and annually conducts a self-appraisal, puts forward proposals to the Supervisory Board as to terms of contracts with Management Board members (including early termination provisions), advises the Board of Directors on setting the principles governing remuneration and bonus payments for the Corporate Secretary, communicates with shareholders to prepare recommendations for them as to voting on the election of Supervisory Board members, plans appointments and advises on building a good corporate governance system.

The full list of the Committee's functions and competences is given in the Regulation on the [Compensation, Corporate Governance and Nominations Committee](#) available on the bank's website.

## Issues Addressed by the Compensation, Corporate Governance and Nominations Committee in 2020



### **Compensation, Corporate Governance and Nominations Committee's Report**

The Compensation, Corporate Governance and Nominations Committee was established to advise the Supervisory Board on matters of corporate governance system development, appointment and succession of the bank's management, providing recommendations to the bank's shareholders as to nominations to the Supervisory Board and remuneration of Supervisory Board members, advising the Supervisory Board regarding the remuneration policy for and approving the actual remuneration to Management Board members, and ensuring compliance with all appropriate regulations within the committee's purview.

The Committee consists of three members: William Owens (Chairman of the Committee), Andrew Gazitua and Lord Daresbury (Peter). All Committee members are independent directors, as required by Moscow Exchange for admitting securities to its first-level quotation list.

During 2020, sixteen Committee meetings were held, seven of which were in person. The Committee reviewed and provided recommendations to the Supervisory Board on the following matters:

- The Committee actively worked in the area of improved corporate governance. The Committee managed the implementation of resolutions approved by the Supervisory Board and its committees, developed plans to improve the bank's corporate governance system, amended internal regulations related to the Committee remit, reviewed a report on compliance with principles and recommendations of the Bank of Russia's Corporate Governance Code, and reviewed changes in corporate governance-related laws and regulations;

- With respect to remunerations, the Committee conducted performance appraisals of the Management Board and its Chairman, advised the Supervisory Board on the amount of remuneration to be paid, developed KPIs for the Management Board and its Chairman, reviewed issues concerning

large remuneration payments and deferred award payments, conducted the annual performance appraisal of the Corporate Secretary and prepared recommendations to the Supervisory Board concerning the Secretary's bonus;

- With respect to HR management strategy, motivation and nominations, the Committee conducted performance appraisals of the Supervisory Board and its committees and developed ways to improve Supervisory Board performance, evaluated nominees to the Supervisory Board for election at the annual General Shareholders' Meeting, approved changes in the Management Board, approved a long-term incentive programme for Management Board members and considered measures to protect employees' health and reinforce their morale;

- With respect to payroll system organisation, monitoring and control, the Committee reviewed the results of an independent appraisal of the bank's remuneration system and management proposals on amending its bylaws.

In 2020, the Committee worked productively on amending the bank's bylaws and processes to improve its corporate governance level and motivation system.

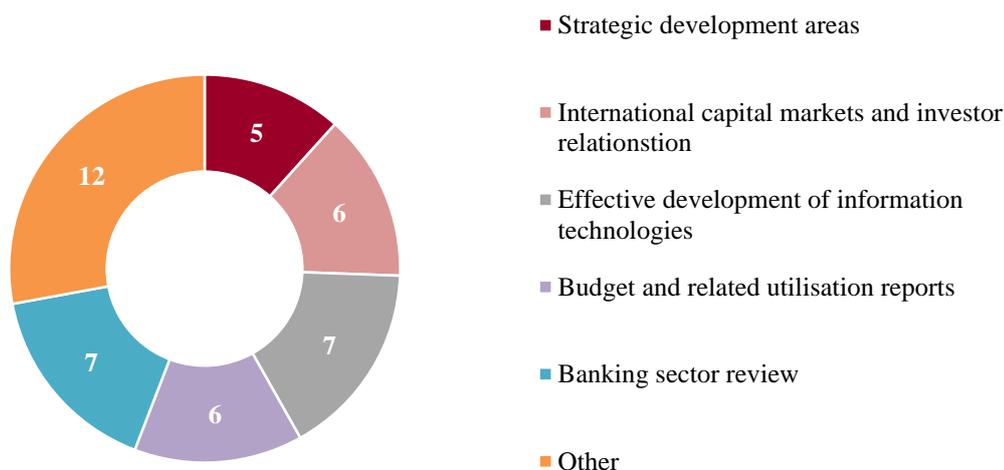
**4.11. The Strategy and Capital Markets Committee** analyses the bank's strategic management issues and ensures functioning of the strategic management cycle, formulation of the bank's dividend policy and evaluates the effectiveness of the bank's long-term performance. The Committee also focuses on preparing recommendations for the Supervisory Board regarding fundraising from international capital markets, optimising the internal processes related to the bank's capital market activities, building a model of internal cooperation in connection with funding, and providing for effective development of information technologies.

In addition to the above tasks, the Committee is involved in the budget process, reviews information at the stage of budget preparation, and performs a preliminary review of the bank's financial model.

On 2 February 2021, the Committee was renamed the Strategy and Sustainable Development Committee. In addition to the above responsibilities, the Committee now promotes effective implementation of sustainable development principles in the bank's internal processes, products, services and corporate culture.

The full list of the Committee's competences is given in the [Regulation on the Strategy and Capital Markets Committee](#), available on the bank's website.

## Issues Addressed by the Strategy and Capital Markets Committee in 2020



### **Strategy and Capital Markets Committee's Report**

The challenges in 2020, brought on instigated by the covid pandemic, tested CREDIT BANK OF MOSCOW's (MKB) leadership and operations, but, in the end, vindicated the bank's strategic vision and operational capabilities as is testified by the bank's 2020 financial performance and positioning going into 2021. The advent of the covid pandemic in early 2020, resulted in an unexpected period of economic uncertainly following measures taken by global and Russian authorities to curb the surge in the spread of the virus. During this period, marked by oil prices at 17-year lows and dramatic sell-offs in global markets, MKB's short-term strategy was to focus on measures to ensure the bank's financial stability through the careful monitoring of its liquidity and market positions. Once the initial period of uncertainty receded, the bank quickly embarked on programs, in tandem with initiatives outlined by the Russian Government, to support both its staff and its clients. Throughout this period, MKB followed conservative risk measures and placed a substantial part of its risk-taking activities on hold during the first half of the year.

The Strategy and Capital Market Committee (SCMC)'s efforts were focused this year on supporting management in navigating the bank through the volatile economic environment, yet also encouraging it to use the opportunity to pursue new initiatives which would affect the bank's longer-term strategy. Like many institutions, the fluidity of the markets became a backdrop for the bank to test and strengthen its digital capabilities, With both employees and clients requiring remote services and capabilities, the bank used this opportunity to accelerate its digital plan by finalising the first phase of its digitisation upgrade, comprised of office and IT infrastructure, transformation of the IT operating model, the automation of business processes and implementation of support for the business strategy. Already among the top 5 mobile banks according to Marksw Webb, MKB will focus on new initiatives involving customer experience and data management, as well as improvements in digitisation of office processes and support of strategic initiatives for each business segment.

A key element of SCMC's oversight function is the monitoring of MKB's financial progress against an agreed budget throughout the year. With such a volatile year, the bank reassessed its priorities early in the second quarter, which prudently reduced expected loan growth for the year.

Nevertheless, with a more measured economic outlook for the second half of the year, the bank's overall financial performance was marked with stronger results than anticipated. This result reflects the bank's ability to adapt quickly to economic changes and follows its long-standing approach of identifying profitability areas within its universal banking framework, targeting business segments where it sees opportunities to compete through a more tailored approach than its competitors.

While maintaining a cautious tone with respect to risk, MKB took advantage of opportunities identified in the corporate sector, lending selectively to well rated entities. MKB also continued to see strong results from segments which it has targeted over the past year, including the real estate development market and automated express guarantee for SME. The bank ended the year 8% ahead of its planned budgeted loans to corporates and with the fifth largest corporate loan portfolio among Russian banks.

In investment banking, MKB is among the top 3 arrangers in the Russian domestic bond market and in 2020, co-arranged for RZD the first Russian issue of perpetual "green" bonds and the first Russian "social" Eurobond. The bank is also among the top 5 players in the REPO market according to MOEX, a key segment in Russian financing. MKB expanded its international investment banking business by targeting selected countries in the CIS, with initial successes in Kazakhstan, and working closely with correspondent banks and Sova Capital to offer products to foreign clients. This international activity, which has is a central feature of the bank's corporate strategy, runs in tandem with the bank's offering for payments and trade finance services and products, whose activity saw an increase of 70% in 2020.

With respect to its retail business, MKB lowered its emphasis on growth and instead focused primarily on monitoring and supporting its existing clients. As expected, the MKB saw a spike in problematic unsecured loans but, by the end of the year, the level of non-performing loans showed signs of a reduction. One area of consistent growth in the retail business throughout the year was in mortgages, which was due in part to the bank's strategy to support selected real estate developers coupled with good demand from retail clients looking to take advantage of lower interest rates and government support schemes. This growth in mortgages ensured that the bank achieved its revised targets for the retail segment. Despite the volatility in the overall market, MKB's active customer base of 900,000 customers remained constant throughout the uncertain period.

As the second largest private bank in Russia, MKB has targeted expansion outside of its Moscow region home-base as a key component of its long-term growth strategy. To that effect, the bank selectively looks at acquisitions it believes can expand the group's geographic footprint and/or product capabilities based on attractive returns for the group. To this end, MKB acquired two small banks in 2020, Vesta Bank and Rusnarbank, which in part served to strengthened the partnership between Rossium, MKB's principal holding company, and the Region Group. The acquisition of Vesta supported MKB's efforts to expand into the SME segment outside of Moscow, where Vesta has a good presence; the Rusnarbank acquisition, meanwhile, provides MKB with a new entry into commercial mortgages and car lending, capitalising on a network of car dealers and agents across 40 regions in Russia, associated with the Rusnarbank.

During the course of the year, SCMC spent a significant amount of time working with the Management Board and the consultant Oliver Wyman, reviewing key trends in the Russian and global banking markets and closely scrutinising MKB's businesses in order to devise an updated development strategy for MKB for the next three years. The SCMC and management felt it was critical to articulate a strategic vision that reflected the bank's strengths, desires and positioning

within the context of a quickly evolving banking market, catering to a broad array of stakeholders, which include not only shareholders, but employees, customers, creditors, the general public and public authorities. By the end of 2020, a number of key pillars were identified which will become the core of the bank's updated strategy. The bank's revised strategy will be built around the idea of a unique customer experience based on a better understanding of customer needs, combining the strengths of a technologically driven bank with best-of-breed fintechs, a management team characterised by an entrepreneurial spirit and an overarching philosophy of social and environment responsibilities. In particular, the desire to implement a framework around social and environmentally sustainable objectives has been championed by the SCMC, supporting the formation of a specialised team within the bank that concentrates exclusively on developing, implementing and monitoring such a framework and ensuring that it is incorporated into the overall strategy of the bank. This team reports to the SCMC.

As the central element of the bank's strategy is focused on the bank's IT platform and capabilities, the SCMC undertakes a quarterly review of any updates and monitors the implementation of the bank's annual IT strategy. Despite a number of challenges posed by the general environment in 2020, the IT directorate successfully completed the core elements of the two-year plan presented in 2018. In 2021, the IT plan will predominantly support management in rolling out the new strategy for the bank, as has been outlined above. The SCMC believes the success of MKB is highly dependent on the effective implementation and functioning of the IT strategy and takes particular interest in supporting the bank's efforts in this area.

As part of its quarterly review, the SCMC monitors MKB's key capital and liquidity ratios to assist in assessing the bank's capital market needs and activities. MKB is among the most active issuers of bonds in the international markets among Russian banks. Management has made it a priority to establish and maintain strong relationships with international investors, knowing that it is very important to diversify the sources of funding and capital for the bank as well as help to manage its currency and liquidity gaps. Throughout the year, a dedicated IR team and senior management attend all key investor conferences and visit or entertain calls from investors on a regular basis. A key priority of management has been to broaden its investor base, targeting potential sources from Asia, in particular China, and the Middle East.

The year began in January with a successful issuance of a USD 600 million 5-year Senior Eurobond, priced at the lowest coupon rate ever achieved by MKB with strong demand from investors from all regions. A few months later and in the middle of the lockdown due to the pandemic, MKB was able to sign a syndicated loan facility of USD 350 million in April, demonstrating a strong sign of support from international lenders. However, as the pandemic spread globally, emerging market funds experienced record outflows and the dislocation of prices made the environment favourable for liability management opportunities. Wanting to support investors interested in selling their positions and take advantage of attractive terms presented by the dislocation in the markets, MKB bought back and cancelled in June USD 86.5 million (23.62%) of CBOM-2021 and USD 43.3 million (11.93%) of CBOM-2023. In November, MKB cancelled USD 319 million and EUR 40 million on aggregate across five tranches of Senior Notes, which had been purchased by MKB on the open market. The bank proactively continued to manage its liabilities by reducing expensive funding with a view to issue new bonds at better rates and to reduce the assets denominated in FX.

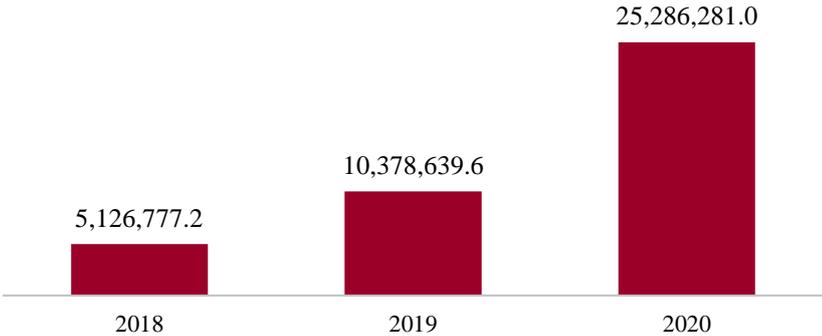
Although challenging, the year 2020 proved to be positive on several levels. In the first place, the strategy developed by the bank enabled MKB to be well positioned to address the concerns caused

by the effects of the pandemic. The SCMC was in regular contact with management over this period and all parties were in complete alignment over the actions taken. The beginning of the pandemic forced operational adjustments within MKB, which strengthened the case for the need to implement a strategy more focused on IT and digital solutions and functionalities. The overall financial performance of MKB in 2020 was stronger than expected, but the real benefit may be the experience gained in this difficult year which created the basis for the formation of a clearer strategic vision for the future.

**4.12. Liability Insurance**

To provide liability protection for the Supervisory Board members and officers of the bank, since 2013, the bank has taken out liability insurance for the directors, Management Board members and key officers. The bank chooses an insurance company through tender procedures. Terms of insurance were reviewed at the Compensation, Corporate Governance and Nominations Committee meeting.

**D&O Insurance Costs (RUB)**



**4.13. Performance Appraisal of the Supervisory Board and its Committees**

Starting from 2014, in accordance with best corporate governance practices, in particular with the Corporate Governance Code recommendations, the Supervisory Board annually appraises its own and its committees’ performance. On two occasions, it did so engaging an external organisation (in respect of 2015 and 2018). In 2021, the appraisal for 2020 was made by way of self-appraisal.

The self-appraisal was made under the Regulation on Appraisal of the Supervisory Board. Its aim was to identify the strengths of the Supervisory Board and its committees, areas at concern for the Supervisory Board and the Management Board, and areas for improvement.

The appraisal covered:

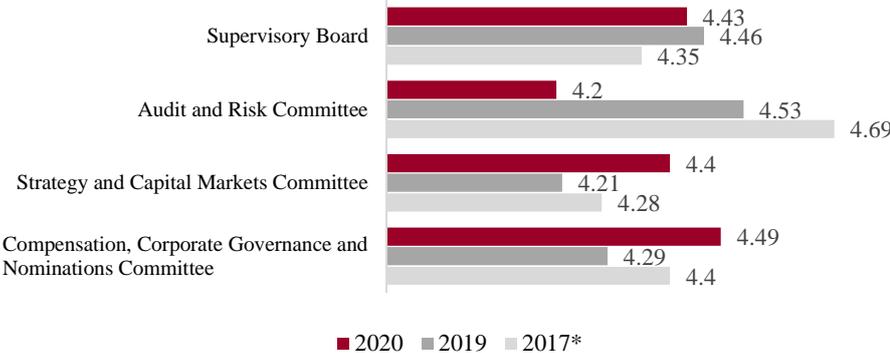
- the Supervisory Board;
- the Supervisory Board committees;
- the Chairman of the Supervisory Board;
- the Supervisory Board members;
- the Corporate Secretary.

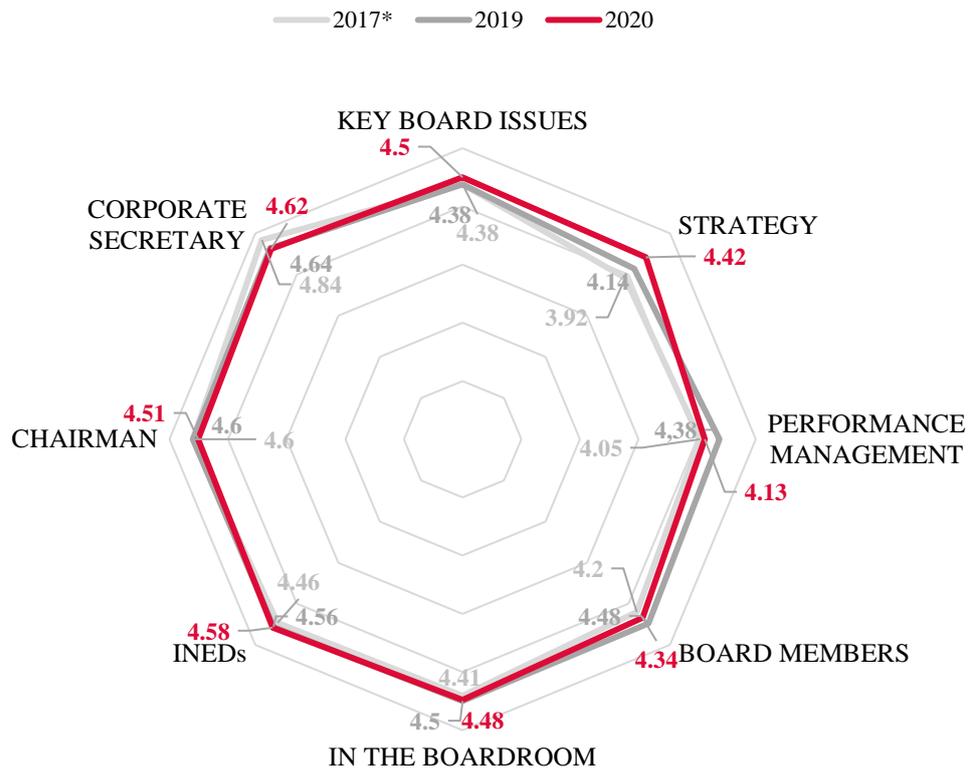
The self-appraisal was made using questionnaires listing more than 40 items. Responses were assessed on a five-point scale, with the opportunity to provide additional comments.

The self-appraisal identified the following strengths of the Supervisory Board and its committees: an optimal balance of authority in the Supervisory Board and no dominance in the process of discussion or decision-making, independence of Board members’ judgments, constructive relations between them and the management, based on mutual trust and respect, timely planning of Board meetings for the year, the Chairman’s leading role, effective support provided to directors by the Corporate Secretary, accurate minuting of the Board meetings, monitoring fulfilment of the Board’s requests, and the active position of independent directors in discussions searching for optimal solutions.

The self-appraisal also helped identify areas for the Supervisory Board to focus on during 2021.

**Results of Performance Appraisal of the Supervisory Board and its Committees**





\* The Supervisory Board's performance in 2018 was appraised externally

#### **4.14. Supervisory Board Members Remuneration System**

The amount and procedures for payment of remuneration to Supervisory Board members are determined in accordance with the Regulation on Remuneration and Compensation Payable to the bank's Supervisory Board Members (the "Regulation on Remuneration and Compensation"), approved by the annual General Shareholders' Meeting on 14 June 2018.

The Regulation on Remuneration and Compensation provides for remuneration to certain Supervisory Board members and reimbursement of justified expenses, incurred in the performance of their duties.

Remuneration for serving as Supervisory Board members is paid to:

- Supervisory Board members qualifying as independent directors under criteria set forth in the bank's Charter and the Corporate Governance Code;
- Supervisory Board members who are not employed by, or serve on the management bodies of, any legal entities forming part of the bank's group of persons.

The annual remuneration consists of basic remuneration and remuneration for extra duties.

The annual remuneration is calculated as follows:

Basic remuneration	
Annual basic remuneration of a Supervisory Board member	USD 100,000
Extra remuneration	

Chairman of the Supervisory Board	USD 170,000
Member of a Supervisory Board committee	USD 15,000 for each committee
Chairman of a Supervisory Board committee	USD 25,000 for each committee
Chief Independent Non-Executive Director	USD 100,000

The aggregate annual remuneration to be paid to a Supervisory Board member may not exceed USD 325,000.

Any Supervisory Board member's remuneration for any past quarter may be reduced by:

– 10%, if he or she missed up to 25% of Supervisory Board meetings and absentee voting in that quarter;

– 30%, if he or she missed more than 25% and up to 50% of Supervisory Board meetings and absentee voting sessions in that quarter;

– 50%, if he or she missed more than 50% and up to 75% of Supervisory Board meetings and absentee voting sessions in that quarter;

– 75%, if he or she missed more than 75% of Supervisory Board meetings and absentee voting sessions in that quarter.

The total amount of the Supervisory Board members' remunerations for 2020 was RUB 115,448,143.20.

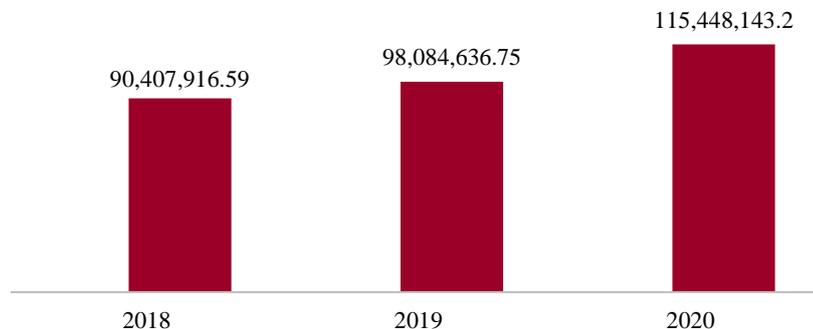
Supervisory Board members are reimbursed for actual, properly documented expenses related to their attendance at Supervisory Board meetings. RUB 2,403,806.04 was reimbursed to Supervisory Board members in 2020.

#### **Remuneration of the Supervisory Board Members**

Director	Supervisory Board committee membership and chairmanship	USD, 2020
Executive Directors		
Vladimir A. Chubar	Member of the Strategy and Capital Markets Committee	-
Non-Executive Directors		
Roman I. Avdeev	Member of the Strategy and Capital Markets Committee	-
Thomas Günther Grasse	Member of the Audit and Risk Committee Member of the Strategy and Capital Markets Committee	185,714.29 (pre-tax) 130,000.00 (after-tax)
Sergey Yu. Menzhinsky	Member of the Strategy and Capital Markets Committee	-
Alexey A. Stepanenko	-	-
Independent Directors		
William Forrester Owens	Chairman of the Supervisory Board Chairman of the Compensation, Corporate Governance and Nominations Committee Member of the Strategy and Capital Markets Committee	442,857.14 (pre-tax) 310,000.00 (after-tax)

Andrew Sergio Gazitua	Chief Independent Non-Executive Director Member of the Compensation, Corporate Governance and Nominations Committee Chairman of the Strategy and Capital Markets Committee	342,857.14 (pre-tax) 240,000.00 (after-tax)
Lord Daresbury (Peter)	Member of the Compensation, Corporate Governance and Nominations Committee Member of the Strategy and Capital Markets Committee	185,714.29 (pre-tax) 130,000.00 (after-tax)
Andreas Klingen	Member of the Audit and Risk Committee Member of the Strategy and Capital Markets Committee	185,714.29 (pre-tax) 130,000.00 (after-tax)
Ilkka Seppo Salonen	Chairman of the Audit and Risk Committee Member of the Strategy and Capital Markets Committee	200,000.00 (pre-tax) 140,000.00 (after-tax)
TOTAL		1,542,857.14 (pre-tax) 1,080,000.00 (after-tax) (RUB 115,448,143.20 pre-tax)

**Supervisory Board Members' Remunerations in 2017–2020 (RUB)**



**5. Chairman of the Management Board and the Management Board**

The Management Board is the bank's collective executive body responsible for the overall direction of its current activities. The Management Board is headed by the Chairman of the Management Board who is the bank's sole executive body.

The competence of the Management Board and the Chairman of the Management Board are set out in the bank's Charter and the Regulation on the Management Board and the Chairman of the Management Board.

The full list of competences of the Management Board and the Chairman of the Management Board is given in the [Regulation on the Management Board and the Chairman of the Management Board](#), available on the bank's website.

Key responsibilities of the Management Board include: ensuring the implementation of any resolutions of the General Shareholders' Meeting and the Supervisory Board and any recommendations of the Audit Panel; forming committees for any activities of the bank and delegating to these committees some of the powers of the Management Board under respective committee regulations in accordance with approved regulations; determining the bank's organisational structure and total headcount, and reviewing the staffing of the bank.

The Chairman of the Management Board directs Management Board proceedings, represents the bank and undertakes transactions without a power of attorney, disposes of the bank's property, organises the accounting and reporting at the bank, and decides other matters arising in the bank's day-to-day activities.

The Management Board is elected by the Supervisory Board indefinitely as recommended by the Chairman of the Management Board. The Management Board and the Chairman of the Management Board report to the Supervisory Board.

As at 31 December 2020, the Management Board consisted of nine top managers<sup>18</sup>.

**Vladimir Alexandrovich Chubar – Chairman of the Management Board, member of the Supervisory Board.**

More information is given in the Supervisory Board section.

**Alexey Vladimirovich Kosyakov – Deputy Chairman of the Management Board**

**1. Date of birth:** 12.08.1983

**2. Education:**

2006: degree in Electronic and Automation Engineering of Physical Installations from the Moscow Engineering and Physics Institute.

2009: degree in Finance and Credit from Plekhanov Russian Academy of Economics.

**3. Current employer (position):**

**CREDIT BANK OF MOSCOW**

Member of the Management Board, Deputy Chairman of the Management Board

**KOLTZO URALA**

Member of the Board of Directors

**MKB Investments**

Member of the Board of Directors

**4. Stake in the bank's charter capital as at the end of the reporting year:** 0.00143%

**5. Percentage of ordinary shares held in the bank as at the end of the reporting year:** 0.00143%.

**6. Shares of the bank acquired or disposed of in the reporting year:** none.

**Svetlana Vladimirovna Sass – Chief Accountant**

**1. Date of birth:** 01.04.1965

**2. Education:**

1987: degree in Organisation of Mechanised Processing of Economic Data from the Moscow State University of Economics, Statistics and Informatics.

1993: training course at the International Centre for Training of Managers.

1994: training course at Joint-Stock Company Corporate Certification Centre Consultbankir.

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<sup>18</sup> On 12.01.2021, Taymuraz A. Kalojev joined the Management Board. On 17.03.2021, Nikolay V. Katorzhnov joined the Management Board.

1999: training course at the Institute of Professional Accountants of Russia of the Ministry of Finance of the Russian Federation.

2007: training course at the International Financial Banking School, Moscow.

2012: training course *A Bank: Accounting, Taxes and Reporting* at the Private Educational Institution – the Institute of Advanced Training and Training of Financial Specialists.

2013: training course *Accounting and Tax Accounting in Commercial Organisations, Non-commercial Organisations and Budget Institutions. Complex Issues in IFRS Reporting: Calculation of Deferred Tax according to IAS 12* at the Institute for Development of Modern Educational Technologies (IRSOT).

**3. Current employer (position):**

**CREDIT BANK OF MOSCOW**

Member of the Management Board, Chief Accountant

**4. Stake in the bank's charter capital as at the end of the reporting year:** 0.00056%

**5. Percentage of ordinary shares held in the bank as at the end of the reporting year:** 0.00056%

**6. Shares of the bank acquired or disposed of in the reporting year:** none.

**Anton Olegovich Virichev – Head of the Risk Management Directorate, member of the Management Board**

**1. Date of birth:** 11.04.1978

**2. Education:**

1999: degree in Finance and Credit from the Financial University under the Government of the Russian Federation.

**3. Current employer (position):**

**CREDIT BANK OF MOSCOW**

Member of the Management Board, Head of the Risk Management Directorate

**4. Stake in the bank's charter capital as at the end of the reporting year:** 0.00157%

**5. Percentage of ordinary shares held in the bank as at the end of the reporting year:** 0.00157%

**6. Shares of the bank acquired or disposed of in the reporting year:** none

**Alexander Nikolaevich Kaznacheev – Deputy Chairman of the Management Board**

**1. Date of birth:** 16.12.1974

**2. Education:**

1996: degree of foreign language-speaking engineer-economist in Economics and Management in Machinery Industry from Moscow Aviation Institute

1999: Ph.D. in Economics from Moscow Aviation Institute.

2013: *MBA – Banking Management* programme at the International Business School of the Financial University under the Government of the Russian Federation.

**3. Current employer (position):**

**ETP GPB LLC**

Member of the Board of Directors, Deputy Chairman of the Board of Directors

**CREDIT BANK OF MOSCOW**

Member of the Management Board, Deputy Chairman of the Management Board

**NCO INKAKHRAN (JSC)**

Member of the Board of Directors

**Investment Bank “VESTA” (LLC)**

Member of the Board of Directors<sup>19</sup>, Chairman of the Board of Directors

**Evolution LC LLC**

Member of the Board of Directors, Chairman of the Board of Directors

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<sup>19</sup> Renamed from the “Bank Board” to the “Board of Directors” by Vesta Bank sole member’s resolution dated 28.09.2020.

## **KOLTSO URALA**

Member of the Board of Directors

**4. Stake in the bank's charter capital as at the end of the reporting year:** 0.00158%

**5. Percentage of ordinary shares held in the bank as at the end of the reporting year:** 0.00158%

**6. Shares of the bank acquired or disposed of in the reporting year:** none

## **Oleg Alexandrovich Borunov – Deputy Chairman of the Management Board**

**1. Date of birth:** 22.11.1979

**2. Education:**

2002: degree of economist in Finance and Credit from the State University of Management.

**3. Current employer (position):**

**CREDIT BANK OF MOSCOW**

Member of the Management Board, Deputy Chairman of the Management Board

**Sova Capital Limited**

Independent Director, member of the Board of Directors

**4. Stake in the bank's charter capital as at the end of the reporting year:** 0.00158%

**5. Percentage of ordinary shares held in the bank as at the end of the reporting year:** 0.00158%

**6. Shares of the bank acquired or disposed of in the reporting year:** none

## **Mikhail Valerievich Polunin - First Deputy Chairman of the Management Board**

**1. Date of birth:** 20.12.1974

**2. Education:**

1996: degree in Automated Information and Management Systems from Omsk State Technical University

2002: degree in Finance and Credit from All-Russian State Distance-Learning Institute of Finance and Economics.

**3. Current employer (position):**

**CREDIT BANK OF MOSCOW**

First Deputy Chairman of the Management Board

**4. Stake in the bank's charter capital as at the end of the reporting year:** 0.00072%

**5. Percentage of ordinary shares held in the bank as at the end of the reporting year:** 0.00072%

**6. Shares of the bank acquired or disposed of in the reporting year:** none

## **Kamil Raifovich Yusupov - Deputy Chairman of the Management Board**

**1. Date of birth:** 11.10.1971

**2. Education:**

1994: electrical engineer's degree in Automation of Technological Processes and Production from Kamsk Polytechnic Institute, qualification

1998: manager's degree in Management from Kazan State Finance and Economics Institute

**3. Current employer (position):**

**CREDIT BANK OF MOSCOW**

Member of the Management Board, Deputy Chairman of the Management Board

**JSC "RUSNARBANK"**

Member of the Board of Directors

**Investment Bank "VESTA" (LLC)**

Member of the Board of Directors

**4. Stake in the bank's charter capital as at the end of the reporting year:** none

**5. Percentage of ordinary shares held in the bank as at the end of the reporting year:** none

**6. Shares of the bank acquired or disposed of in the reporting year:** none

**Sergey Evgenyevich Putyatinsky - Deputy Chairman of the Management Board**

**1. Date of birth:** 15.07.1982

**2. Education:**

2004: engineer's degree in Computing Devices, Computer Complexes, Systems and Networks from Saratov State University

2004: occupational retraining programme *English Interpreter/Translator – Professional Communication* at Saratov State University.

2014: certificate of financial market specialist in depository activities from the Self-Regulatory Organisation National Securities Market Association.

**3. Current employer (position):**

**CREDIT BANK OF MOSCOW**

Member of the Management Board, Deputy Chairman of the Management Board

**ROSSIUM Concern LLC (parallel employment)**

CIO

**NCO INKAKHRAN (JSC)**

Member of the Board of Directors

**JSC “Analytical Centre”**

Member of the Board of Directors

**KOLTSO URALA**

Member of the Board of Directors

**MKB Investments**

Member of the Board of Directors

**4. Stake in the bank's charter capital as at the end of the reporting year:** none

**5. Percentage of ordinary shares held in the bank as at the end of the reporting year:** none

**6. Shares of the bank acquired or disposed of in the reporting year:** none

**Taymuraz Alikhanovich Kaloev<sup>20</sup> – Deputy Chairman of the Management Board**

**1. Date of birth:** 03.07.1955

**2. Education:**

1977: degree of historian and teacher of history and social studies from the K.L. Khetagurov North Ossetian State University

**3. Current employer (position):**

**CREDIT BANK OF MOSCOW**

Member of the Management Board, Deputy Chairman of the Management Board

**4. Stake in the bank's charter capital as at the end of the reporting year:** none

**5. Percentage of ordinary shares held in the bank as at the end of the reporting year:** none

**6. Shares of the bank acquired or disposed of in the reporting year:** none

**Nikolay Valeryevich Katorzhnov<sup>21</sup> – First Deputy Chairman of the Management Board**

**1. Date of birth:** 27.08.1984

**2. Education:**

2006: degree of economist in World Economy from Financial University under the Government of the Russian Federation

**3. Current employer (position):**

**CREDIT BANK OF MOSCOW**

Member of the Management Board, First Deputy Chairman of the Management Board

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<sup>20</sup> Date of the Bank of Russia's approval: 30.12.2020. Date of appointment: 12.01.2021.

<sup>21</sup> Date of the Bank of Russia's approval: 12.02.2021. Date of appointment: 17.03.2021.

**ROSSIUM Concern LLC**

Member of the Board of Directors, Advisor

**Non-profit Initiatives Traektoria Foundation**

Member of the Board

**Metrika Investments JSC**

Member of the Board of Directors

**4. Stake in the bank's charter capital as at the end of the reporting year:** none

**5. Percentage of ordinary shares held in the bank as at the end of the reporting year:** none

**6. Shares of the bank acquired or disposed of in the reporting year:** none

**Remuneration of the Management Board**

The structure of remuneration of executive management bodies (executives) and the terms and conditions for payment of remuneration to Management Board members are set out in the Regulation on Remuneration of Members of the Management Board and Selected Senior Executives of the bank approved by the Supervisory Board.

The system of remuneration of executives is implemented in line with requirements of the Bank of Russia's Instruction 154-I "On Assessing, and Ordering Remedy of Breaches in, Credit Institutions' Payroll Systems" dated 17 June 2014.

Structure of remuneration of executives:

1. Non-performance-related components (fixed part of remuneration).
2. Performance-related components (non-fixed part of remuneration).
  - 2.1. Annual cash award;
  - 2.2. Deferred long-term performance award;
  - 2.3. Award for completion of critical tasks (projects).

Annual performance-related awards to the bank's executives depend on how the bank and each of executives meet the annual targets approved by the Supervisory Board in two aspects:

- The bank's financial targets (financial results, CTI, Cost of Risk, ROE and ICAAP performance);
- Individual performance targets.

The deferred long-term performance award has three components:

1. Deferred award unlinked to MKB's share prices;
2. Deferred award linked to MKB's share prices;
3. Additional payment linked to the dividends per one ordinary registered share of MKB, set by the annual General Shareholders' Meeting for the relevant year.

The bank's executives may be awarded bonuses for completion of critical tasks (projects) by decision of the Supervisory Board as advised by the Chairman of the Management Board.

## Executive Body Remunerations in 2016–2020 (RUB mln)



By resolution of the Supervisory Board, annual awards for 2016-2019 and a part of deferred remuneration for 2016, 2017 and 2018 as adjusted on the basis of 2019 results, respectively, were paid to the members of the executive bodies, including the part of deferred remuneration to executive body members who had left the bank.

### ***6. Internal Control System***

The internal control system is an integral part of the corporate governance system and one of the most vital elements in the bank's effective performance. The internal control system provides for protection of the interests of the bank's investors and customers by ensuring that the bank's employees act in compliance with Russian laws, regulations and professional standards. It ensures a level of reliability appropriate to the nature of the bank's operations and minimises banking risks.

The system of internal control is based on a clear allocation of authorities and responsibilities between the banks' executive bodies, subdivisions and employees. The main requirements for the organisation of internal control as well as the allocation of authority and areas at responsibility are enshrined in the bylaws of the bank. The Audit and Risk Committee, which reports to the Supervisory Board, supports the efficient functioning of the internal control system at the bank and secures the effective participation of the Supervisory Board in exercising control over the bank's financial and commercial activities.

Internal control within the bank is undertaken by:

- The General Shareholders' Meeting
- The Supervisory Board
- The Management Board
- The Chairman of the Management Board and his deputies
- The Chief Accountant and his/her deputies
- The Audit Panel
- The Audit and Risk Committee of the Supervisory Board
- The bank's subdivisions and officers responsible for internal control as authorised by its corporate documents:
  - The Internal Audit Department
  - The Internal Control Section
  - The AML/CFT/PWMD subdivision headed by a designated AML/CFT compliance officer
    - The Stock Market Professional Participant Controller
    - The Risk Management Directorate

- Other subdivisions as may be required by the nature and the scale of the bank’s business.

### **Internal Audit Department**

The role of the Internal Audit Department (IAD) is to conduct internal audits, monitor and provide direct assistance to the bank’s management bodies in ensuring its efficient operation, through independent and objective recommendations, to enhance the effectiveness of the systems of internal control, risk management and corporate governance. The IAD monitors the compliance of the rules, procedures and practices of the bank’s operations with applicable laws and provisions, the bank’s Charter, the resolutions of the bank’s authorised bodies, monitors the effectiveness of the functioning of the decision-making system and allocation of authority, the risk management system, the system for combating money laundering and the financing of terrorism and other systems for protecting the bank’s activities, and conducts internal audits of the activities of the bank’s subdivisions. The IAD is independent in its activities. Its independence is established by the bank’s bylaws, and is based on the principles that the IAD:

- Acts under direct control of the Supervisory Board;
- Does not undertake any audited activities;
- On its own initiative, reports to the Supervisory Board on, and also informs the Chairman of the Management Board and the Management Board of, any matters coming to its attention when exercising its functions, and on proposals regarding their resolution;
- Is to be independently audited by external auditors or the Supervisory Board.

The Supervisory Board regularly engages external experts for independent appraisal of the IAD’s performance from the viewpoint of CBR’s requirements (Regulation 242-P), the International Professional Practices Framework of the Institute of Internal Auditors (the “Standards”), stakeholders’ expectations and best practices of internal audit. Such appraisal was performed in 2019 by PWC, who confirmed that the IAD worked in compliance with CBR’s requirements and the Standards, and noted significant improvements compared to the preceding appraisal made in 2017. The IAD:

- Prepared the Strategic Internal Audit Plan for 2020–2022 and had it approved by the Supervisory Board;
- Prepared the Certified Internal Auditor Training Plan and began training and examination of employees;
- Prepared the Quality Assurance and Enhancement Programme, setting out approaches to internal and external appraisals of the IAD; made an annual self-appraisal, and requested feedback from Management Board members on how well it met their expectations;
- Updated its Work Manual, setting out the basic auditing rules of, requirements to, and practical recommendations on, organisation and execution of audits, including approaches to documenting audit work;
- Introduced a data analysis tool and formulated key audit indicators for every business line of the bank, allowing the IAD to promptly identify risk events or suspicious operations requiring further investigation, and generate dashboards visualising the analysed data;
- Updated the format of its quarterly activity report for the Audit and Risk Committee.

The organisational structure of the IAD includes subdivisions responsible for the audit of corporate, retail business and information technology.

The following matters fall within the IAD's competence:

- Verification and evaluation of the effectiveness of the internal control system;
- Verification of the risk management system;
- Verification of the reliability and adequacy of the procedures securing the safety of property;
- Verification of the reliability, completeness, objectivity and timeliness of accounting and management reports;
- Verification of the adequacy and reliability of the system of internal controls in terms of the use of automated information systems;
- Appraising the bank's operations for economic expediency and efficiency;
- Reviewing internal control processes and procedures;
- Reviewing performance of the bank's internal control service and risk management service;
- Other functions provided for by the bank's bylaws.

In planning its activities and in auditing, the IAD exchanges information with internal parties (Compliance Department, Security Department, Information Security Department, Stock Market Professional Participant Comptroller, Quality Control Group) and external parties (the Bank of Russia and external auditors), who audit the bank and provide consulting services in respect of risk management and internal control.

### **Internal Control Section**

The Internal Control Section (ICS) performs internal control in order to identify risks of losses resulting from any non-compliance by the bank with federal laws and other statutes of the Russian Federation, the bank's bylaws, or from the imposition of any sanctions and/or other actions by supervising authorities.

The ICS acts in line with principles of independence, fairness and impartiality. The ICS reports to the Chairman of the Management Board. The ICS submits regulatory and operational risk reports to the bank's executive bodies and the Supervisory Board on a regular basis.

The ICS carries out the following functions:

- identifying and monitoring regulatory risk, in particular analysing the bank's new banking products, services and their intended delivery methods for regulatory risks;
- coordinating and promoting development of regulatory risk mitigation efforts at the bank;
- promoting the development of regulatory risk management bylaws;
- reviewing bylaws developed by the bank's internal subdivisions from the viewpoint of their compliance with banking laws and Bank of Russia regulations;
- monitoring Russian laws to give recommendations to the bank's subdivisions as to updating and amending its bylaws;
- identifying conflicts of interest at the level of the bank and its individual employees, promoting the development of related bylaws;
- promoting the development of bylaws, designed to identify conflicts of interest, prevent internal misconducts and combat commercial bribery and corruption;
- promoting the development of bylaws and arranging actions to ensure compliance with rules of corporate conduct and standards of professional ethics;

- analysing the results of internal and external audits of banking operations so as to adjust existing corporate documents regulating the internal control system and regulatory risk management;
- registering regulatory risk events, assessing their probability and quantifying possible impact, as well as maintaining an analytical database of the bank’s losses;
- evaluating the extent of any deviations identified in transactions, finding their causes, any systemic errors, abuse or organised schemes, and initiating investigations;
- designing a complex of measures to decrease the probability of operational risk events resulting in losses and/or to decrease (limit) such losses in accordance with Russian laws and the bank’s bylaws;
- controlling subdivisions’ compliance with approved procedures, limits, processes and technologies;
- participating, within its purview, in the bank’s communications with supervisory bodies, self-regulatory organisations, associations and participants of financial markets;
- analysing customer grievance indicators and the bank’s observance of customers’ rights;
- analysing the economic suitability of contracting legal entities and sole traders to render services and/or perform works required for the bank to provide for banking operations (outsourcing);
- controlling compliance with the common principles of organising internal control systems in all banking group members, consulting their internal control subdivisions with a view to improving their risk management, internal control and corporate governance systems;
- ensuring the standardisation of systems and processes of internal control and management of regulatory, operational and other non-financial risks, including ICAAP processes, at the group’s level (consolidation) and at the level of individual members (decomposition and localisation), in line with the nature and scale of operations;
- co-ordinating the bank’s business continuity and/or recovery system;
- reporting regularly to the bank’s management on the level of the bank’s (banking group’s) regulatory and operational risks;
- controlling the bank’s and its employees’ compliance with financial market laws and financial market operation standards, as set out in the bank’s bylaws;
- investigating on its own and/or jointly with other collective bodies and officers of the bank alleged violations by the bank’s employees of financial market laws, professional financial market standards and related bylaws;
- reviewing, jointly with other collective bodies and officers of the bank, customers’ and counterparties’ complaints related to the bank’s financial market operations;
- advising management on remedying financial market-related violations and flaws.

### **Audit and Risk Committee**

The Audit and Risk Committee acts in the interests of the bank’s shareholders, the bank itself and its investors, promotes the establishment of an effective system of control over the financial and commercial activity of the bank, and ensures the actual involvement of the Supervisory Board in exercising control over the financial and commercial performance of the bank.

The Audit and Risk Committee acts within powers conferred to it by the Supervisory Board under the relevant regulation.

In its activities, the Audit and Risk Committee is fully accountable to the Supervisory Board and acts under Russian laws, the bank’s Charter, the Regulation on the Supervisory Board, the

Regulation on the Audit and Risk Committee and other bylaws of the bank as approved by its General Shareholders' Meetings and the Supervisory Board, and also resolutions of the Committee itself.

The Audit and Risk Committee co-operates with other Supervisory Board Committees, the bank's Audit Panel, auditors of the bank, the Management Board, the Internal Audit Department, the Internal Control Section and other management and control bodies of the bank.

### **Audit Panel**

The bank's Audit Panel is a standing, elective body forming part of the bank's internal control system. The Audit Panel acts in the interests of the bank and its shareholders for the purposes of mitigating the risks of the bank's business activities.

The Audit Panel is subject to the legislation of the Russian Federation, the regulations of the Bank of Russia, the bank's Charter, the Regulation on the Audit Panel and the resolutions of the General Shareholders' Meeting.

Within its competence, the Audit Panel shall inspect the bank's compliance with applicable laws and regulations, organising the bank's internal control, the legality of operations made by the bank (by full or selective verification) and the state of the bank's cash and property.

According to the bank's Charter, the Audit Panel consists of three members elected by the General Shareholders' Meeting for a term ending at the next annual General Shareholders' Meeting.

On 19 June 2020, the following persons were elected to the Audit Panel by the annual General Shareholders' Meeting:

Evgeny O. Gudkov, Deputy Director of the Internal Control Department, ROSSIUM Concern;  
Alexandra A. Vastyanova, Head of the Investment Analysis and Risk Assessment Directorate, ROSSIUM Concern;

Vyacheslav Yu. Osipov, Head of the Reporting and Audit Division, ROSSIUM Concern.

### **External Auditors**

The bank's external auditors in 2020 were Joint-Stock Company KPMG (in respect of the International Financial Reporting Standards) and Joint-Stock Company Audit-Consulting Group Business Systems Development (RBS) (in respect of the Russian Accounting Standards).

External auditors are appointed by the General Shareholders' Meeting upon the Supervisory Board's recommendation. In its turn, the Supervisory Board relies on recommendations as to the choice of the bank's auditor given by its Audit and Risk Committee which, following discussions in 2018–2019 and meetings with auditors, recommended that it keep the current auditors, whose independence and impartiality was acknowledged by the members of that Committee.

KPMG's fees for the audit of 2020 IFRS statements and the interim reviews for 3, 6 and 9 months of 2020 stood at RUB 27,050,000, excluding VAT.

RBS's fees for the audit of 2020 RAS statements, the audit of the bank's net income for 6 months of 2020 and the interim audit for 9 months of 2020 stood at RUB 2,900,000, including VAT.

## FOR SHAREHOLDERS AND INVESTORS

MKB sees it as a key task to give full and transparent disclosure to its shareholders and investors, constantly developing the framework for interacting with them, which should underpin its informational transparency and investment allure.

MKB won *Best Bank for Investor Relations Russia 2020* award at the Global Banking and Finance Review Awards, one of the most prestigious annual financial competitions. The main criteria for this award have traditionally been innovation, performance and development strategy.

Despite the coronavirus-related restrictions, the bank continued actively to develop its investor relations and expand its investor base in 2020: it carried out 190 investor meetings/calls, a Eurobond roadshow, 2 non-deal roadshows, and its management participated in 12 online conferences with investors and analysts.

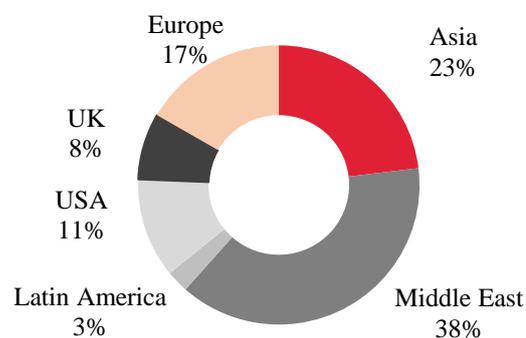
### Shareholder and Investor Calendar for 2020

Date	Event
<b>1Q2020</b>	
15–21 January	Investor meetings in Zurich, Geneva, Frankfurt, Vienna, London, Boston, New York, Hong Kong and Singapore in the course of offering senior Eurobonds issued via CBOM Finance p.l.c.
24–26 February	JP Morgan 2020 Global Emerging Markets Corporate Conference, Miami
18 March	<a href="#">Disclosure of 2019 IFRS results</a>
27 March	JP Morgan investor call
<b>2Q2020</b>	
01–02 April	Sova Capital online conference
14–15 May	The virtual 21st Annual Financial Institutions Conference, UBS
18 May	Notice of the Annual General Shareholders' Meeting convened on 19 June
1 June	<a href="#">Disclosure of 3M2020 IFRS results</a>
2–4 June	Emerging Markets Debt and Equity Conference 2020, Bank of America ML, online format
19 June	Annual General Shareholders' Meeting
19 June	<a href="#">Notice of an extraordinary General Shareholders' Meeting convened on 24 June</a>
22–26 June	24th Annual Virtual Investor Conference, Renaissance Capital, Moscow
<b>3Q2020</b>	
14–15 July	Bank of America - Fixed Income Capital Markets conference
22 July	Asia Investors conference call Emirates NBD
24 July	Extraordinary General Shareholders' Meeting
1 September	<a href="#">Disclosure of 1H2020 IFRS results</a>
14–15 September	Citi's GEMS Conference 2020
22–24 September	JP Morgan Emerging Markets Credit Conference
<b>4Q2020</b>	
20–21 October	JP Morgan Asia Credit Conference
26–30 October	Auerbach Grayson EM & Frontier Conference

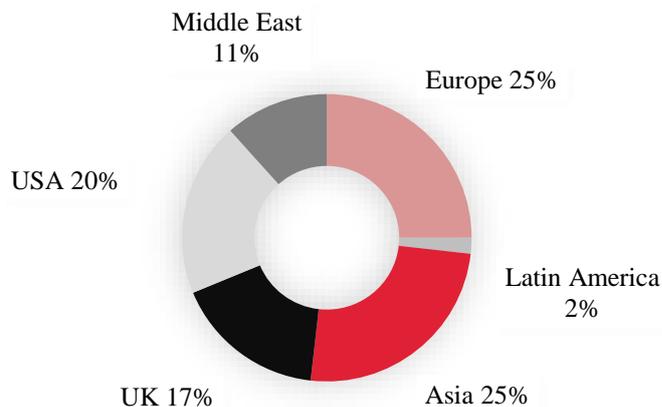
29 October – 3 November	Sberbank CIB and MOEX
30 October – 3 November	VTB Capital Russia Calling Investment Forum
18 November	<a href="#">Disclosure of 9M2020 IFRS results</a>

Pursuant to its funding base diversification strategy, the bank widened the geography of its investors in 2020: besides its traditional locations (the UK, Continental Europe and the USA), MKB also participated in virtual meetings with investors from Hong Kong, Brazil, China, Chile, Saudi Arabia, Singapore, Taiwan and the UAE.

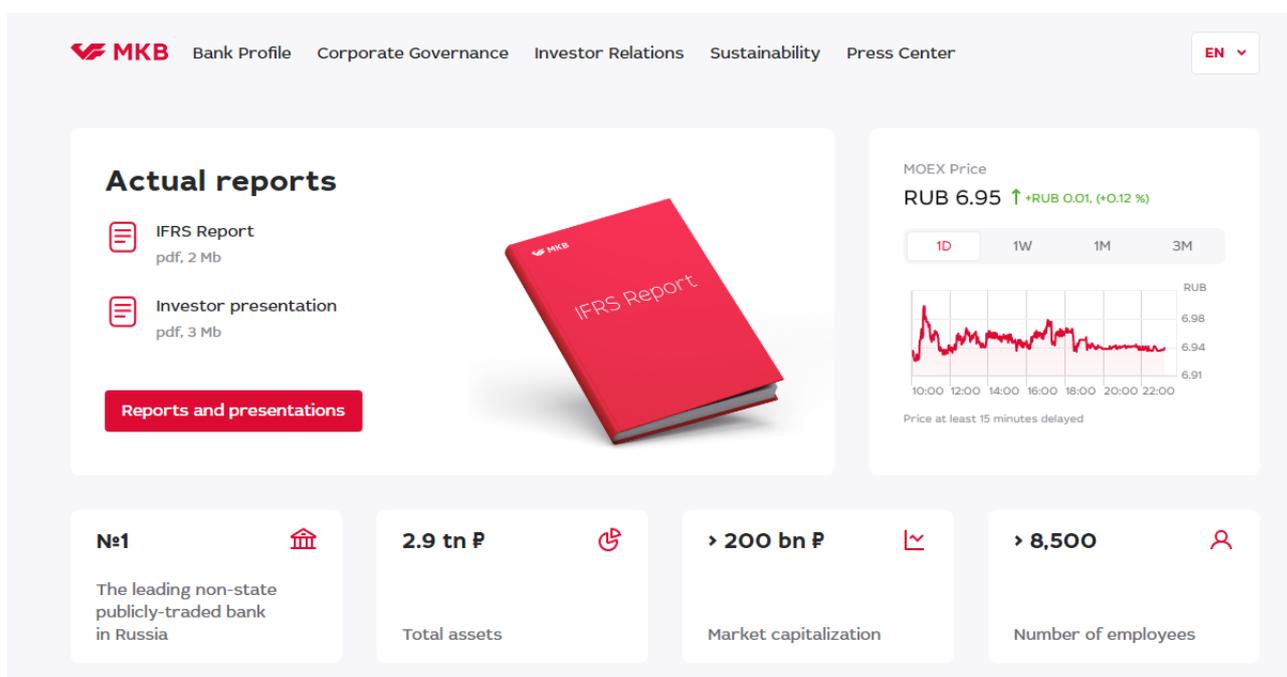
**Meetings with New Investors in 2020  
(Geographical Distribution)**



**Investors Meetings in 2020  
(Geographical Distribution)**



To improve communications with external users and provide broader information on the bank to the interested public, the IR team developed a new corporate website in 2020, which is already available at [ir.mkb.ru](http://ir.mkb.ru).



The new website reflects best Russian and international practices and provides more information for analysts and investors, giving them access to financial results, press releases, investor presentations, details on corporate governance, corporate and social responsibility, management, and other information important for investors.

## SHARES

MKB's shares are on the first-level list of Moscow Exchange

Instrument type	Short name	Ticker	ISIN
Ordinary share	MKB ao	<a href="#">CBOM</a>	RU000A0JUG31

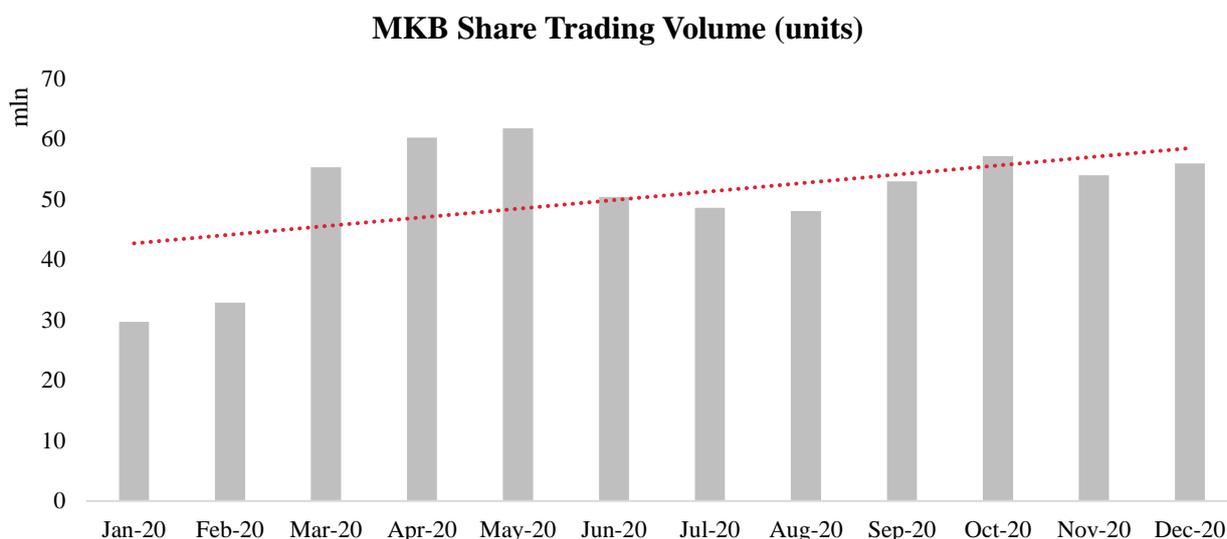
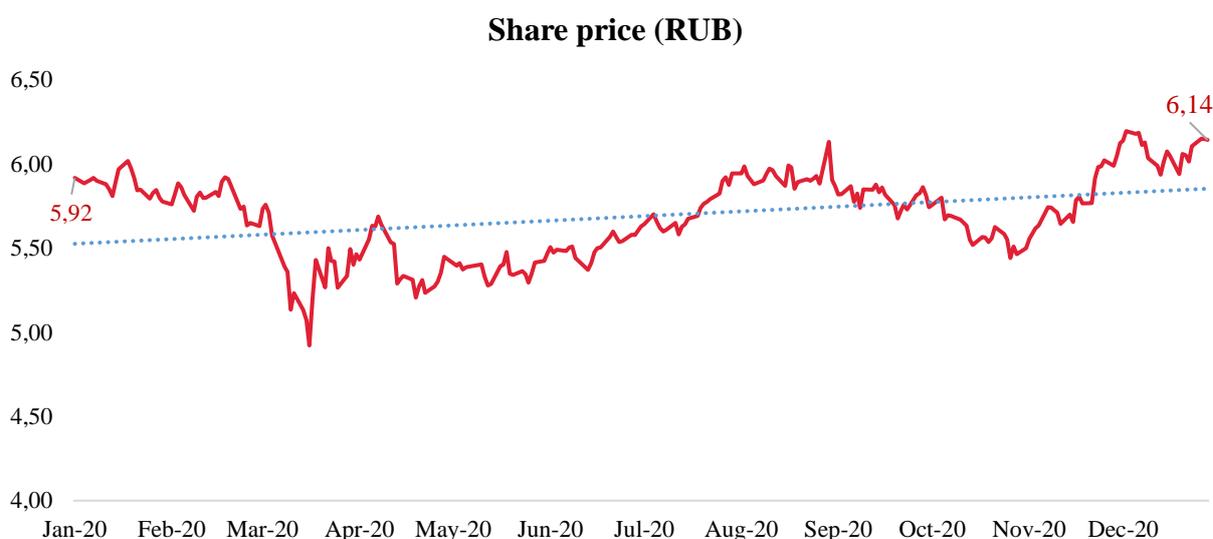
The bank's initial public offering supported by institutional and private investors took place in June 2015. Selling at **RUB 3.62** per share, it aggregated **RUB 13.2 bln**.

In December 2015 and in October 2017, the bank made secondary public offerings on Moscow Exchange, raising **RUB 16.5 bln** and **RUB 14.4 bln**, respectively.

In November 2019, MKB issued 2,750 mln shares through the SPO at RUB 5.35 per share raising **RUB 14.7 bln**. The discount to the closing price of the trading session on 5 November 2019 (RUB 5.565) was 3.9%, and the market capitalisation achieved RUB 166.0 bln.

The bank's shares (CBOM) form part of Moscow Exchange's index family benchmark. Since June 2016, they have been in MOEX and RTS Indices, comprising the most liquid shares of the largest and dynamically developing Russian issuers. As at 31 December 2020, MOEX and RTS indices covered the **top 45** liquid shares of the largest Russian companies from key sectors of the economy. MOEX equity indices are free-float adjusted market capitalisation weighted indices. The bank's shares also made their way to the broad market shares index and the financial sector index.

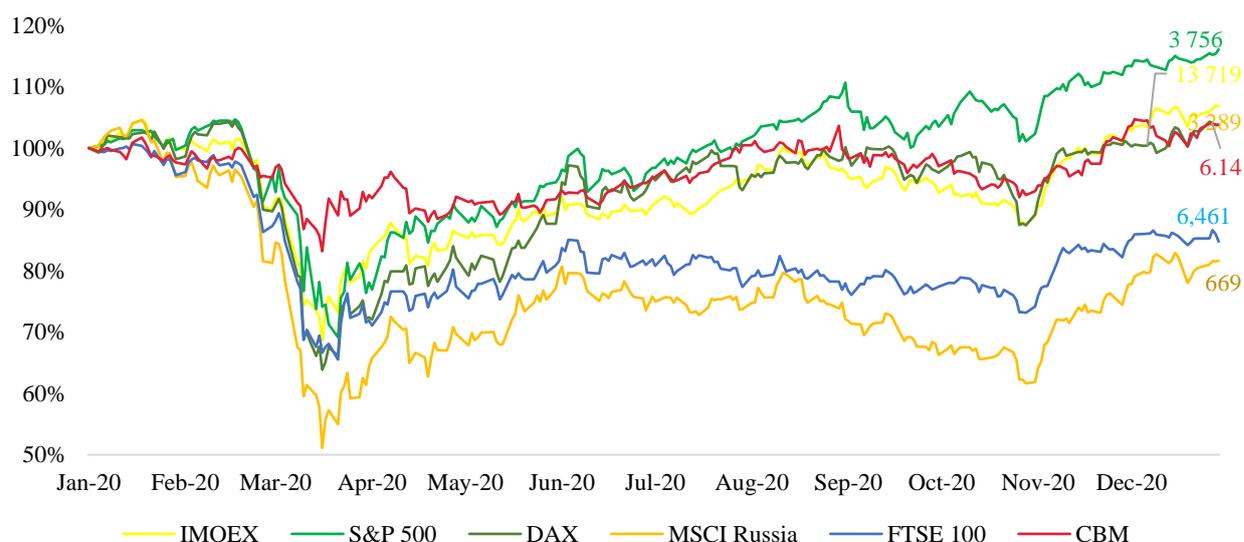
## The Bank's Share Price in 2020 (RUB)



On 1 June 2018, MKB's shares were also included in MSCI EMERGING MARKETS SMALL CAP INDEX. It covers 1,655 shares of companies in 26 countries and approximately 14% of the free float-adjusted market capitalisation in each country.

MKB's shares were also included in MVIS Russia Small Cap Index. The index tracks the performance of the largest and most liquid small-cap companies in Russia. It also includes foreign companies generating at least 50% of their revenues in Russia. MVIS Russia Small-Cap Index (MVRSXJ) covers 100% of the investable universe and has been licensed to underlie financial products with currently USD 31.37 mln in assets under management.

## MKB's Share Price Compared to Global Indices in 2020 (%)



## BONDS

### *Eurobonds*

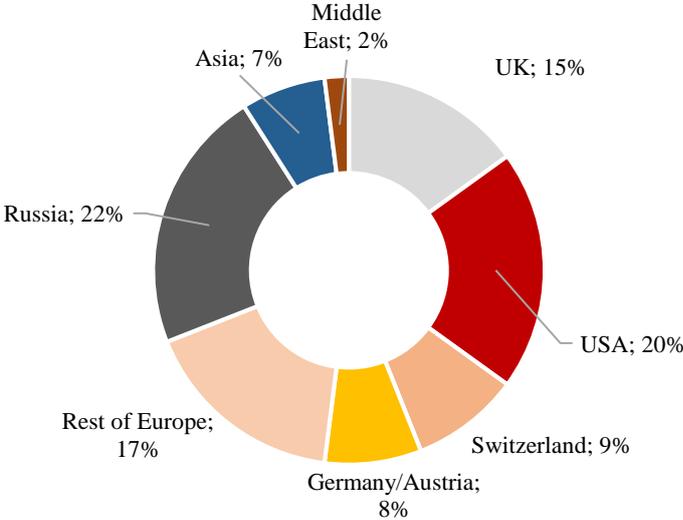
MKB has been an active player in the Eurobond market since 2006. As at end-2020, the outstanding principal amount of its Eurobonds totalled USD 3.4 bln, EUR 0.5 bln and RUB 5.0 bln. They were issued via a special purpose vehicle, CBOM Finance p.l.c., on the Irish Stock Exchange.

Security type	Issue date	ISIN	Par value	Amount outstanding	Coupon rate	Maturity, years
Subordinated Eurobonds 2025	26.11.2014	XS1143363940	RUB 5,000,000,000	RUB 5,000,000,000	16.500%	10.5
Eurobonds 2021	07.11.2016	XS1510534677	USD 500,000,000	USD 212,690,000	5.875%	5
Subordinated Eurobonds 2027	05.04.2017	XS1589106910	USD 600,000,000	USD 440,000,000	7.500%	10.5
Subordinated perpetual Eurobonds	10.05.2017	XS1601094755	USD 700,000,000	USD 540,000,000	8.875%	Perpetual
Eurobonds 2023	14.02.2018	XS1759801720	USD 500,000,000	USD 228,034,000	5.55%	5
Eurobonds 2024 EUR	20.02.2019	XS1951067039	EUR 500,000,000	EUR 327,228,000	5.15%	5
Eurobonds 2024 USD	25.03.2019	XS1964558339	USD 500,000,000	USD 217,270,000	7.121%	5.25
Eurobonds 2025	22.01.2020	XS2099763075	USD 600,000,000	USD 541,000,000	4.7%	5

MKB was the first Russian bank to issue Eurobonds in 2020. On 22 January 2020, it successfully closed the book of orders for its new senior 5-year USD 600 mln 4.7% Eurobond issue. Its coupon rate became the lowest in the bank's entire Eurobond market history and among all 5-year Eurobonds issued by Russian privately-owned banks. The book-building process was preceded by a series of meetings with international investors in Zurich, Geneva, Frankfurt, Vienna, London, Boston,

New York, Hong Kong and Singapore. Furthermore, pursuant to its investor diversification strategy, MKB has become the first Russian issuer to tap the Middle East region: a series of meetings took place in the emirates of Dubai and Abu Dhabi. The strongest interest was shown by investors from Continental Europe (34%). The wide international demand was underpinned by investors from the USA (20%), the UK (15%), and Southeast Asia and the Middle East (9%). The share of Russian investors is 22%. In total, more than 180 orders were received from investors from 23 countries globally. As the deal was oversubscribed, with the order book exceeding USD 1.6 bln at the last update, the coupon rate was lowered by more than 0.55% against the upper notch of the initial price guidance.

**Geographical Distribution of Investors in USD 600 mln Eurobonds of 2020**



In 2020, MKB’s Eurobonds outperformed the market. After a deep dip in March 2020, their prices recovered substantially and many issues closed the year at new highs. The perpetual issue CBOM-perp was the only one among the Russian banking sector’s perpetual Eurobonds for which the z-spread narrowed (ytd) by 300 points in 2020. Its yield to call (YTC) fell by 500 bps in the 12 months of 2020 from 13.8% in January 2020 to 8.8% in December 2020. Z-spreads on MKB’s senior issues changed in line with the market, with the yields returning in December on average to their January levels. MKB’s senior Eurobonds, like its subordinated issues, demonstrated a rapid recovery after the market shock in March 2020.

**Domestic Bonds**

MKB’s bonds are on the first level list of Moscow Exchange.

Security type	Placement date	ISIN	Par value, RUB	Coupon rate	Maturity, years
Exchange-traded bond series 001R-01	04.10.2019	RU000A100WC4	10,000	8.35%	3
Exchange-traded bond series 001R-02	03.12.2019	RU000A1014H6	7,000	7.75%	2

**Some of the bank's bond issues are on the third level list of Moscow Exchange**

Security type	Placement date	ISIN	Par value, RUB	Coupon rate	Maturity, years
Corporate bond series 15	24.07.2018	RU000A0ZZE87	3,000	12.0%	-
Exchange-traded bond series BSO-P01	11.06.2019	RU000A100FF2	426	4.5%	3
Exchange-traded bond series BSO-P02	15.07.2019	RU000A100KS5	1,000	4.5%	3
Exchange-traded bond series BSO-P03	15.07.2019	RU000A100KT3	1,000	4.0%	3
Exchange-traded bond series BSO-P04	03.09.2019	RU000A100SF5	1,000	3.5%	3
Exchange-traded bond series BSO-P05	04.10.2019	RU000A100WT8	1,000	3.25%	3
Exchange-traded bond series BSO-P07	13.11.2019	RU000A101160	1,000	3%	3
Exchange-traded bond series BSO-P08	19.12.2019	RU000A1016Y6	1,000	2.55%	3
Exchange-traded bond series BSO-P09	19.12.2019	RU000A1016X8	1,000	1.55%	3
Exchange-traded bond series BSO-P10	19.12.2019	RU000A1016W0	1,000	0.01%	3
Exchange-traded bond series BSO-P11	12.02.2020	RU000A101DL3	1,000	1.25%	3
Exchange-traded bond series BSO-P12	12.02.2020	RU000A101DK5	1,000	0.1%	3
Exchange-traded bond series BSO-P14	16.07.2020	RU000A101WY6	1,000	0.01%	3
Exchange-traded bond series BSO-P17	07.08.2020	RU000A102044	1,000	0.01%	3
Exchange-traded bond series BSO-P18	07.08.2020	RU000A102051	1,000	0.01%	3
Exchange-traded bond series BSO-P19	18.09.2020	RU000A1024V6	1,000	0.01%	3
Exchange-traded bond series BSO-P20	27.10.2020	RU000A1029V5	1,000	0.01%	3
Exchange-traded bond series BSO-P23	11.12.2020	RU000A102GE9	1,000	0.01%	3

**MKB's credit ratings as at 31.12.2020**

Fitch Ratings	<b>BB</b>	Long-term default rating
	<b>B</b>	Short-term issuer default rating
	<b>bb*</b>	Viability rating
	<b>4</b>	Rating support
		<b>Negative outlook</b>
	<b>BB-</b>	Long-term counterparty credit rating

Standard and Poor's	<b>B</b>	Short-term counterparty credit rating
		<b>Stable outlook</b>
Moody's Investors Service	<b>Ba3/NP</b>	Long-term local and foreign currency deposit rating
	<b>Ba2</b>	Counterparty risk rating
		<b>Stable outlook</b>
ACRA	<b>A (RU)</b>	National scale credit rating
		<b>Stable outlook</b>
Expert RA	<b>ru A</b>	Credit rating
		<b>Stable outlook</b>
<b>National Credit Ratings (NCR)***</b>	<b>A+.ru</b>	Credit rating
		<b>Stable outlook</b>
Rating-Agentur Expert RA GmbH	<b>BBB [esg]</b>	ESG (Environmental Social Governance) rating

**Rating actions in 2020:**

*	upgraded to bb in September 2020
***	<b>assigned in December 2020</b>

Rating agencies traditionally note the high quality of the bank's assets and risk management, its comfortable liquidity position and systemic importance for the Russian banking sector.

## SUSTAINABLE DEVELOPMENT

### 1. Human Resources

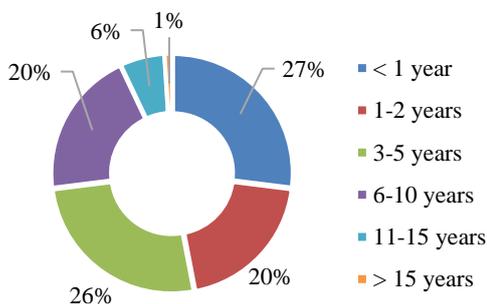
As one of the key priorities, the MKB's strategy provides for the development, training and retention and recruitment of bank's highly effective team bank team. The bank's HR management strategy is structured in accordance with the bank's strategic goals. In 2020, the HR Department focused on the employee motivation system, introducing a grading system and adapting all HR processes to this system, implementing the *MKB League* loyalty programme, developing a referral programme and improving the recruitment indicators, increasing the employee engagement level and developing the MKB brand as an employer, and on improving the corporate culture. In 2021, the HR strategy will focus on improving the Employee Experience indicators, and the automation of HR processes and services for employees.

#### Bank's Headcount Structure

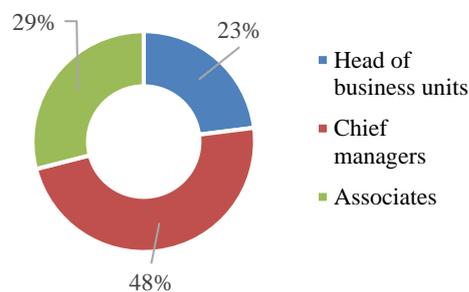
As at end-2020, MKB's headcount was 5,511 people<sup>22</sup>, which is 1.9% higher than in 2019.

#### Analysis of the Bank's Personnel as at 31 December 2020

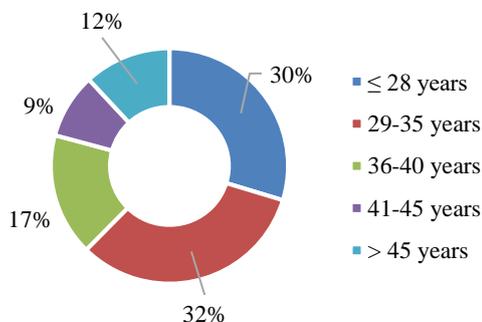
Distribution of Employees by Length of Employment as at 31.12.2020



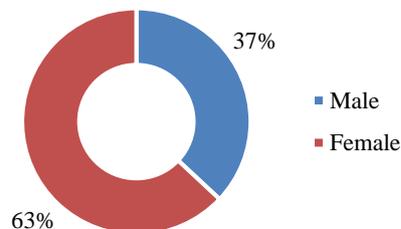
Headcount Structure by the Category of Employees as at 31.12.2020



Distribution of Employees by Age as at 31.12.2020



Gender Structure as at 31.12.2020



<sup>22</sup> MKB's employees

In 2020, material changes in the bank's organisational structure were caused by the implementation of a new project to increase employee productivity, which continues the transformation to improve operational efficiency that began in 2019. The goal of the project is to develop and implement initiatives that will reduce personnel expenses by automating processes with the greatest effect from the automation introduced and internal process modernisation. In addition to the development and implementation of automated solutions to reduce expenses, the bank found additional opportunities to transfer back-office and mass functions from Moscow to the regions and to outsource non-banking functions, and certain organisational improvements, such as efficiency assessment of current business processes, revision of the operating hours for sales offices, etc. Some tasks pertaining to transferring functions to the regions will continue to be implemented in 2021. The improvements that have been developed and are already being implemented are expected to reduce personnel expenses until 2024 inclusive.

The bank has developed an organisational structure for its regional subdivisions, which includes matrix management approaches and the results of research that was performed in 2020 with respect to the expenses for operating hours of the network subdivisions. The organisational and personnel changes as part of the transformation of regional subdivisions are to be implemented during 2021.

In order to improve the efficiency of headcount management, the bank conducted research and developed job standards for 26% of its employees with the focus on mass subdivisions. Based on the developed job standards, calculation models were built for standard headcount of the Underwriting Division, the Retail Business and SME Networks. The developed headcount calculators allow calculating the headcount, taking into account the forecast business data in the context of each month.

### ***Staff Recruitment and Adaptation***

In 2020, the focus was on reducing vacancy closure. The percentage of timely closed vacancies was increased from 76% in 2019 to 82% at end-2020. 1,562 vacancies were closed by efforts of the Staff Recruitment Division, which is 90 vacancies more than in 2019.

Recruitment for the *MKB Universe* internship programme continued despite the remote format. A visual concept for the internship programme was developed, and an advertising video involving bank employees was shot for *MKB Universe*.

In 2020, the bank held an ambassador contest *Become the face of MKB*, following which 17 employees were selected to participate in photo sessions and shooting advertising HR materials.

In 2020, the number of hires under the *We Choose Colleagues!* referral programme increased to 60 people. A project for relocating the mass recruitment function to Perm was also implemented.

In 2020, we shall continue to work on improving the headhunting quality, reducing vacancy closure time and recruitment process automation.

### ***Training and Development***

The bank assigns a critical part in its talent pool development system to the continuous improvement of the knowledge and skills of its employees, which are based on the strategic goals and business tasks of the subdivisions.

During 2020, the bank's employees took part in the following:

- Professional training focusing on products, services, internal processes, software and sales skills;
- Professional training regulated by Russian laws;
- Systemic development of managerial skills of heads and soft skills of all employees.

Employee knowledge and skills were improved using external and internal resources.

In 2020, managerial skills of managers and soft skills of all employees were systematically developed according to the models of general banking competencies for the employees and of managerial competencies for the bank heads.

Training on the development of managerial and general banking competencies was implemented through:

- Leadership and Management Academy (the training cycle consists of 12 webinars and runs once every 2 weeks);
- Business Academy (the training cycle consists of 17 webinars and runs once every 2-3 weeks);
- Customised training of business subdivision employees in sales, negotiations and customer relations.
- Self-training through learning electronic remote courses and reading literature of the Alpina Digital electronic library and the electronic magazine Harvard Business Review electronic magazine.

All of the aforesaid programmes provide the employees with an opportunity to improve their professional level, develop their corporate and managerial competencies, and exchange experience with their colleagues. 2,249 employees completed the programmes. Participants rated the level of organisation and holding of the events highly, awarding a score of 4.75 on a 5-point scale.

In 2019–2020, the bank implemented the project *Succession* project, which involved eight top managers of the bank. The principal goal of the project was to unlock the potential of successors and develop the competencies necessary for their managerial career at the bank.

The bank has implemented and regularly runs basic training for new employees of business areas who will subsequently communicate with the bank's customers. The training is based on career models and includes the principal aspects of employee activities in relevant positions. The training is held both in face-to-face and in remote formats (remote courses). In 2020, basic training was held for employees of the Retail, the Underwriting Division, the Overdue Debt Collection Division and the SME Division. In 2020, 1,636 participants attended various basic training programmes.

Active use of the remote training channels and the capabilities of the employee training and development system of the HR-portal was an important component of the training. In 2020, 4,010 people attended the remote courses. Remote courses were implemented in the following: compulsory training for all new employees of the bank, training focusing on products and software in order to systematise and develop sustainable knowledge and skills, and to develop general banking competencies.

In 2020, more than 2,500 employees participated in the annual Performance Management (PM) assessment system. As part of PM:

- The Regulation for annual examination was developed and approved;
- All stages of the system, including reporting generation, were finalised;
- Training and support of the participants were organised within each stage.

In order to form a unified approach and culture of interaction between employees and heads within all stages of the Performance Management annual examination, the bank holds training for employees and heads in various formats, such as webinars and electronic materials.

**In 2021, the bank plans to develop its training system as follows:**

- Implement a comprehensive development programme for the heads of independent subdivisions;
- Expand programme topics for the employees and heads of the divisions, units and groups in order to improve knowledge and business skills;
- Implement a coaching system for the front-office employees of the Retail Block and SMEs;
- Expand advanced remote training tools (develop and implement interactive remote training, electronic simulators for developing software skills, etc.).

***Incentives, Salary and Corporate Culture***

The bank builds its incentive strategy based on the principal goal of being a reliable, helpful and insightful financial assistant for customers and partners, thus promoting the development of each of them and the national economy as a whole. The bank seeks to provide its employees with a worthy reward in accordance with the bank's corporate culture and values, while strictly observing the labour laws of the Russian Federation and regulatory requirements.

In 2020, the incentive strategy focused on striking a balance between the adverse impact of market uncertainty and the maximum retention of employee productivity in the pandemic. Thus, to achieve maximum compliance with rapidly changing external conditions, during 2020 the bank implemented more than 80 initiatives to develop and modernise incentive payments, including 9 new incentive systems.

In 2020, almost all bank employees not covered by specific performance management and bonus systems became participants of the incentive programme in accordance with the performance management system. Thus, the established incentive systems covered a maximum level of 92% of employees by.

We paid sufficient attention to the fixed component of remuneration: in 2020, the grading system began to be implemented for more efficient management of the payroll budget, taking into account the value and contribution of each position to the overall results of the bank.

The bank applies a system of benefits that includes voluntary health insurance, compensation for lost income due to employee illness, various types of cash assistance, special partner offers and discounts for employees and New Year gifts for the children of employees.

***Additional protection and support for employees in the pandemic:***

- In 2020, the bank took protective measures to prevent the spread of COVID-19, namely: **remote working for all employees whose business processes allow such work** (more than 60% from March to August), wearing mandatory personal protective equipment in offices, enhanced cleaning and disinfection of offices, physical

delimitation of space to ensure social distancing, mandatory quarantine not only for the first circle of contact persons, but also for contact persons of the second circle.

- The bank introduced mandatory **measures for monitoring the health of employees**, namely: daily thermometry, testing for COVID-19 every two weeks, diagnostics of immunity to COVID-19 and monitoring the causes of absenteeism.
- All employees who continued to work at bank offices were provided with **life and disability insurance against COVID-19 illness**.
- As a response to the migration, predominantly to online interaction and in order to help employees in stressful conditions, in 2020 the bank introduced an **Employee Assistance Programme (EAP)** which offers remote consultations on psychological, financial, tax, legal issues and telemedicine.
- In order to include the employees in social life and maintain informal communication in the conditions of mass remote working, most events were held online. During the year, the employees were offered the chance to participate in **online sports and charity events, webinars** by medical and financial experts on relevant topics and as soon as it became possible, in off-line sports activities, such as the Moscow Marathon, an ice hockey tournament and the Race of Heroes.
- To address employee loss of identity both with the team and with the bank as a whole, during the period of self-isolation and work in distributed teams, the bank developed the **MKB League** comprehensive **gamified employee loyalty programme**, which will unite all employees around socially oriented activities that support the corporate competencies model.

In 2021, the bank plans to introduce grades-based remuneration into daily management practice, link optimal privileges and benefits to grades, assimilate the *MKB League* loyalty programme, develop and implement a well-being programme for employees and introduce predictive analytics to deal proactively with stress issues and burnout.

## 2. Society

MKB, as a responsible employer, pursues an active social policy. During the Covid-19 pandemic, the bank took part in charity initiatives aimed at helping people affected by the new virus. MKB provided for the purchase of personal protective equipment, the equipment necessary to help patients with pneumonia, and respirators for Municipal Hospital No. 52 as part of the *Let's Help Together* campaign. The bank helped organise meals to charges of the *Podari Zhizn* fund who are receiving treatment in hospital.

Due to the impact of various restrictions on society and changes in the algorithms of customer behaviours, dialogue with society on the changes and features of the pandemic year has become an important part of public work. MKB provided regular explanations of new financial practices that are related to anti-epidemiological measures, reported on its own measures to support borrowers and customers, and held other charitable events. As a result of this work, MKB was twice ranked in the Top 3 of the Bank Antivirus Rating (research by The Retail Finance magazine), which analysed the marketing reaction of the largest banks to the pandemic.

Digitisation of banking instruments has also become a part of social development and a guarantee of uninterrupted basic services. The development of Internet banking and the mobile bank has become one of the MKB's key tasks. At year-end, the bank was offering almost all products and services in the RBS (remote banking), which were previously provided to customers at the offices only such as issuing certificates, deposit and credit products, and card ordering.

MKB continued to implement a number of environmental projects as part of the corporate social responsibility principles in the bank's activities. MKB was the first bank to raise international financing linked to its ESG rating assigned by RAEX Europe. As a part of this transaction MKB raised a USD 20 million loan from German Landesbank Baden-Wuerttemberg, a leader in environmental "green" banking in Europe.

In 2020, MKB successfully implemented the following: eco-friendly disposal of decommissioned ATMs and terminals; contactless purchase of tickets to Moscow Zoo at MKB terminals; a joint project with WWF to preserve the saiga population in the North-West Caspian region by organising a census using low-noise drones; pilot launch of TrashBack, an environmental fintech project seeking to motivate people to be environmentally responsible. The bank also arranged the issue of perpetual "green" bonds by RZD, in the first in the Russian financial market.

Under the project for the environmentally sound recycling of unused terminals and ATMs, more than 400 units of equipment and more than 200 tons of potentially hazardous waste were recycled.

The new census method for saigas in the North-Western Caspian region made it possible to obtain the most reliable information without environmental damage. 6,350 saigas were counted.

The launch of the Trashback programme resulted in a six-fold increase in the number of Moscow Region residents involved.

For several years, MKB has been implementing the *Chance* project jointly with the *Arifmetika Dobra* fund. In 2020, the bank ensured the provision of additional education to 100 pupils of 18 child institutions from 9 regions of Russia.

As part of the New Years charity programme, MKB donated part of the budget for New Year gifts to partners and customers to support reindeer within the WWF project. Customers and partners

of the bank received a postcard describing the MKB initiative. The bank not only participates in an initiative aimed at preserving the planet's biodiversity, but also promotes, by its example, the signing up of an increasing number of caring people and organisations to charity projects.

The bank's employees regularly support orphans in charity events dedicated to Children's Day, Knowledge Day and the New Year. All funds raised are used to fund educational programmes in orphanages across Russia. Effective counteraction to cyber fraud is one of the most important tasks of Russian banks. MKB is working actively on anti-cyber fraud systems, develops information security technologies, and holds regular information campaigns to raise awareness among the bank's customers and employees.

MKB is actively developing the brand. In 2020, the bank was first included in the list of the strongest banking brands in the world according to the international consulting company Brand Finance. The company measures the Brand Strength Index (BSI) and also assesses the relative brand strength based on marketing investment, awareness, employee preference and satisfaction, and corporate reputation. The strength of a brand is a governing factor in its value.

MKB's top managers consistently appear in the "Top 1000 Russian Managers" annual ranking of Russian Managers Association and Kommersant Publishing House. The ranking is a tool for fair assessment of the professional reputation of Russian executives. It highlights the most professional managers of Russia, as recognised by the professional community itself. The 2020 ranking included 4 managers of the bank.

MKB supports social projects aimed at improving the quality of life of pensioners, continues cooperation with the Russian Union of Pensioners, and participates in the Union's activities.

The bank arranges a number of activities to organise practical training for senior students, job placement for graduates, and it involves its top managers in the educational process. MKB conducts lectures on financial literacy "How to use bank services correctly: consumer rights" at universities (Financial University, Plekhanov Russian University of Economics, RANEPА, and Perm Institute of Economics and Finance).

### ***3. Sustainable Development Management***

Sustainable development is no longer a buzzword, but a new reality, to which the economy and society are adjusting by setting long-term strategic goals to ensure sustainable growth and minimise adverse impacts, both direct and indirect, and by launching better, more comprehensive risk control processes. By picking up ESG factors, companies become more competitive, more broad-minded about innovative technologies and products, and more interesting to the responsible investment community which does not simply look for high returns, but invests in a better future. This is especially relevant now that the world faces a tricky mix of problems and challenges brought on by the Covid-2019 pandemic.

#### *MKB sustainable development management model*

The bank manages sustainable development by addressing four main areas:

- Interaction with stakeholders and transparency of operations;
- Direct impacts;
- Indirect impacts;
- Voluntary initiatives.

ESG principles are incorporated through the effective corporate governance framework with the engagement of the senior management and an in-house team of sustainability experts, while ESG factors are integrated into the bank's business model and strategy. A responsible approach and the ambition to create value for our stakeholders are the key factors shaping our long-term strategy. We also seek to maintain a constant and effective dialogue with all stakeholders to identify timely our customers', shareholders', employees' and other stakeholders' interests and expectations, and offer effective solutions for their current needs, as well as to be always one step ahead and devise unique new approaches, products or technological features (in particular through the process of digitisation).

The bank has put in place individual elements of a social and environmental management system and a Social and Environmental Management Policy which serves to minimise social and environmental risks of its financed projects, and to apply certain restrictions and requirements in line with world's best practices and standards of responsible finance. Such an approach not only promotes our contribution to the global ESG agenda, but also opens new development opportunities for our customers: they can adopt state-of-the-art international social and environmental standards and understand what prime foreign financial institutions expect from their business and specific projects.

The bank has built an in-house team of sustainable development experts and can thus support its customers not only with funding, but also with advice and access to various instruments of responsible finance.

Key processes and areas at development in 2020:

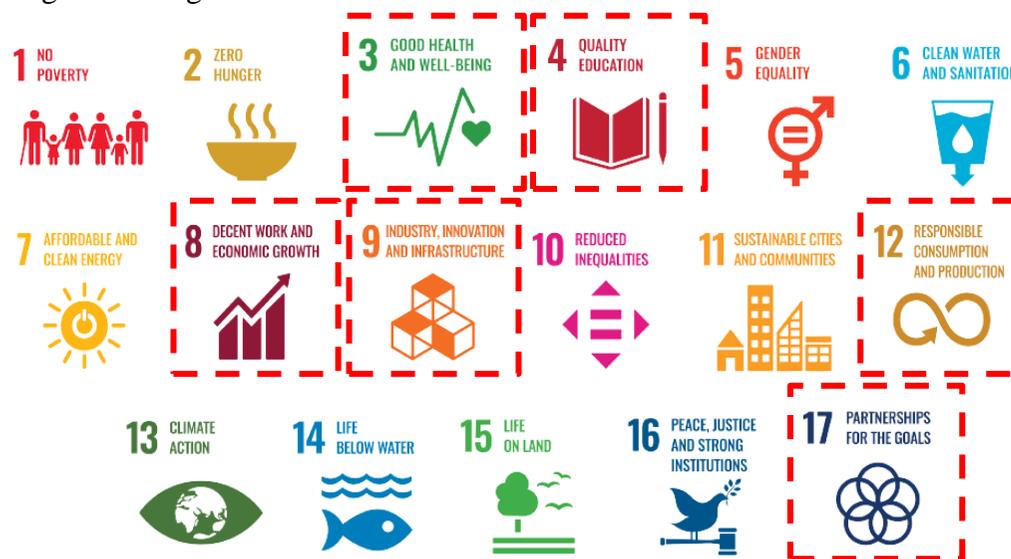


MKB is a headliner of these changes in the Russian banking sector and we want to achieve more. A lot more needs to be done, with one of the ambitions for 2021 being to deploy an integrated management system as per our ESG road map. This is being implemented in accordance with international standards ISO 14001:2015, ISO 50001:2018, ISO 45001:2018, and recommendations of ESG agencies and international financial institutions. We are now designing our approach to identifying eligible projects, including a sustainable financing taxonomy aligned with the relevant national and international sustainable development frameworks and enabling the bank to single out projects with positive environmental and socio-economic effects in a fast and comprehensive way.

<sup>23</sup> ESG ranking of Russian companies by RAEX Europe, February 2021 [https://raex-a.ru/rankings/ESG\\_ratings\\_RUS\\_companies/2020](https://raex-a.ru/rankings/ESG_ratings_RUS_companies/2020), [https://raex-a.ru/rankings/ESG\\_ratings\\_RUS\\_companies/2021](https://raex-a.ru/rankings/ESG_ratings_RUS_companies/2021).

## MKB and Global Sustainable Development Agenda

MKB endorses the UN's global agenda of sustainable development and is committed to operate in a way that contributes to all of its sustainable development goals (SDGs). Six of them were designated in 2020 as MKB's strategic priorities and reflect its vision of the future it seeks to procure by promoting the said agenda.



 – MKB's strategically prioritised SDGs

### Major Results of 2020

MKB has made strong progress in integrating sustainability into its operations, partly owing to the basis laid out as early as in 2012 when two multilateral developmental institutions, EBRD and IFC, became its shareholders. The key result of our sustainable development efforts in 2020 was our entry into the top 5 most advanced sustainability-committed Russian banks<sup>24</sup>, and the reaffirmed leadership in the ESG ranking of Russian banks<sup>25</sup>.

<sup>24</sup> WWF Review of Sustainable Finance in the Russian Banking Sector, Feb 2020 [https://wwf.ru/upload/iblock/b36/Green\\_finance.pdf](https://wwf.ru/upload/iblock/b36/Green_finance.pdf)

<sup>25</sup> According to RAEX-Europe

2020 saw the development and approval of a framework ESG strategy (sustainability strategy) and a professional ESG team within the dedicated Sustainable Development Division. Much work was done to expand the interactions with stakeholders. In particular, the materiality matrix was built taking into consideration, for the first time, external stakeholders' opinions, which is so far an unprecedented practice for the Russian banking sector. In 2020, the bank ensured quite high transparency for its sustainable development efforts by disclosing more sustainability indicators than in 2019 and by having its published non-financial reporting assured by an independent party. The results achieved by the bank in other areas at sustainable development management are set out below.



### Managing Direct Impact

- First-in-Russia interbank ESG-linked loan tied to rating by RAEX Europe
- Unique social retail products
- Percentage of female employees: 63%, female senior managers: 33%
- More than 60% of employees worked from home in March-August 2020.
- Employee assistant program (EAP) - remote consulting on psychological, financial, tax, legal issues and telemedicine services.
- Average number of training hours per employee: 29.8.
- Digitisation of services (reduction of hardcopy document flow)
- Smart Office project



### Managing Indirect Impact

- Successful experience of arranging first-in-Russia issues of perpetual "green" bonds and social Eurobonds for RZD
- Volume of sustainable investments and customer projects: over RUB 20 bln



### Voluntary Initiatives

- Cooperation with the *Arifmetika Dobra* charity supporting orphans and adoptive families
- Partnership with WWF to preserve biodiversity
- Support of environmental projects, including reforestation and Trashback3 fintech initiative
- Support of healthcare institutions
- Projects with the Moscow Zoo: guardianship of an Amur leopard, contactless ticketing for exhibitions

3. It seeks to ensure a greater portion of municipal solid waste (MSW) gets recycled and motivate people to be more environmentally friendly. The Trashback mobile app shows how non-food waste moves from the collection site to sorting and recycling facilities, thus making the waste recycling system more credible.

MKB's contribution is not limited to the above listed results. More detailed information on MKB's yearly consumption of energy resource types (nuclear, thermal, electrical, electromagnetic energy, oil, automobile gasoline, diesel fuel, heating oil, natural gas, coal, oil shale, peat etc.) in physical and monetary terms is available in the Sustainability Report published on its official website.

## CONTACTS

CREDIT BANK OF MOSCOW	
Full company name	CREDIT BANK OF MOSCOW (public joint stock company)
Abbreviated name	CREDIT BANK OF MOSCOW
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Abbreviated name	KPMG
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Full company name	Joint-Stock Company Audit-Consulting Group Business Systems Development (RBS)
Abbreviated name	RBS
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**Registrar:**

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<b>Telephone:</b>	+7 (495) 780-73-63
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<b>Website:</b>	<a href="https://www.rrost.ru/ru/">https://www.rrost.ru/ru/</a>
<b>E-mail:</b>	<a href="mailto:info@rrost.ru">info@rrost.ru</a>

## APPENDICES

### *Appendix 1* *Statements under IFRS*

CREDIT BANK OF MOSCOW (public joint-stock company)  
Consolidated Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 31 December 2020  
(in millions of Russian Roubles unless otherwise stated)

	Notes	2020	2019
Interest income calculated using the effective interest method	5	149,302	142,484
Other interest income	5	7,112	4,868
Interest expense	5	(97,166)	(102,069)
<b>Net interest income</b>	5	<b>59,248</b>	<b>45,283</b>
Charge for credit losses on debt financial assets	12, 13, 15, 16	(18,908)	(6,821)
<b>Net interest income after credit losses on debt financial assets</b>		<b>40,340</b>	<b>38,462</b>
Fee and commission income	6	19,433	15,398
Fee and commission expense	6	(3,995)	(3,864)
Net gain or (loss) on loans to customers at FVTPL		1,234	(1,590)
Net gain or (loss) on financial assets at FVTPL		5,226	793
Net gain or (loss) from sale and redemption of Investment financial assets at FVOCI		584	(272)
Net realised gain or (loss) on Investment financial assets at amortised cost		149	200
Net gain or (loss) on Investment financial assets at FVTPL		2,320	-
Net gain or (loss) on derecognition of financial instruments measured at amortised cost		-	295
Net foreign exchange (losses) or gains	9	(9,261)	(13,252)
Net gain on change in financial liabilities measured at fair value through profit or loss		26	162
Impairment gain or (loss) on other non-financial assets, credit gain or (losses) on other financial assets and credit related commitments and other provisions	8	(133)	3,318
Operating lease income		42	44
Other net operating income or (expense)	10	3,362	(3,356)
<b>Non-interest income</b>		<b>18,987</b>	<b>(2,124)</b>
<b>Operating income</b>		<b>59,327</b>	<b>36,338</b>
Salaries and employment benefits	7	(13,877)	(14,167)
Administrative expenses	7	(6,026)	(5,155)
Depreciation of premises and equipment and right-of-use assets		(1,898)	(1,903)
<b>Operating expense</b>		<b>(21,801)</b>	<b>(21,225)</b>
<b>Profit before income taxes</b>		<b>37,526</b>	<b>15,113</b>
Income tax expense	11	(7,517)	(3,156)
<b>Profit for the period</b>		<b>30,009</b>	<b>11,957</b>

CREDIT BANK OF MOSCOW (public joint-stock company)  
 Consolidated Statement of Profit or Loss and Other Comprehensive Income  
 for the year ended 31 December 2020  
 (in millions of Russian Roubles unless otherwise stated)

	Notes	2020	2019
<b>Profit for the period</b>		<b>30,009</b>	<b>11,957</b>
<b>Other comprehensive (loss) or income</b>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
- revaluation of buildings		161	(104)
- income tax for revaluation of buildings		(32)	21
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
<i>Movement in fair value reserve (debt instruments):</i>			
- net change in fair value		(2,232)	4,429
- net amount transferred to profit or loss		(584)	(704)
- income tax related to movement in fair value reserve		563	(745)
<i>Change in fair value of financial liability attributable to changes in credit risk</i>		201	80
<i>Income tax related to change in fair value of financial liability attributable to changes in credit risk</i>		(40)	(16)
<b>Other comprehensive (loss) or income for the period, net of income tax</b>		<b>(1,963)</b>	<b>2,961</b>
<b>Total comprehensive income for the period</b>		<b>28,046</b>	<b>14,918</b>
<b>Basic and diluted earnings per share (in RUB per share)</b>	34	<b>0.90</b>	<b>0.32</b>

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

CREDIT BANK OF MOSCOW (public joint-stock company)  
Consolidated Statement of Financial Position  
as at 31 December 2020  
(in millions of Russian Roubles unless otherwise stated)

	Notes	31 December 2020	31 December 2019
<b>ASSETS</b>			
Cash and cash equivalents	12	683,283	953,645
Obligatory reserves with the Central bank of the Russian Federation		22,244	16,944
Due from credit and other financial organisations	13	778,837	348,794
Trading financial assets	14	78,816	38,550
- held by the Group	14	75,608	37,920
- pledged under sale and repurchase agreements	14	3,208	630
Loans to customers	15	1,009,165	788,655
- loans to corporate clients	15	888,802	685,372
- loans to individuals	15	120,363	103,283
Investment financial assets	16	323,365	258,168
- held by the Group	16	280,881	206,844
- pledged under sale and repurchase agreements	16	42,484	51,324
Investments in associates		2,446	2,350
Property and equipment	17	8,950	9,515
Deferred tax asset		120	113
Assets held for sale		999	1,177
Other assets	18	8,240	5,586
<b>Total assets</b>		<b>2,916,465</b>	<b>2,423,497</b>
<b>LIABILITIES AND EQUITY</b>			
Deposits by the Central Bank of the Russian Federation		10,041	-
Due to credit institutions	19	721,682	677,936
Due to customers	20	1,737,515	1,339,535
- due to corporate customers	20	1,235,998	853,353
- due to individuals	20	501,517	486,182
Financial liabilities measured at fair value through profit or loss	23	19,330	9,874
Debt securities issued	21	171,465	168,549
Deferred tax liability		5,399	3,370
Other liabilities	22	16,537	13,801
<b>Total liabilities</b>		<b>2,681,969</b>	<b>2,213,065</b>
<b>Equity</b>			
Share capital	24	30,692	30,692
Additional paid-in capital		58,210	58,210
Perpetual debt issued	24	41,950	37,871
Revaluation surplus for buildings		536	407
Fair value reserve for securities		(1,107)	1,146
Change in fair value of financial liability attributable to changes in the credit risk		225	64
Retained earnings		103,990	82,042
<b>Total equity</b>		<b>234,496</b>	<b>210,432</b>
<b>Total liabilities and equity</b>		<b>2,916,465</b>	<b>2,423,497</b>

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

CREDIT BANK OF MOSCOW (public joint-stock company)  
Consolidated Statement of Cash Flows  
for the year ended 31 December 2020  
(in millions of Russian Roubles unless otherwise stated)

	Notes	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest receipts		159,747	140,587
Interest payments		(114,767)	(91,004)
Fees and commission receipts		19,900	15,868
Fees and commission payments		(3,513)	(3,378)
Net receipts from operations with securities		6,352	342
Net receipts (payments) from foreign exchange		5,113	(29,366)
State deposit insurance scheme contributions payments		(2,316)	(2,497)
Net other operating income or (expense)		5,826	(797)
Salaries and employment benefits paid		(13,825)	(13,711)
Administrative expenses paid		(5,786)	(4,859)
Income tax paid		(4,683)	(1,457)
<b>Operating cash flows before changes in operating assets and liabilities</b>		<b>52,048</b>	<b>9,728</b>
<b>(Increase) decrease in operating assets</b>			
Obligatory reserves with the Central bank of the Russian Federation		(5,221)	(3,879)
Due from credit and other financial organisations		(401,568)	(351,545)
Trading financial assets		(10,834)	(19,722)
Loans to customers		(212,678)	(125,032)
Other assets		(2,474)	(445)
<b>Increase (decrease) in operating liabilities</b>			
Deposits by the Central Bank of the Russian Federation		9,987	-
Due to credit institutions except syndicated loans		45,234	151,903
Due to customers except subordinated loans		332,686	109,103
Other liabilities		3,776	(3,210)
<b>Net cash used in operations</b>		<b>(189,044)</b>	<b>(233,099)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investment financial assets		(612,388)	(397,043)
Proceeds from disposal and redemption of investment financial assets		560,835	363,891
Net payment on acquisition of subsidiaries		954	-
Net result on purchase and sale of property and equipment and intangible assets		(745)	(1,342)
Sale of investment property		-	113
<b>Net cash (used in) from investing activities</b>		<b>(51,344)</b>	<b>(34,381)</b>

CREDIT BANK OF MOSCOW (public joint-stock company)  
 Consolidated Statement of Cash Flows  
 for the year ended 31 December 2020  
 (in millions of Russian Roubles unless otherwise stated)

	Notes	2020	2019
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of share capital	24	-	14,713
Proceeds from placement and issuance of perpetual debt		3,574	403
Repayment and redemption of perpetual debt issued		(5,518)	(3,452)
Interest on perpetual debt paid		(4,042)	(3,872)
Proceeds from syndicated borrowings		17,653	28,120
Repayments of syndicated borrowings		(51,716)	(19,920)
Proceeds from placement and issuance of subordinated bonds		832	8,658
Partial redemption of subordinated bonds		(2,979)	(16,102)
Proceeds from placement and issuance of other bonds		126,692	135,659
Repayments of other bonds		(146,090)	(50,120)
Cash outflow from lease liabilities		(1,083)	(891)
Dividends paid	24	-	(2,979)
<b>Net cash from (used in) financing activities</b>		<b>(62,677)</b>	<b>90,217</b>
<b>Effect of exchange rates changes on cash and cash equivalents</b>		<b>31,800</b>	<b>(31,592)</b>
<b>Effect of changes in ECL on cash and cash equivalents</b>	12	903	(279)
<b>Change in cash and cash equivalents</b>		<b>(270,362)</b>	<b>(209,134)</b>
Cash and cash equivalents, beginning of the period		953,645	1,162,779
<b>Cash and cash equivalents, end of the period</b>	12	<b>683,283</b>	<b>953,645</b>

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

CREDIT BANK OF MOSCOW (public joint-stock company)  
 Consolidated Statement of Changes in Equity  
 for the year ended 31 December 2020  
 (in millions of Russian Roubles unless otherwise stated)

	Share capital	Additional paid-in capital	Perpetual debt issued	Revaluation surplus for buildings	Fair value reserve for securities	Change in fair value of financial liability attributable to changes in the credit risk	Retained earnings	Total equity
<b>Balance as at 1 January 2019</b>	<b>27,942</b>	<b>46,247</b>	<b>46,691</b>	<b>490</b>	<b>(1,834)</b>	-	<b>71,637</b>	<b>191,173</b>
Total comprehensive income for the period	-	-	-	(83)	2,980	64	11,957	14,918
Issue of share capital	2,750	11,963	-	-	-	-	-	14,713
Perpetual debt redemption	-	-	(4,825)	-	-	-	1,373	(3,452)
Issuance of perpetual debt	-	-	403	-	-	-	-	403
Interest paid on perpetual debt issued	-	-	-	-	-	-	(3,872)	(3,872)
Foreign exchange translation of perpetual debt issued	-	-	(4,398)	-	-	-	4,398	-
Tax effect on perpetual debt issued	-	-	-	-	-	-	(472)	(472)
Dividends paid	-	-	-	-	-	-	(2,979)	(2,979)
<b>Balance as at 31 December 2019</b>	<b>30,692</b>	<b>58,210</b>	<b>37,871</b>	<b>407</b>	<b>1,146</b>	<b>64</b>	<b>82,042</b>	<b>210,432</b>
<b>Balance as at 1 January 2020</b>	<b>30,692</b>	<b>58,210</b>	<b>37,871</b>	<b>407</b>	<b>1,146</b>	<b>64</b>	<b>82,042</b>	<b>210,432</b>
Total comprehensive income for the period	-	-	-	129	(2,253)	161	30,009	28,046
Perpetual debt redemption	-	-	(5,518)	-	-	-	-	(5,518)
Issuance of perpetual debt	-	-	3,574	-	-	-	-	3,574
Interest paid on perpetual debt issued	-	-	-	-	-	-	(4,042)	(4,042)
Foreign exchange translation of perpetual debt issued	-	-	6,023	-	-	-	(6,023)	-
Tax effect on perpetual debt issued	-	-	-	-	-	-	2,004	2,004
<b>Balance as at 31 December 2020</b>	<b>30,692</b>	<b>58,210</b>	<b>41,950</b>	<b>536</b>	<b>(1,107)</b>	<b>225</b>	<b>103,990</b>	<b>234,496</b>

Chairman of the Management Board

Vladimir A. Chubar

Chief Accountant

Svetlana V. Sass

**Appendix 2**  
**Statements under RAS**

**Appendix 3**  
**List of Interested Party Transactions Made in the Reporting Year (2020)**

<b>Parties</b>	<b>Transaction type</b>	<b>Material terms</b>	<b>Approving body</b>	<b>Interested party</b>
<b>Service recipient:</b> the bank <b>Joint lead manager:</b> Sova Capital Limited	Acting as joint lead manager and bookrunner under a subscription agreement dated 27 January 2020	<b>Fee amount:</b> USD 120,000 (equivalent to RUB 7,480,560,00 <b>as at the payment date</b> 28.01.2020)	Supervisory Board, Minutes No. 01 dated 10.01.2020	Roman I. Avdeev, member of the Supervisory Board;

**List of Major Transactions Made in the Reporting Year (2020)**

None

***Appendix 4***  
***Report on Compliance with Principles and Recommendations of Corporate Governance Code***

This report on compliance with the principles and recommendations of the Corporate Governance Code was reviewed by the Supervisory Board of CREDIT BANK OF MOSCOW at the meeting held on 26 May 2021 (minutes No. 18).

The Supervisory Board confirms that this report contains complete and true information on the company's compliance with the principles and recommendations of the Corporate Governance Code for 2020.

No.	Corporate governance principles	Compliance criteria	Status of compliance	Explanation of non-compliance
1.1	The company should ensure equal and fair treatment of all its shareholders in the course of exercise by them of their rights to participate in the management of the company.			
1.1.1	The company creates most favourable conditions for its shareholders, enabling them to participate in the general meeting, develop informed positions on its agenda items and provide them with the opportunity to coordinate their actions and express their opinions on the issues discussed.	<p>1. The company’s bylaws, approved by its General Shareholders’ Meeting and setting out rules for holding general meetings, are publicly available.</p> <p>2. The company provides accessible means to communicate with it, such as a “hotline”, e-mail or Internet forum, enabling shareholders to express their opinion and propose agenda items in the course of preparations for general meetings. The company did so in respect of each general meeting held in the reporting period.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
1.1.2	Procedures for giving notice of the general meeting and provision of materials for it enables the shareholders to be properly prepared for participation therein.	1. General Shareholders’ Meetings are announced on the website at least 30 days in advance.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly	

		<p>2. Meeting announcements specify the venue and documents required for admission.</p> <p>3. Shareholders were given access to information as to who proposed agenda items and nominees to the company's Board of Directors and Audit Panel.</p>	<p>complied with</p> <p><input type="checkbox"/> not complied with</p>	
1.1.3	<p>During the preparation for and holding of the general meeting, the shareholders were able, freely and in a timely manner, to receive information about the meeting and its materials, to pose questions to members of the company's executive bodies and Board of Directors, and to communicate with each other.</p>	<p>1. In the reporting period, shareholders were given the possibility to put questions to the company's executives and Board members before and in the course of the annual general meeting.</p> <p>2. The Board of Directors' position (including minuted dissenting opinions) on each item of the agenda of general meetings held in the reporting period was included in the materials for those meetings.</p> <p>3. The company gave duly entitled shareholders access to the lists of persons entitled to participate in each general meeting held in the reporting period from the date such lists became available.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	

1.1.4	There were no unjustified difficulties preventing shareholders from exercising their right to demand that a general meeting be convened, nominate candidates to the company's governing bodies, and to table proposals on its agenda.	<p>1. Shareholders could propose agenda items for the annual general meeting within at least the first 60 days of the reporting period.</p> <p>2. The company did not reject any proposals made in the reporting period as regards agenda items or nominees to its governing bodies because of typos or other minor mistakes therein.</p>	<p><input type="checkbox"/> complied with</p> <p><input checked="" type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	The first criterion is not complied with. The bank's Charter allows the first 30 days of a year for adding items to the agenda of the annual General Shareholders' Meeting, in line with art. 53, cl. 1 of the Federal Law "On Joint-Stock Companies". As shareholders have never proposed any items of agenda or nominated candidates to the Supervisory Board, it can be presumed that they are not interested in exercising that right. With the evolution of shareholders' equity and arrival of proposals from shareholders on agenda items and candidates, the bank will consider reflecting this recommendation in the Charter. The Supervisory Board considered implementing this recommendation from time to time, but decided not to given the bank's existing practice.
1.1.5	Each shareholder was able to freely exercise their right to	1. The company's bylaws (internal policy) entitle each participant of a general meeting may request, before	<input checked="" type="checkbox"/> complied with	

	vote in the simplest and most convenient way.	that meeting is closed, a copy of their completed ballot, certified by the counting commission.	<input type="checkbox"/> partly complied with <input type="checkbox"/> not complied with	
1.1.6	Procedures for holding a general meeting set by the company provide an equal opportunity to all persons present at the general meeting to express their opinions and ask questions that might be of interest to them.	<p>1. General Shareholders' Meetings held in the reporting period as in-person meetings (joint attendance of shareholders) had enough time allocated for reports on and discussion of the agenda items.</p> <p>2. Nominees to the company's governing and control bodies were available for answering shareholders' questions at the meeting that voted on their nominations.</p> <p>3. When making decisions related to the preparation and holding of General Shareholders' Meetings, the Board of Directors considered using telecommunication means to enable</p>	<input type="checkbox"/> complied with <input type="checkbox"/> partly complied with <input checked="" type="checkbox"/> not complied with	<p>The principle was not complied with as the General Shareholders' Meetings were held in 2020 by absentee voting to prevent the spread of coronavirus pursuant to the Supervisory Board's resolutions (minutes No. 09 dated 18.05.2020, No. 14 dated 18.06.2020), Art. 2 of Federal Law No. 50-FZ dated 18.03.2020, Art. 11, cl. 1 of Federal Law No. 115-FZ dated 07.04.2020, and Bank of Russia recommendations (as per its Information Letter No. IN-06-28/48 dated 03.04.2020). However, shareholders could ask their questions on the Meetings' agenda and materials using the Corporate Secretary's email: <a href="mailto:cs@mkb.ru">cs@mkb.ru</a>. The Supervisory Board did not consider using any</p>

		shareholders to participate remotely in general meetings in the reporting period.		telecommunication means to enable shareholders to participate remotely in general meetings in the reporting period, since all of them were held by absentee voting.
1.2	Shareholders have an equal and fair opportunity to participate in the company's profits by means of dividends.			
1.2.1	The company has developed and put in place a transparent and clear mechanism for determining the amount of dividends and their payment.	<p>1. The company has developed a dividend policy, which is approved by the Board of Directors and disclosed.</p> <p>2. If the company's dividend policy links the size of dividends to its financials, reference is made to consolidated financials.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
1.2.2	The company does not make a decision on the payment of dividends, if such decision, without formally violating limits set by law, is unjustified	1. The company's dividend policy clearly states financial/economic circumstances in which no dividends should be paid.	<input checked="" type="checkbox"/> complied with	

	from an economic point of view and might lead to the formation of false assumptions about the company's activity.		<input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
1.2.3	The company does not allow deterioration of dividend rights of its existing shareholders.	1. The company did not take steps affecting existing shareholder' dividend rights in the reporting period.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
1.2.4	The company seeks to eliminate any ways through which its shareholders can derive any profit or gain from the company other than	1. To prevent shareholders from deriving any profit (gain) from the company, other than dividends and liquidation value, its bylaws establish control mechanisms, in a timely manner, to identify and submit for	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly	

	dividends and distribution of its liquidation value.	approval transactions with parties affiliated (related) to material shareholders (persons entitled to cast votes attached to voting shares) that do not formally qualify as non-arm's-length transactions.	<input type="checkbox"/> complied with <input type="checkbox"/> not <input type="checkbox"/> complied with	
1.3	The system and practices of corporate governance ensure equal terms and conditions for all shareholders owning shares of the same class (category) in a company, including minority and foreign shareholders as well as their equal treatment by the company.			
1.3.1	The company has created conditions which would enable its governing bodies and controlling persons to treat each shareholder fairly, in particular, which would rule out the possibility of any abuse of minority shareholders by major shareholders.	1. The procedures for managing material shareholders' potential conflicts of interest were effective during the reporting period, and any conflicts between shareholders were duly dealt with by the Board of Directors.	<input checked="" type="checkbox"/> complied with <input type="checkbox"/> partly <input type="checkbox"/> complied with <input type="checkbox"/> not <input type="checkbox"/> complied with	
1.3.2	The company does not perform any acts which will or might result in artificial reallocation of corporate control therein.	1. No quasi-treasury shares exist or participated in voting during the reporting period.	<input checked="" type="checkbox"/> complied with	

			<input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
1.4	The shareholders are provided with reliable and effective means of recording their rights in shares as well as with the opportunity to freely dispose of such shares in a non-onerous manner.			
1.4	The shareholders are provided with reliable and effective means of recording their rights in shares as well as with the opportunity to freely dispose of such shares in a non-onerous manner.	1. The company's registrar maintains its share register with the quality and reliability required by the company and its shareholders.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.1	The Board of Directors is responsible for the strategic management of the company, determines major principles of and approaches to the creation of the risk management and internal control system within the company, monitors the activity of the company's executive bodies and carries out other key functions.			

2.1.1	<p>The Board of Directors is responsible for decisions related to the appointment and removal of [members] of executive bodies, in particular upon their failure to perform their duties in the proper manner. The Board of Directors also ensures that the company's executive bodies act in accordance with an approved development strategy and main business goals of the company.</p>	<p>1. The Charter entitles the Board of Directors to appoint, remove, and fix the terms of contracts with, members of executive bodies.</p> <p>2. The Board of Directors has reviewed the report(s) of the sole executive body and members of the collective executive body on implementation of the company's strategy.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	
2.1.2	<p>The Board of Directors establishes basic long-term targets of the company's activity, evaluates and approves its key performance indicators and principal business goals, and evaluates and approves its strategy and business plans in respect of its principal areas at operations.</p>	<p>1. During the reporting period, the Board of Directors reviewed the implementation and updating of the company's strategy, approved its business plan (budget) and reviewed criteria and indicators (including those of an interim nature) pertaining to their implementation.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	

2.1.3	The Board of Directors defines principles of and approaches to arranging a risk management system and internal controls in the company.	<p>1. The Board of Directors has defined principles of and approaches to arranging a risk management system and internal controls in the company.</p> <p>2. The Board of Directors appraised the company's risk management system and internal controls during the reporting period.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.1.4	The Board of Directors determines the company's policy on remuneration and/or reimbursement (compensation) of its Board members, executives and other key managers.	<p>1. The company has developed and put in place a Board-approved policy on remuneration and/or reimbursement (compensation) of its Board members, executives and other key managers.</p> <p>2. The Board of Directors has reviewed issues related to the said policy(ies) during the reporting period.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	

2.1.5	The Board of Directors plays a key role in prevention, detection and resolution of internal conflicts between the company's bodies, shareholders and employees.	<p>1. The Board of Directors plays a key role in prevention, detection and resolution of internal conflicts.</p> <p>2. The company has set up a system to identify transactions involving a conflict of interest, and a system of measures designed to resolve such conflicts</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.1.6	The Board of Directors plays a key role in ensuring that the company is transparent, discloses information in full and in due time, and provides its shareholders with unhindered access to its documents.	<p>1. The Board of Directors has approved a regulation on the information policy.</p> <p>2. The company has designated officers responsible for implementation of its information policy.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	

2.1.7	The Board of Directors monitors the company's corporate governance practices and plays a key role in its material corporate events.	1. The Board of Directors has reviewed the company's corporate governance practices during the reporting period.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.2	The Board of Directors is accountable to the company's shareholders.			
2.2.1	Information about the work of the Board of Directors is disclosed and provided to the shareholders.	1. The company's annual report for the reporting period discloses the attendance of individual directors at Board and committee meetings.  2. The annual report discloses key results of appraisal of the Board's performance during the reporting period.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not	

			complied with	
2.2.2	The Chairman of the Board of Directors is available to communicate with the company's shareholders.	1. The company has a transparent procedure enabling shareholders to communicate their questions and positions thereon to the Chairman of the Board of Directors.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.3	The Board of Directors is an efficient and professional governing body of the company which is able to make objective and independent judgments and pass resolutions in the best interests of the company and its shareholders.			
2.3.1	Only persons with impeccable business credentials and a personal reputation, who have the knowledge, skills, and experience necessary to make decisions that fall within their competence and perform their functions efficiently are elected to the Board of Directors.	1. The procedure for appraising the performance of the company's Board includes an appraisal of Board members' professional qualifications.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with	

		2. The Board of Directors (or its nominations committee) appraised Board nominees in the reporting period in terms of their experience, knowledge, business reputation, potential conflicts of interest, etc.	<input type="checkbox"/> not complied with	
2.3.2	Board members are elected pursuant to a transparent procedure enabling the shareholders to obtain information about respective candidates sufficient for them to get an idea of the candidates' personal and professional qualities.	1. All General Shareholders' Meetings held in the reporting period with agenda, including Board election, were provided by the company with biographies of all Board nominees, results of their appraisal by the Board of Directors (or its nominations committee) and information on their compliance with the independence criteria as per recommendations 102 – 107 of the Code, and their written consents to election to the Board of Directors.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.3.3	The composition of the Board of Directors is balanced, in particular, in terms of the qualifications, experience, expertise and business skills of	1. As part of its performance appraisal procedure in the reporting period, the Board of Directors reviewed its needs in terms of professional qualifications, experience and business skills.	<input checked="" type="checkbox"/> complied with	

	its members. The Board of Directors enjoys the confidence of the shareholders.		<input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.3.4	Membership of the company Board of Directors enables the Board to organise its activities in a most efficient way, in particular, to create committees of the Board of Directors, and it enables substantial minority shareholders of the company to elect a nominee to the Board of Directors for whom they would vote.	1. As part of its performance appraisal procedure in the reporting period, the Board of Directors looked into the conformity of the membership numbers to the company's needs and shareholders' interests.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.4	The Board of Directors includes a sufficient number of independent directors			
2.4.1	An independent director means any person who has the necessary professional skills	1. During the reporting period, all independent Board members met all of the independence criteria as per	<input checked="" type="checkbox"/> complied with	

	<p>and expertise and who is sufficiently able to have his/her own position and make objective and bona fide judgments, free from the influence of the company's executive bodies, any individual group of its shareholders or other stakeholders. It should be noted that, under normal circumstances, a candidate (or an elected director) may not be deemed to be independent, if he/she is associated with the company, any of its substantial shareholders, material trading partners or competitors, or the government.</p>	<p>recommendations 102 – 107 of the Code, or were qualified as such by Board resolution.</p>	<p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	
2.4.2	<p>The company evaluates whether its Board nominees meet the independence criteria and reviews, on a regular basis, whether or not independent Board members meet the independence criteria. When carrying out such evaluation, substance should take precedence over form.</p>	<p>1. In the reporting period, the Board of Directors (or its nominations committee) made an opinion on the independence of each Board nominee and made it known to shareholders.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p>	

		<p>2. At least once during the reporting period, the Board of Directors (or its nominations committee) reviewed independence of incumbent Board members named by the company as independent directors in its annual report.</p> <p>3. The company has put in place procedures to be followed by any Board member who ceases to be independent, including the obligation to notify the Board of Directors thereof in a prompt manner.</p>	<input type="checkbox"/> not complied with	
2.4.3	Independent directors account for at least one-third of all directors elected to the Board.	1. Independent directors account for at least one-third of Board membership	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	

2.4.4	Independent directors play a key role in preventing internal conflicts in the company and performance by the latter of material corporate actions.	1. Independent directors (who do not have a conflict of interest) pre-examine material corporate actions involving a potential conflict of interest, and report the results to the Board of Directors.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.5	The chairman of the Board of Directors helps it perform the functions imposed thereon in a most efficient manner.			
2.5.1	The Board of Directors is chaired by an independent director, or one of the elected independent directors is designated as the senior independent director to coordinate their work and liaise with the chairman of the Board of Directors.	1. The Board of Directors is chaired by an independent director, or one of the independent directors is designated as the senior independent director.  2. The role, powers and responsibilities of the Chairman of the Board of	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not	

		Directors (and, if applicable, the senior independent director) are duly set out in the company's bylaws.	complied with	
2.5.2	The Board Chairman ensures that Board meetings are held in a constructive atmosphere and that any items on the meeting agenda are discussed freely. The chairman also monitors fulfilment of decisions made by the Board of Directors.	1. Performance of the Chairman of the Board of Directors was appraised as part of the procedure for appraising Board performance during the reporting period.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.5.3	The Chairman of the Board of Directors takes any and all measures as may be required to provide the Board members in a timely fashion with information required to make decisions on agenda items.	1. The company's bylaws set out the duty of the Chairman of the Board of Directors to take measures to ensure Board members are provided with materials on agenda items of Board meetings in a timely manner.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with	

			<input type="checkbox"/> not complied with	
2.6	Board members act reasonably and in good faith in the best interests of the company and its shareholders, being sufficiently informed, with due care and diligence.			
2.6.1	Board members make decisions considering all available information, in the absence of a conflict of interest, treating shareholders of the company equally and assuming normal business risks.	<p>1. The company's bylaws require Board members to notify the Board of Directors if they have a conflict of interest in respect of any Board or committee meeting's agenda item before that item is taken up.</p> <p>2. The company's bylaws require that Board members do not vote on any issue in which they have a conflict of interest.</p> <p>3. The company has a procedure allowing the Board of Directors to seek professional advice on issues within its competence at the company's expense.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.6.2	Rights and duties of Board members are clearly stated and documented in the company's bylaws.	1. The company has adopted and published a bylaw clearly stating Board members' rights and duties.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly	

			<p>complied with</p> <p><input type="checkbox"/> not complied with</p>	
2.6.3	Board members have sufficient time to perform their duties.	<p>1. Individual attendance of, and time committed to preparations for, Board and committee meetings were taken into account in the course of Board appraisal in the reporting period.</p> <p>2. The company's bylaws require that Board members notify the Board of</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p>	

		Directors of their intention to serve in governing bodies of other entities (save for the company's controlled and dependent entities) and of any such appointment.	<input type="checkbox"/> not complied with	
2.6.4	All Board members have equal opportunities to access the company's documents and information. Newly elected Board members are provided with sufficient information about the company and work of its Board of Directors as soon as practicable.	<p>1. The company's bylaws entitle Board members to access documents and make enquiries concerning the company and its controlled entities, and its executive bodies must provide the relevant information and documents.</p> <p>2. The company has a formalised on-boarding programme for newly elected Board members.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.7	Meetings of the Board of Directors, preparation for them, and participation of Board members therein ensure the efficient work of the Board.			
2.7.1	Meetings of the Board of Directors are held as needed, with due account for the company's scope of activities and its then current goals.	1. The Board of Directors met at least six times in the reporting year.	<input checked="" type="checkbox"/> complied with	

			<input type="checkbox"/> partly complied with	
			<input type="checkbox"/> not complied with	
2.7.2	A procedure for preparing for and holding meetings of the Board of Directors is set it out in the company's bylaws.	1. It enables the shareholders to get properly prepared for such meetings. The company approved a bylaw setting out the procedure for preparing and holding Board meetings, requiring, inter alia, at least 5 days' notice of any meeting, as a general rule.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	

2.7.3	The form of a Board meeting is chosen depending on the importance of items on its agenda. The most important issues are decided at in-person meetings.	1. The company's Charter or bylaws require that the most important issues (as listed in recommendation 168 of the Code) are reviewed at in-person Board meetings.	<input type="checkbox"/> complied with  <input checked="" type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	<p>The principle is complied with only partially. The issues recommended by the Code to be reviewed at in-person meetings are not always reviewed so. Although some issues are put for absentee voting, decisions are collectively discussed on conference calls among Supervisory Board members, who may express their dissenting opinion (if any). In addition, Supervisory Board members always signal if an issue requires in-person review or oral comments, in which case calls are promptly set up with the bank's management.</p> <p>The Supervisory Board believes such form of communication effectively facilitates prompt decision-making and reinforces the bank's competitiveness. The Supervisory Board considered amending the Charter or other bylaws accordingly but decided not to do it.</p>
2.7.4	Decisions on most important issues relating to the company's business are made at a Board meeting by a qualified majority vote or	1. The company's Charter requires that the most important issues, listed in recommendation 170 of the Code, be decided at Board meetings by a qualified majority of at least three quarters of	<input type="checkbox"/> complied with	<p>The principle is not complied with. However, the bank makes sure all of its elected directors participate in Supervisory Board meetings and, in</p>

	by a majority vote of all elected Board members.	votes, or by a majority vote of all elected Board members.	<input type="checkbox"/> partly complied with  <input checked="" type="checkbox"/> not complied with	2020, the recommendation to take decisions “by a majority vote of all elected Board members” was effectively complied with. The Supervisory Board considered amending the Charter accordingly but decided not to do so.
2.8	The Board of Directors forms committees for preliminary consideration of the most important issues of the company’s business.			
2.8.1	An audit committee comprised of independent directors was set up to pre-consider any matters of control over the company’s financial and business activities.	1. The Board of Directors set up an audit committee comprised exclusively of independent directors.  2. The company’s bylaws set out the audit committee’s tasks, including those listed in recommendation 172 of the Code.  3. At least one audit committee member is an independent director, experienced and knowledgeable in preparing, analysing, reviewing and auditing financial statements.	<input type="checkbox"/> complied with  <input checked="" type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	The first criterion is not complied with. Most members of the Supervisory Board’s Audit and Risk Committee are independent, which meets Moscow Exchange’s requirements for admission to the first level quotation list. The Committee is formed so as to ensure the right balance of independence and professionalism, with independent directors being given the key role. The only non-independent director on the Audit and Risk Committee does not meet any specific criteria of dependence. No changes in the Committee membership are currently

		4. The audit committee met at least once per quarter during the reporting period.		planned given the balance in the distribution of responsibilities among the existing Supervisory Board members.
2.8.2	A remuneration committee comprised of independent directors and chaired by an independent director who is not the Board Chairman was set up to pre-consider any matters concerning the development of effective and transparent remuneration practices.	<p>1. The Board of Directors set up a remuneration committee comprised exclusively of independent directors.</p> <p>2. The remuneration committee is chaired by an independent director who is not the Chairman of the Board.</p> <p>3. The company's bylaws set out the remuneration committee's tasks, including those listed in recommendation 180 of the Code.</p>	<p><input type="checkbox"/> complied with</p> <p><input checked="" type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	<p>The second criterion is not complied with.</p> <p>The Committee is chaired by the Chairman of the Supervisory Board.</p> <p>The Chairman of the Supervisory Board was elected the Chairman of the Compensation, Corporate Governance and Nominations Committee based on his competence.</p> <p>Directors are allocated to committees based not only on their independence, but also their particular professional and practical experience, and preferences, which makes their work on the committee more effective.</p> <p>No changes in the Committee membership are currently planned given the balance in the distribution of responsibilities among the existing Supervisory Board members.</p>

2.8.3	<p>A nomination (appointments, HR) committee, composed mostly of independent directors, was set up to pre-consider any matters relating to HR planning (succession planning), the professional mix and efficiency of the Board of Directors.</p>	<p>1. The Board of Directors set up a nomination committee (or its tasks listed in recommendation 186 of the Code are carried out by another committee), comprised mostly of independent directors.</p> <p>2. The company's bylaws set out the nomination (or substitute) committee's tasks, including those listed in recommendation 186 of the Code.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	
2.8.4	<p>Taking account of its scope of activities and levels of related risks, the company's Board of Directors checked that its committees' membership is fully consistent with its tasks and the company's business goals. Additional committees were either formed or considered unnecessary (strategy committee, corporate governance committee, ethics committee, risk</p>	<p>1. In the reporting period, the Board of Directors reviewed its committees' membership for consistency with its tasks and the company's business goals. Additional committees were either formed or considered unnecessary.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	

	management committee, budget committee, health, safety and environment committee etc.).			
2.8.5	The composition of the committees is determined in such a way as to allow a comprehensive discussion of issues being considered on a preliminary basis with due account given to differing opinions.	<p>1. Board committees are chaired by independent directors.</p> <p>2. The company's bylaws (policies) limit non-member attendance of audit, nomination and remuneration committee meetings to those invited by the chairman of the corresponding committee.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
2.8.6	The chairmen of the committees regularly inform the Board of Directors and its Chairman of the work of their committees.	1. The chairmen of the committees reported to the Board of Directors on the work of their committees on a regular basis during the reporting period.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with	

			<input type="checkbox"/> not <input checked="" type="checkbox"/> complied with	
2.9	The Board of Directors ensures evaluation of the quality of its work and that of its committees and Board members.			
2.9.1	Appraisal of the Board of Directors' performance is aimed at determining how effectively the Board of Directors, its committees and Board members work and whether their work meets the company's needs, at making their work more intensive and identifying areas for improvement.	<p>1. Self-appraisal or external appraisal of the Board's performance made in the reporting period included performance appraisal of committees, individual Board members and the Board as a whole.</p> <p>2. Results of the Board of Directors' self-appraisal or external appraisal made during the reporting period were reviewed at an in-person Board meeting.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly <input checked="" type="checkbox"/> complied with  <input type="checkbox"/> not <input checked="" type="checkbox"/> complied with	
2.9.2	Performance of the Board of Directors, its committees and Board members is appraised on a regular basis, at least once a year. To conduct an independent performance appraisal of the Board of Directors'	1. The company engaged an outside organisation (consultant) to conduct an independent performance appraisal of the Board of Directors at least once in the last three reporting periods.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly <input checked="" type="checkbox"/> complied with	

	work, an outside organisation (consultant) is engaged on a regular basis, at least once every three years.		<input type="checkbox"/> not complied with	
3.1	The company's Corporate Secretary is responsible for efficient interaction with the shareholders, coordination of the company's actions designed to protect the rights and interests of its shareholders, and support of effective work of its Board of Directors.			
3.1.1	The Corporate Secretary has the knowledge, experience, and qualifications sufficient for performance of his/her duties, as well as an impeccable reputation and enjoys the trust of the shareholders.	<p>1. The company has adopted and disclosed a Corporate Secretary Regulation.</p> <p>2. The company's website and annual report discloses the Corporate Secretary's background in the same amount of detail as for Board members and executives.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
3.1.2	The Corporate Secretary is sufficiently independent of the company's executive bodies and is vested with powers and resources	1. The Board of Directors approves the Corporate Secretary's appointment, removal and bonuses.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly	

	required to perform his/her tasks.		<input type="checkbox"/> complied with  <input type="checkbox"/> not <input type="checkbox"/> complied with	
4.1	The company pays such remuneration that is sufficient to attract, motivate and retain persons having the required skills and qualifications. The company's directors, executives and other key managers are remunerated in accordance with an approved remuneration policy.			
4.1.1	The company remunerates its directors, executives and other key managers sufficiently to motivate them to work effectively and to attract and retain knowledgeable, skilled and duly qualified persons. The company avoids paying them more than necessary or unreasonably more than it pays to its staff.	1. The company has adopted bylaws (policies) on remuneration of Board members, executives and other key managers, clearly setting out approaches to such remuneration.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly <input type="checkbox"/> complied with  <input type="checkbox"/> not <input type="checkbox"/> complied with	
4.1.2	The company's remuneration policy was developed by its remuneration committee	1. During the reporting period, the remuneration committee reviewed the remuneration policy(ies) and its (their) application in practice and, where	<input checked="" type="checkbox"/> complied with	

	and approved by the Board of Directors. With the aid of its remuneration committee, the Board of Directors monitors the company's implementation of and compliance with the remuneration policy and, where necessary, reviews and amends the same.	necessary, gave recommendations to the Board of Directors.	<input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
4.1.3	The company's remuneration policy provides for transparent mechanisms to be used to determine the amounts payable to Board members, executives and other key managers of the company, and regulates any and all types of payments, benefits and privileges provided to any of the above persons.	1. The company's remuneration policy(ies) provide(s) for transparent mechanisms to be used to determine the amounts payable to Board members, executives and other key managers of the company, and regulates any and all types of payments, benefits and privileges provided to any of the above persons.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
4.1.4	The company has developed a reimbursement policy listing reimbursable	1. The company's remuneration policy(ies) or other bylaws set out rules for reimbursement of expenses incurred	<input checked="" type="checkbox"/> complied with	

	expenses and specifying service levels provided to its directors, executives and other key managers. Such policy may form part of the company's compensation policy.	by its directors, executives and other key managers.	<input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
4.2	The Board remuneration system ensures harmonisation of the directors' financial interests with the shareholders' long-term financial interests.			
4.2.1	The company pays fixed annual remuneration to its directors. The company does not pay remuneration for attending specific Board or committee meetings. The company does not use short-term incentives or bonus payments in respect of its directors.	1. Fixed annual remuneration was the sole monetary remuneration paid to Board members for serving on the Board of Directors during the reporting period.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
4.2.2				

	<p>Long-term holding of shares in the company is the best way to align Board members' financial interests with the long-term interests of the company's shareholders. However, the company should not make the right to sell shares conditional upon achievement of certain performance targets, and Board members do not participate in any option programmes.</p>	<p>1. If the company's remuneration policy entitles Board members to shares in the company, their holding of such shares must be regulated and encouraged to be long-term by clear and disclosed rules.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	
4.2.3	<p>The company is not bound to pay any additional allowance or compensation in the event of early dismissal of Board members upon a change of control over the company or in any other circumstances.</p>	<p>1. The company is not bound to pay any additional allowance or compensation in the event of early dismissal of Board members upon a change of control over the company or in any other circumstances.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	

4.3	The company's executive remuneration system links executives' remuneration to performance and their personal contributions thereto.		
4.3.1	Remuneration of the company's executives and other key managers is structured so as to ensure a reasonable and justified ratio between its fixed portion and its variable portion that is dependent on the company's performance and personal contributions thereto.	<p>1. During the reporting period, annual performance indicators approved by the Board of Directors were used to determine the variable portion of remuneration of the company's executives and other key managers.</p> <p>2. In the course of the last appraisal of the company's executive remuneration system, the Board of Directors (remuneration committee) made sure the company uses an appropriate ratio of the fixed and variable portions of remuneration.</p> <p>3. The company has a procedure for restitution of bonuses unjustly received by its executives and other key managers.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>
4.3.2	The company put in place a long-term incentive programme for executives and other key managers	1. The company set up a long-term incentive programme for its executives and other key managers linked to its	<input checked="" type="checkbox"/> complied with

	linked to its shares (options or other derivatives based on its shares).	<p>shares (financial instruments based on its shares).</p> <p>2. The company's long-term incentive programme for its executives and other key managers requires any shares or other financial instruments obtained thereunder to be held for three years before they can be sold. The right to sell them is subject to achievement of certain performance targets.</p>	<p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	
4.3.3	Any golden parachutes paid by the company to its executives or key managers, whose powers it terminates early at the company's own initiative and with no bad faith on the part of such executives and key managers, do not exceed twice the fixed portion of their annual remuneration.	1. Any golden parachutes paid by the company in the reporting period to its executives or key managers, whose powers it terminates early at the company's own initiative and with no bad faith on the part of such executives and key managers did not exceed two times the fixed portion of their annual remuneration.	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not</p>	

			complied with	
5.1	The company has in place an efficient risk management and internal control system designed to provide reasonable confidence that its goals will be achieved.			
5.1.1	The company's Board of Directors has defined principles of and approaches to arranging a risk management system and internal controls in the company.	1. Responsibilities of the company's management bodies and subdivisions in respect of its risk management and internal control system are clearly defined in its bylaws/policy approved by the Board of Directors.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
5.1.2	The company's executive bodies ensure the establishment and continuing operation of an efficient risk management and internal control system in the company.	1. The company's executive bodies distributed risk management and internal control responsibilities and authority between their subordinate managers (heads) of subdivisions and units.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with	

			<input type="checkbox"/> not complied with	
5.1.3	<p>The company's risk management and internal control system makes it possible to obtain an objective, fair and clear view of its current condition and prospects, integrity and transparency of its accounts and reports, and the reasonableness and acceptability of the risks it assumes.</p>	<p>1. The company has an approved anti-corruption policy.</p> <p>2. The company set up an accessible mechanism for informing the Board of Directors or the audit committee of any infractions of laws, the company's internal procedures or its code of ethics.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
5.1.4	<p>The Board of Directors takes the necessary and sufficient measures to ensure that the company's existing risk management and internal control system is consistent with the principles of and</p>	<p>1. The Board of Directors or its audit committee appraised the company's risk management and internal control system during the reporting period. The key results of such appraisal are disclosed in the company's annual report.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with	

	approaches to its creation as set forth by the Board of Directors and that it operates efficiently.		<input type="checkbox"/> not complied with	
5.2	The company arranges for internal audits to independently appraise, on a regular basis, the reliability and efficiency of its risk management and internal control system and corporate governance practices.			
5.2.1	To ensure internal audits, the company set up a separate subdivision or engaged an independent external entity. The functional accountability of the internal audit subdivision is delimited from its administrative accountability. The internal audit subdivision is functionally accountable to the Board of Directors.	1. To ensure internal audits, the company set up a separate internal audit subdivision, functionally accountable to the Board of Directors or its audit committee, or engaged a similarly accountable independent external entity.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
5.2.2	The internal audit subdivision appraises the internal control system, the risk management system and the corporate	1. Internal audit appraised the internal control and risk management system during the reporting period.	<input checked="" type="checkbox"/> complied with	

	governance system. The company applies generally accepted internal audit standards.	2. The company uses generally accepted approaches to internal control and risk management.	<input type="checkbox"/> partly  <input type="checkbox"/> complied with  <input type="checkbox"/> not <input type="checkbox"/> complied with	
6.1	The company and its activities are transparent to its shareholders, investors, and other stakeholders.			
6.1.1	The company developed and implemented an information policy enabling it to efficiently exchange information with its shareholders, investors and other stakeholders.	1. The company's Board of Directors approved its information policy developed in line with recommendations of the Code.  2. The Board of Directors (or one of its committees) reviewed matters related to the company's compliance with its information policy at least once in the reporting period.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly <input type="checkbox"/> complied with  <input type="checkbox"/> not	

			complied with	
6.1.2	The company discloses its corporate governance system and practices, including detailed information on its compliance with the principles and recommendations of the Code.	<p>1. The company discloses its corporate governance system and principles, on its website and otherwise.</p> <p>2. The company discloses the membership of its executive bodies and Board of Directors, specifying which directors are independent and which of them serve on which Board committee (as defined in the Code).</p> <p>3. If it has a controlling party, the company publishes such party's memorandum of intentions regarding the company's corporate governance.</p>	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
6.2	The company discloses, on a timely basis, full, up-to-date and reliable information about itself so as to enable its shareholders and investors to make informed decisions.			
6.2.1	The company discloses information in accordance with the principles of	1. The company's information policy sets out approaches and criteria for identification, and procedures for timely	<input checked="" type="checkbox"/> complied with	

	<p>regularity, consistency and timeliness, accessibility, reliability, completeness and comparability of disclosed data.</p>	<p>disclosure, of information that can materially affect its valuation and the price of its securities.</p> <p>2. If the company's securities are traded in foreign organised markets, material information is disclosed in Russia and in such markets simultaneously and equivalently during the reporting year.</p> <p>3. In case of a material foreign equity interest in the company, disclosures were made during the reporting year not only in Russian, but also in one of the most widespread foreign languages.</p>	<p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	
6.2.2	<p>The company avoids using a formalistic disclosure approach and discloses material information about its activities, even if such disclosure is not required by law.</p>	<p>1. During the reporting period, the company disclosed its annual and semi-annual IFRS financial statements. The company's annual report for the reporting period includes its annual IFRS financial statements together with the auditors' report.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p>	

		2. The company discloses its capital structure in full in its annual report and on its website in line with Recommendation 290 of the Code.	<input type="checkbox"/> not complied with	
6.2.3	The company's annual report, one of the most important tools of its information exchange with shareholders and other stakeholders, contains information making facilitating appraisal of its annual performance results.	1. The company's annual report covers key aspects of its operations and financial results  2. The company's annual report covers environmental and social aspects of its operations.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly  <input type="checkbox"/> complied with  <input type="checkbox"/> not complied with	
6.3	The company provides any information or documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.			
6.3.1	The company provides any information or documents requested by its	1. The company's information policy sets out an easy procedure for shareholders to access its information, including	<input checked="" type="checkbox"/> complied with	

	shareholders in accordance with the principle of equal and unhindered accessibility.	information on its controlled entities, whenever required.	<input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
6.3.2	When providing information to its shareholders, the company maintains a reasonable balance between individual shareholders' interests and its own need to keep confidential sensitive business information that might have a material impact on its competitiveness.	1. The company did not unreasonably deny shareholders' information requests during the reporting period.  2. Where so required by the company's information policy, shareholders are notified that certain information is confidential and acknowledge the duty of confidentiality in its respect.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with  <input type="checkbox"/> not	

			complied with	
7.1	Any actions that will or may materially affect the company's share capital structure and financial position and, accordingly, the position of its shareholders ("material corporate actions") are taken on fair terms and conditions ensuring that the rights and interests of the shareholders as well as other stakeholders are observed.			
7.1.1	Material corporate actions are deemed to include reorganisation of the company, acquisition of 30 or more percent of its voting shares (takeover), its entry into any material transactions, increasing or decreasing its share capital, listing and delisting of its shares, as well as other actions that may be expected to materially change the rights of its shareholders or infringe on their interests. The company's Charter lists (or gives criteria of) transactions or other acts that constitute material corporate actions and as such require approval by its Board of Directors.	<p>1. The company's Charter lists transactions or other acts constituting material corporate actions and their identification criteria. Material corporate actions require approval by the Board of Directors. Where such corporate actions are expressly reserved by law to the General Shareholders' Meeting, the Board of Directors gives shareholders appropriate recommendations.</p> <p>2. The company's Charter defines material corporate actions so as to include at least: its reorganisation, acquisition of 30 or more percent of its voting shares (takeover), increasing or decreasing its share capital, listing and delisting of its shares.</p>	<input type="checkbox"/> complied with  <input checked="" type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	The principle is partly complied with. The bank's Charter lists transactions requiring approval by the Supervisory Board and the General Shareholders' Meeting as required by Russian laws, and they match the "material corporate transactions within the meaning of the Bank of Russia's Corporate Governance Code," but are not defined as "material corporate actions" there, while being so defined in the bank's Corporate Governance Code. The bank does not plan to amend the Charter, because it already complies with that recommendation in essence.

7.1.2	<p>The Board of Directors plays a key role in passing resolutions or making recommendations relating to material corporate actions; for that purpose, it relies on opinions of the company's independent directors.</p>	<p>1. The company has a procedure allowing independent directors to express their positions in respect of material corporate actions before they are approved.</p>	<p><input checked="" type="checkbox"/> complied with</p> <p><input type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	
7.1.3	<p>Any material corporate actions which would affect the rights or lawful interests of the company's shareholders are made on equal terms and conditions for all of the shareholders; if statutory mechanisms designed to protect shareholder rights prove to be insufficient to that end, additional measures are taken to protect their rights and lawful interests. In such cases, the company not only seeks to comply with</p>	<p>1. The company's Charter sets out material corporate action criteria that are lower than the statutory criteria and reflect the nature of its business.</p> <p>2. During the reporting period, all material corporate actions were approved before they were made.</p>	<p><input type="checkbox"/> complied with</p> <p><input checked="" type="checkbox"/> partly complied with</p> <p><input type="checkbox"/> not complied with</p>	<p>The principle is partly complied with, as the bank's Charter does not define any transactions as "material corporate actions", but imposes additional criteria to control transactions that are not subject to approval as a matter of law, but require the Supervisory Board's approval by virtue of the Charter. The bank does not plan to amend the Charter, because it already complies with that recommendation in essence.</p>

	the formal requirements of law but also follows the corporate governance principles set out in the Code.			
7.2	The company has in place such a procedure for taking material corporate actions as would enable its shareholders to become fully and timely informed about them and influence them, and as would also guarantee that their rights are observed and duly protected in the course of such actions			
7.2.1	When disclosing material corporate actions, the company explains their reasons, conditions and consequences.	1. During the reporting period, the company disclosed its material corporate actions in due time and in detail, including reasons and timelines.	<input checked="" type="checkbox"/> complied with  <input type="checkbox"/> partly complied with  <input type="checkbox"/> not complied with	
7.2.2	The company's bylaws set out rules and procedures for material corporate actions.	1. The company's bylaws set out a procedure for engaging an independent appraiser to evaluate assets disposed of or acquired in a major or non-arm's-length transaction.	<input type="checkbox"/> complied with	The principle is not complied with. All of these criteria are set forth in Russian laws and are therefore binding on the bank. The Supervisory Board considers

		<p>2. The company's bylaws set out a procedure for engaging an independent appraiser to evaluate its shares to be acquired or bought back.</p> <p>3. The company's bylaws set out an expanded list of criteria for qualifying Board members and other persons referred to in respective laws as interested parties.</p>	<p><input type="checkbox"/> partly complied with</p> <p><input checked="" type="checkbox"/> not complied with</p>	<p>and will continue to consider, as part of compliance with the best practices of corporate governance, whether to amend any bylaws in line with that recommendation. At present, it sees no point in doing so or in drafting any further bylaws because those recommendations are set forth in applicable laws and, in the relevant cases, would be binding on the bank whether or not they are set out in its bylaws.</p>
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