

Independent auditor's
report on the financial statements of
AO Mizuho Bank (Moscow)
for 2020

April 2021

**Independent auditor's
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AO Mizuho Bank (Moscow)**

Translation from the original Russian version

Contents	Page
Independent auditor's report	3
Appendices	
Statement of financial position	7
Statement of profit or loss	8
Statement of comprehensive income	9
Statement of changes in equity	10
Statement of cash flows	11
Notes to the financial statements	
1. Principal activities	12
2. Basis of preparation	12
3. Summary of accounting policies	13
4. Significant accounting judgments and estimates	24
5. Cash and cash equivalents	25
6. Obligatory reserve with the CBR	25
7. Amounts due from credit institutions	26
8. Loans to customers	27
9. Investment securities	31
10. Credit loss expense	32
11. Property and equipment	33
12. Taxation	33
13. Derivative financial instruments	35
14. Amounts due to credit institutions	35
15. Amounts due to customers	36
16. Equity	36
17. Commitments and contingencies	37
18. Net fee and commission income	40
19. Personnel and other operating expenses	40
20. Risk management	40
21. Fair values of financial instruments	58
22. Offsetting of financial instruments	59
23. Maturity analysis of assets and liabilities	60
24. Related party disclosures	60
25. Capital adequacy	62
26. Events after the reporting period	62

Independent auditor's report

Translation from the original Russian version

To the shareholders and Board of Directors of
AO Mizuho Bank (Moscow)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of AO Mizuho Bank (Moscow) (hereinafter, the "Bank"), which comprise the statement of financial position as of 31 December 2020, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for 2020, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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

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

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

Translation from the original Russian version

Auditor's responsibility for the audit of the financial statements

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

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

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

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

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

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

Translation from the original Russian version

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

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

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

The findings from our work are provided below.

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

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

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

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

- ▶ We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as of 31 December 2020, the Bank’s internal audit function was subordinated and accountable to the Board of Directors, and the Bank’s risk management departments were not subordinated or accountable to the departments that take the relevant risks.

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- ▶ We found that the Bank's internal documents effective as of 31 December 2020 that establish the methodologies for detecting, managing and stress-testing credit, market, operational, interest rate, liquidity and concentration risks that are significant to the Bank have been approved by the Bank's authorized management bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as of 31 December 2020, the Bank had a reporting system pertaining to credit, market, operational, interest rate, liquidity and concentration risks that were significant to the Bank and pertaining to its capital.
- ▶ We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit function during the year ended 31 December 2020 with regard to the management of credit, market, operational, interest rate, liquidity and concentration risks of the Bank complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit function in respect of the effectiveness of relevant risk management methodologies.
- ▶ We found that, as of 31 December 2020 the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and equity (capital) adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2020, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit function.

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

A.M. VINOGRADOVA
Partner
Ernst & Young LLC

30 April 2021

Details of the audited entity

Name: AO Mizuho Bank (Moscow)
Record made in the State Register of Legal Entities on 15 October 2002; State Registration Number 1027700317028.
Address: Russia 115035, Moscow, Ovchinnikovskaya naberezhnaya, 20, building 1.

Details of the auditor

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

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Financial statements

Statement of financial position

As of 31 December 2020

(thousands of Russian rubles)

	Note	2020	2019
Assets			
Cash and cash equivalents	5	38,808,102	32,088,381
Obligatory reserve with the CBR	6	975,132	718,683
Amounts due from credit institutions	7	10,100,252	10,684,303
Derivative financial assets	13	104,392	502,342
Loans to customers	8	35,350,299	40,132,302
Investment securities	9	2,132,051	1,012,461
Property and equipment and intangible assets	11	316,789	317,086
Current income tax assets		219	–
Other assets		318,712	242,235
Total assets		88,105,948	85,697,793
Liabilities			
Amounts due to credit institutions	14	33,571,636	29,077,175
Amounts due to customers	15	35,476,273	37,897,000
Derivative financial liabilities	13	111,898	490,718
Current income tax liability		–	102,461
Deferred tax liability	12	156,109	71,064
Other liabilities		262,492	281,946
Total liabilities		69,578,408	67,920,364
Equity			
Share capital	16	11,156,803	11,156,803
Additional paid-in capital	16	5,955	5,955
Net gains on investment securities, net of tax	16	15,655	8,244
Statutory general reserve	16	439,167	439,167
Retained earnings		6,909,960	6,167,260
Total equity		18,527,540	17,777,429
Total equity and liabilities		88,105,948	85,697,793

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

Aleksandr Ilyich Malyshev

Vice-President

Natalya Viktorovna Kopchenkova

Acting Chief Accountant

30 April 2021

The accompanying notes 1-26 are an integral part of these financial statements.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Financial statements

Statement of profit or loss

For the year ended 31 December 2020

(thousands of Russian rubles)

	Note	2020	2019
Interest income calculated using the effective interest rate method			
Cash and cash equivalents		2,139,931	2,314,837
Loans to customers		2,160,949	2,363,702
Amounts due from credit institutions		106,108	65,511
Investment securities		73,273	67,460
		4,480,261	4,811,510
Interest expense calculated using the effective interest rate method			
Amounts due to customers		(1,537,099)	(1,872,973)
Amounts due to credit institutions		(1,304,766)	(1,201,808)
		(2,841,865)	(3,074,781)
Other interest expense			
Interest expense on lease liability		(20,824)	(24,458)
Net interest income		1,617,572	1,712,271
Reversal of allowance/(allowance) for expected credit losses	10	(81,401)	29,850
Net interest income after allowance for expected credit losses		1,536,171	1,742,121
Net fee and commission expense	18	(99,953)	(84,279)
Net gains from foreign currencies:			
- dealing		221,490	206,190
- translation differences		(11,411)	(12,780)
Other income/(expenses)		(1,760)	7,350
Non-interest income		108,366	116,481
Personnel expenses	19	(357,767)	(333,524)
Depreciation and amortization	11	(81,738)	(78,424)
Other operating expenses	19	(240,488)	(215,288)
Non-interest expense		(679,993)	(627,236)
Profit before income tax expense		964,544	1,231,366
Income tax expense	12	(221,844)	(269,111)
Profit for the reporting year		742,700	962,255

The accompanying notes 1-26 are an integral part of these financial statements.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Financial statements

Statement of comprehensive income

For the year ended 31 December 2020

(thousands of Russian rubles)

	Note	2020	2019
Profit for the year		<u>742,700</u>	<u>962,255</u>
Other comprehensive income			
Amount reclassified to profit or loss on disposal of investment securities at fair value through other comprehensive income		–	–
Net unrealized gains on investment securities at fair value through other comprehensive income		6,413	9,568
Change in allowance for expected credit losses from investment securities at fair value through other comprehensive income		2,849	(507)
Tax effect of net gains on investment securities at fair value through other comprehensive income	16	<u>(1,851)</u>	<u>(1,812)</u>
Other comprehensive income for the year, net of tax		<u>7,411</u>	<u>7,249</u>
Total comprehensive income for the year		<u><u>750,111</u></u>	<u><u>969,504</u></u>

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Translation from the original Russian version

AO Mizuho Bank (Moscow)

Financial statements

Statement of changes in equity

For the year ended 31 December 2020

(thousands of Russian rubles)

	<i>Attributable to a shareholder of the Bank</i>			<i>Other reserves</i>		<i>Total equity</i>
	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Statutory general reserve</i>	<i>Retained earnings</i>	<i>Net (losses)/gains on investment securities at FVOCI, net of tax</i>	
31 December 2018	11,156,803	5,955	439,167	5,205,005	995	16,807,925
Total comprehensive income for the period	–	–	–	962,255	7,249	969,504
31 December 2019	11,156,803	5,955	439,167	6,167,260	8,244	17,777,429
Total comprehensive income for the period	–	–	–	742,700	7,411	750,111
31 December 2020	11,156,803	5,955	439,167	6,909,960	15,655	18,527,540

The accompanying notes 1-26 are an integral part of these financial statements.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Financial statements

Statement of cash flows

For the year ended 31 December 2020

(thousands of Russian rubles)

	Note	2020	2019
Cash flows from operating activities			
Interest received		4,387,907	4,863,375
Interest paid		(2,931,962)	(3,135,115)
Fees and commissions received		68,348	52,957
Fees and commissions paid		(164,930)	(146,150)
Realized gains less losses from dealing in foreign currencies		203,010	178,778
Gains less losses from financial assets at fair value through profit or loss		37,610	25,629
Other income received		5,411	7,348
Personnel expenses paid		(352,465)	(333,524)
Other operating expenses paid		(239,368)	(215,859)
Cash flows from operating activities before changes in operating assets and liabilities		1,013,561	1,297,439
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions, including obligatory reserve with the CBR		346,481	1,594,885
Loans to customers		8,292,048	(13,377,446)
Other assets		35,625	(60,118)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		1,861,482	900,344
Amounts due to customers		(4,266,573)	1,168,005
Other liabilities		(86,473)	(1,550)
Net cash flows from operating activities before income tax		7,196,151	(8,478,441)
Income tax paid		(240,270)	(143,421)
Net cash from operating activities		6,955,881	(8,621,862)
Cash flows from investing activities			
Purchase of property and equipment and intangible assets	11	(82,825)	(25,295)
Proceeds from sale and redemption of investment securities		1,000,000	1,000,000
Purchase of investment securities	9	(2,079,850)	(994,900)
Net cash used in investing activities		(1,162,675)	(20,195)
Cash flows from financing activities			
Lease payments made in respect of lease liabilities (IFRS 16)		(51,975)	(41,261)
Net cash used in financing activities		(51,975)	(41,261)
Effect of exchange rate changes on cash and cash equivalents		1,029,597	(338,670)
Net increase/(decrease) in cash and cash equivalents		6,770,828	(9,021,988)
Cash and cash equivalents, beginning	5	32,101,587	41,123,575
Cash and cash equivalents, ending	5	38,872,415	32,101,587

The accompanying notes 1-26 are an integral part of these financial statements.

(thousands of Russian rubles)

1. Principal activities

AO Mizuho Bank (Moscow) (formerly ZAO Mizuho Corporate Bank (Moscow) and Michinoku Bank (Moscow) Ltd., hereinafter – the “Bank”) was formed on 15 January 1999 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under license for banking operations with funds in Russian rubles and foreign currency issued by the Central Bank of Russia (hereinafter, “CBR”), No. 3337, and a license for accepting deposits denominated in Russian rubles and foreign currency from individuals issued by CBR, No. 3337.

The Bank accepts deposits from legal entities and extends credit, transfers payments in Russia, exchanges currencies and provides other banking services to its commercial and retail customers. As of the reporting date 31 December 2020 (and 31 December 2019), the Bank had no branches and in 2020 and 2019 operated in a single geographic region (at the location of its head office in Moscow). As of 31 December 2020 and 31 December 2019, the Bank’s legal address and place of business was 20 Ovchinnikovskaya nab., bld. 1, Moscow, Russia.

Starting from 2005, the Bank is a member of the deposit insurance system. The system operates under the Federal laws and regulations and is governed by the State Corporation “Agency for Deposits Insurance”. Insurance covers the Bank’s liabilities to individual depositors for the amount up to 1,400,000 Russian rubles for each individual in case of business failure or revocation of the CBR banking license. In 2020, the amount of insurance indemnity remained unchanged at 1,400,000 Russian rubles.

As of 31 December 2020 and 31 December 2019, shareholders of the Bank included Mizuho Bank, Ltd. (Japan) (ownership interest in the Bank is more than 99.9%) and its subsidiary bank, Mizuho Bank Europe N.V. (ownership interest in the Bank is less than 0.1%).

Mizuho Bank, Ltd. (Japan) is the ultimate parent of the Bank.

Mizuho Corporate Bank, Ltd. and Mizuho Bank, Ltd., two banks within Mizuho Financial Group, merged on 1 July 2013. The merger did not have a direct impact on the legal status of the Bank, an independent legal entity registered and operating on the territory of the Russian Federation.

There were no changes in the Bank’s shareholding structure, however, the Bank’s majority shareholder, Mizuho Corporate Bank, Ltd. (Japan), changed its name to Mizuho Bank, Ltd. (Japan), remaining the same legal entity. In September 2015, ZAO Mizuho Bank (Moscow) changed its name to AO Mizuho Bank (Moscow).

2. Basis of preparation

General

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

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian rubles in accordance with Russian accounting and banking legislation and related instructions (“RAL”). These financial statements are based on the Bank’s RAL books and records, as adjusted and reclassified in order to comply with IFRS. The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, investment securities and derivative financial instruments have been measured at fair value.

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

Effect of the COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic in 2020, many governments, including the Russian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that the pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Government and the Central Bank of Russia to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

The Bank continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results.

(thousands of Russian rubles)

3. Summary of accounting policies

Changes in accounting policies

The Bank applied amendments to the standards, which became effective from 1 January 2020 but had no impact on the Bank's financial statements.

Amendments to IFRS 3: Definition of a Business

The amendments to IFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, they clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 7, IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the financial statements of the Bank, as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact on the Bank.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The *Conceptual Framework* is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the *Conceptual Framework* is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised *Conceptual Framework* includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities under a contract that requires delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model used for managing the instruments. Financial instruments are initially measured at fair value, including transaction costs, except when financial assets and financial liabilities are measured at FVPL.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- ▶ Amortized cost;
- ▶ FVOCI;
- ▶ FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

The Bank measures amounts due from credit institutions, loans to customers, and other financial investments at amortized cost, only if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ▶ The contractual terms of the financial asset provide for the receipt on specified dates of cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- ▶ The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

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

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

Debt instruments at FVOCI

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains or losses arising due to changes in the fair value are recognized in OCI. Interest revenue and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. In the process of derecognition, the cumulative gain or loss, previously recognized in OCI, are reclassified from OCI to profit or loss.

ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which continue to be measured at fair value. Instead, an amount equal to the allowance for expected losses that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the asset.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Financial guarantees, letters of credit and loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of profit or loss, and an ECL provision.

Loan commitments and letters of credits are contractual commitments, under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

Reclassification of financial assets and liabilities

The Bank does not reclassify financial assets after their initial recognition, apart from exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. In 2019 and 2020, the Bank did not reclassify any of its financial assets and liabilities.

Cash and cash equivalents

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

Obligatory reserve with the CBR

Obligatory reserve with the CBR is carried at amortized cost and represents non-interest bearing deposits not intended for financing the Bank's current operations. Accordingly, it is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

Amounts due from credit institutions

Amounts due from credit institutions include amounts due from credit institutions with maturity of more than 90 days from the date of origination. Amounts due from credit institutions are carried at amortized cost using the effective interest method.

Derivative financial instruments

In the normal course of business, the Bank enters into forward foreign exchange contracts recognized at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from foreign currencies.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or other financial assets to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of its own equity instruments. Such instruments include amounts due to the CBR, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowings and subordinated loans. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized, as well as through the amortization process.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- ▶ The normal course of business;
- ▶ The event of default; and
- ▶ The event of insolvency or bankruptcy of the entity or any of the counterparties.

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

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

Impairment

For the purpose of IFRS 9, the Bank uses certain aspects of the current models of the Head Office, such as probability of default (PD), loss given default (LGD), collateral adjustment rates and methodology for calculation of expected credit losses (ECL).

The Bank recognizes allowance for ECL for all loans and other debt financial assets not measured at FVPL, as well as for loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in Note 20.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above, the Bank groups its loans as follows:

Stage 1:	When loans are first recognized, the Bank recognizes a provision based on 12-month ECL (12mECL). Stage 1 loans also include loans and other credit facilities where the credit risk has improved and loans have been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records a provision for the lifetime ECL (LTECL). Stage 2 loans also include loans and other credit facilities where the credit risk has improved and loans have been reclassified from Stage 3.
Stage 3:	Credit-impaired loans. The Bank records a provision for the LTECL.
POCI:	Purchased or originated credit-impaired financial assets (POCI assets) are assets that are credit-impaired at initial recognition. POCI financial assets are recorded at fair value at initial recognition, and the related interest income is subsequently recognized based on EIR adjusted for credit risk. ECL are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of default (PD)	<i>Probability of default</i> (PD) is an estimate of the probability of default within a specified period. Default may occur only at a certain point in time within the stated period unless the asset was derecognized or excluded from the portfolio.
Exposure at default (EAD)	<i>Exposure at default</i> (EAD) is an estimate of the exposure at default at a certain future date, adjusted to reflect its changes expected after the reporting date, including payments of interest or principal amount due under a contract or otherwise, repayment of loans issued and interest accrued on overdue payments.
Loss given default (LGD)	<i>Loss given default</i> (LGD) is an estimate of losses arising on default at a certain point of time. LGD is calculated as a difference between contractual cash flows and cash flows a creditor expects to receive, including from the sale of collateral. This estimate is usually expressed as EAD percentage.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Impairment (continued)

When determining staging criteria, the Bank considers the following:

- ▶ If the credit risk increased significantly since initial recognition, the Bank should measure stop-loss limits for financial instruments for LTECL purposes (Stage 2). If the credit risk did not increase since initial recognition, the Bank should measure stop-loss limits for financial instruments for 12mECL purposes (Stage 1). If there is no information on the origination of the loan, it will be transferred to Stage 2. This assessment is required to allocate provisions between transactions of Stages 1 and 2 for disclosure purposes.
- ▶ When determining staging triggers, the Bank considered both qualitative and quantitative criteria. Qualitative criteria include the list of non-performing loans. Three quality criteria, in particular, for staging of assessment of rating levels, staging of 12mPD and staging of LTPD.
- ▶ Stage 3 includes financial assets with impairment indicators as of the reporting date, i.e. with E2R rating and below, or there is an amount overdue for more than 90 days, and requires recognition of stop-loss limit in the financial statements equal to LTECL. Interest income is calculated based on net carrying amount (less credit provision).

Staging criteria include limits of qualitative and quantitative indicators.

<i>Quantitative criteria</i>			<i>Qualitative criteria</i>	
<i>Rating downgrade</i>	<i>Change in 12mPD</i>	<i>Change in LTPD</i>	<i>Monitoring list (the list of non-performing loans of the parent)</i>	<i>Absolute rating</i>
>=2	>=200%	>=200%	Yes	Yes

For reverse migration purposes (from Stage 2 to Stage 1), the Bank will assess the staging criteria for each financial instrument as of each reporting date. If the Bank measures stop-loss limit of a financial instrument in the amount equal to LTECL in the previous reporting period but as of the current reporting date it determines that Stage 2 criteria (qualitative and quantitative) are no longer met, the Bank will measure the stop-loss limit in the amount equal to 12mECL as of the current reporting date.

The procedure of modifying financial assets

The Bank revises or otherwise modifies contractual terms of financial assets. The Bank assesses whether modification of contractual cash flows is significant based, among others, on the following factors:

- ▶ Existence of new contractual terms that have significant effect on risk structure of the asset (for example, participation in income or profit based on cost of capital);
- ▶ Significant changes in interest rate;
- ▶ Change of currency;
- ▶ Availability of collateral or credit quality improvement mechanism that has a significant effect on credit risk related to the asset;
- ▶ Significant prolongation of the loan when the borrower faces financial difficulties.

If the modified terms differ significantly so that the rights for cash flows on initial asset are deemed expired, the Bank derecognizes the initial financial asset and recognizes a new asset at fair value. The date of revision of terms is deemed the date of initial recognition for the purpose of impairment calculation and to identify a significant increase of credit risk. In addition, the Bank assesses the new loan for compliance with "solely payment of principal and interest" criterion (performs SSPI testing). If the revision of terms was due to financial difficulties and inability to make initially agreed payments, the Bank assesses whether the modified loan is impaired at initial recognition. Difference in carrying amount is recognized in profit or loss for the period.

If the terms of a modified assets do not differ significantly, the modification does not result in derecognition. The Bank recalculates gross carrying amount based on the restated cash flows by discounting modified cash flows at initial effective interest rate (or at initial effective interest rate adjusted to credit risk associated with purchased or originated impaired financial assets) and recognizes profit or loss from modification within profit or loss for the period.

If financial assets are modified in accordance with contractual terms (for example, as a result of a revision), the Bank assesses whether the modification is significant and whether it should result in derecognition of the initial asset and recognition of a new asset at fair value.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

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

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

Write-off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

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

Taxation

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes that are assessed on the Bank’s activities. These taxes are included in other operating expenses.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Property and equipment

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

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

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Furniture and fixtures	5
Computers and office equipment	5
Motor vehicles	5
Leasehold improvements	Over the term of the underlying lease

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

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the contractual useful life or, if not stipulated by a contract, over 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Leases

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

Right-of-use assets

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

Right-of-use assets are recognized within property and equipment and intangible assets in the statement of financial position.

Lease liabilities

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Leases (continued)

Lease liabilities are recognized within other liabilities in the statement of financial position.

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

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption to leases of low-value assets that are considered of low value (i.e., up to and including RUB 300 thousand). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgment in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Retirement and other employee benefit obligations

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

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date when they are approved by the Bank's shareholder. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Contingencies

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar revenue and expense

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

In case of a credit-impaired financial asset, the Bank calculates the interest revenue, applying the effective interest rate to the net amortized cost of this asset. If the default on the financial asset is liquidated, and it is no longer a credit-impaired asset, the Bank proceeds to calculate the income revenue on the basis of the gross carrying amount.

In case of purchased or originated credit-impaired (POCI) financial assets, the Bank calculates the interest revenue applying the effective interest rate adjusted for the credit risk to the amortized cost of the financial asset. An effective interest rate adjusted for the credit risk is an interest rate that at initial recognition discounts estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

Interest income on all financial assets at FVPL is recognized using the contractual interest rate in "Other interest income" in the statement of profit or loss.

Fee and commission income

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

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

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

Fee income from providing transaction services

Fees arising from cash and settlement services are recognized upon completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Foreign currency translation

The financial statements are presented in Russian rubles, which are the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as net gains/(losses) from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Foreign currency translation (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates as of 31 December 2020 and 31 December 2019 were RUB 73.8757 and RUB 61.9057 to 1 US dollar, respectively.

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

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

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

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

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

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

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

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

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

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

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

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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

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

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

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

The Bank will apply IBOR reform Phase 2 from 1 January 2021.

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. More details are provided in Note 21.

Expected credit losses / impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL / impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers.

Deterioration in credit quality of loan portfolios and trade receivables (amongst other items) as a result of the COVID-19 pandemic may have a significant impact on the Bank's ECL measurement. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of ECL calculation models that are considered accounting judgments and estimates include:

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

The amount of the allowance recognized in the statement of financial position at 31 December 2020 was RUB 105,919 thousand (2019: RUB 24,411 thousand). More details are provided in Notes 5, 7, 8, 9 and 17.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2020	2019
Cash on hand	28,960	18,466
Current accounts with the CBR	4,832,767	1,976,974
Correspondent accounts with the parent bank (Mizuho Bank, Ltd.)	430,952	678,502
Time deposits with the parent bank (Mizuho Bank, Ltd.)	544,095	310,362
Current accounts with other credit institutions	931,375	102,173
Deposits with the CBR	18,002,070	6,510,655
Time deposits with credit institutions up to 90 days	14,102,196	22,504,455
Cash and cash equivalents before allowance	38,872,415	32,101,587
Less allowance for expected credit losses	(64,313)	(13,206)
Cash and cash equivalents	38,808,102	32,088,381

All balances of cash equivalents are included in Stage 1. An analysis of changes in the ECL allowance during the years ended 31 December 2020 and 31 December 2019 is as follows:

	ECL allowance
1 January 2019	37,270
New purchased or originated assets	13,206
Assets derecognized or repaid	(37,270)
31 December 2019	13,206
1 January 2020	13,206
New purchased or originated assets	53,776
Assets derecognized or repaid	(12,267)
Changes in models and inputs used for ECL assessment	9,098
Effect of exchange rate changes	500
31 December 2020	64,313

As of 31 December 2020, the Bank placed RUB 42 thousand and RUB 1,362,285 thousand on current/demand accounts with one Russian bank and six OECD banks, respectively (2019: RUB 42 thousand and RUB 102,965 thousand with one Russian bank and five OECD banks, respectively). No interest was accrued on these deposits.

As of 31 December 2020, time deposits with credit institutions up to 90 days were placed as follows: RUB 14,102,196 thousand with three major Russian banks, with interest rates on these deposits varying from 4.2% to 5.00% (2019: RUB 22,504,455 thousand with five major Russian banks, with interest rates on these deposits varying from 6.25% to 6.35%).

Information on fair value of cash and cash equivalents, including the breakdown by levels in the measurement hierarchy is provided in Note 21. Geographic analysis and credit quality of cash and cash equivalents are provided in Note 20. Information on related party transactions is provided in Note 24.

6. Obligatory reserve with the CBR

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

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

7. Amounts due from credit institutions

	2020	2019
Time deposits with credit institutions for more than 90 days	10,106,108	10,685,671
Time deposits with credit institutions for more than 90 days (non-residents)	–	–
Less allowance for impairment	(5,856)	(1,368)
Amounts due from credit institutions	10,100,252	10,684,303

As of 31 December 2020 and 2019, time deposits were placed with Russian banks rated not lower than BBB+.

An analysis of changes in the gross carrying amount and corresponding ECL in relation to corporate lending during the year ended 31 December 2020 is as follows:

Amounts due from credit institutions	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as of 1 January 2020	10,685,671	–	–	–	10,685,671
New purchased or originated assets	4,551,796	–	–	–	4,551,796
Assets derecognized or redeemed (except for write-offs)	(5,131,359)	–	–	–	(5,131,359)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Change in contractual cash flows	–	–	–	–	–
Effect of exchange rate changes	–	–	–	–	–
31 December 2020	10,106,108	–	–	–	10,106,108

Amounts due from credit institutions	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowance as of 1 January 2020	1,368	–	–	–	1,368
New purchased or originated assets	2,592	–	–	–	2,592
Assets derecognized or redeemed (except for write-offs)	(542)	–	–	–	(542)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–	–
Changes in models and inputs used for ECL assessment	2,438	–	–	–	2,438
Effect of exchange rate changes	–	–	–	–	–
31 December 2020	5,856	–	–	–	5,856

An analysis of changes in the gross carrying amount and corresponding ECL in relation to corporate lending during the year ended 31 December 2019 is as follows:

Amounts due from credit institutions	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as of 1 January 2019	12,082,284	–	–	–	12,082,284
New purchased or originated assets	6,724,043	–	–	–	6,724,043
Assets derecognized or redeemed (except for write-offs)	(8,120,656)	–	–	–	(8,120,656)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Change in contractual cash flows	–	–	–	–	–
Effect of exchange rate changes	–	–	–	–	–
31 December 2019	10,685,671	–	–	–	10,685,671

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

7. Amounts due from credit institutions (continued)

<i>Amounts due from credit institutions</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL allowance as of 1 January 2019	1,378	–	–	–	1,378
New purchased or originated assets	1,357	–	–	–	1,357
Assets derecognized or redeemed (except for write-offs)	(1,367)	–	–	–	(1,367)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–	–
Changes in models and inputs used for ECL assessment	–	–	–	–	–
Effect of exchange rate changes	–	–	–	–	–
31 December 2019	1,368	–	–	–	1,368

8. Loans to customers

Loans to customers comprise:

	<i>2020</i>	<i>2019</i>
Corporate lending	26,089,334	30,079,584
Syndicated lending	9,287,650	10,061,114
Consumer lending	52	91
Total loans to customers	35,377,036	40,140,789
Less – allowance for impairment	(26,737)	(8,487)
Loans to customers	35,350,299	40,132,302

Allowance for impairment of loans to customers at amortized cost

An analysis of changes in the gross carrying amount and corresponding ECL in relation to corporate lending during the year ended 31 December 2020 is as follows:

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Gross carrying amount as of 1 January 2020	29,559,084	520,500	–	–	30,079,584
New purchased or originated assets	18,321,715	–	–	–	18,321,715
Assets derecognized or redeemed (except for write-offs)	(21,965,162)	(520,500)	–	–	(22,485,662)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Change in contractual cash flows	–	–	–	–	–
Effect of exchange rate changes	173,697	–	–	–	173,697
Gross carrying amount as of 31 December 2020	26,089,334	–	–	–	26,089,334

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL allowance as of 1 January 2020	3,259	85	–	–	3,344
New purchased or originated assets	7,889	–	–	–	7,889
Assets derecognized or redeemed (except for write-offs)	(2,477)	(85)	–	–	(2,562)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–	–
Changes in models and inputs used for ECL assessment	2,249	–	–	–	2,249
Effect of exchange rate changes	73	–	–	–	73
ECL allowance as of 31 December 2020	10,993	–	–	–	10,993

An analysis of changes in the gross carrying amount and corresponding ECL in relation to syndicated lending during the year ended 31 December 2020 is as follows:

<i>Syndicated lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Gross carrying amount as of 1 January 2020	10,061,114	–	–	–	10,061,114
New purchased or originated assets	–	–	–	–	–
Assets derecognized or redeemed (except for write-offs)	(2,411,544)	–	–	–	(2,411,544)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Change in contractual cash flows	–	–	–	–	–
Effect of exchange rate changes	1,638,080	–	–	–	1,638,080
31 December 2020	9,287,650	–	–	–	9,287,650

<i>Syndicated lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL allowance as of 1 January 2020	5,087	–	–	–	5,087
New purchased or originated assets	–	–	–	–	–
Assets derecognized or redeemed (except for write-offs)	(267)	–	–	–	(267)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–	–
Changes in models and inputs used for ECL assessment	8,268	–	–	–	8,268
Effect of exchange rate changes	2,600	–	–	–	2,600
31 December 2020	15,688	–	–	–	15,688

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

An analysis of changes in the gross carrying amount and corresponding ECL in relation to corporate lending during the year ended 31 December 2019 is as follows:

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Gross carrying amount as of 1 January 2019	14,307,711	1,965,000	–	–	16,272,711
New purchased or originated assets	22,944,609	–	–	–	22,944,609
Assets derecognized or redeemed (except for write-offs)	(6,775,844)	(1,965,000)	–	–	(8,740,844)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	(387,000)	387,000	–	–	–
Transfers to Stage 3	–	–	–	–	–
Change in contractual cash flows	–	133,500	–	–	133,500
Effect of exchange rate changes	(530,392)	–	–	–	(530,392)
Gross carrying amount as of 31 December 2019	29,559,084	520,500	–	–	30,079,584

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL allowance as of 1 January 2019	5,486	224	–	–	5,710
New purchased or originated assets	2,595	–	–	–	2,595
Assets derecognized or redeemed (except for write-offs)	(1,735)	(223)	–	–	(1,958)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	(1,161)	1,161	–	–	–
Transfers to Stage 3	–	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–	–
Changes in models and inputs used for ECL assessment	(1,812)	(1,077)	–	–	(2,889)
Effect of exchange rate changes	(58)	–	–	–	(58)
ECL allowance as of 31 December 2019	3,315	85	–	–	3,400

An analysis of changes in the gross carrying amount and corresponding ECL in relation to syndicated lending during the year ended 31 December 2019 is as follows:

<i>Syndicated lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Gross carrying amount as of 1 January 2019	12,512,919	–	–	–	12,512,919
New purchased or originated assets	270,462	–	–	–	270,462
Assets derecognized or redeemed (except for write-offs)	(1,454,394)	–	–	–	(1,454,394)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Change in contractual cash flows	–	–	–	–	–
Effect of exchange rate changes	(1,267,873)	–	–	–	(1,267,873)
31 December 2019	10,061,114	–	–	–	10,061,114

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

<i>Syndicated lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL allowance as of 1 January 2019	7,975	–	–	–	7,975
New purchased or originated assets	29	–	–	–	29
Assets derecognized or redeemed (except for write-offs)	–	–	–	–	–
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–	–
Changes in models and inputs used for ECL assessment	(2,267)	–	–	–	(2,267)
Effect of exchange rate changes	(650)	–	–	–	(650)
31 December 2019	5,087	–	–	–	5,087

In accordance with the internal methodology, twice a year the Bank updates forecast information, including forecast macroeconomic indicators and scenarios' weights. As of 31 December 2020, the Bank updated forecast information used to calculate the PD included in the ECL allowance calculations.

Modified and restructured loans

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the changes in cash flows discounted at the original effective interest rate, the Bank recognizes a gain or loss from modification before an impairment loss is recognized.

As of 31 December 2020, the Bank had no modified financial assets, which would result in derecognition.

In 2020, the Bank had no insignificant modifications.

As of 31 December 2020, syndicated loans represented the Bank's participation in a number of syndicated loans received by major companies and denominated in US dollars and euros, with the interest rate varying from 1.5% to 2.14% as of the reporting date (2019: funds were placed in syndicated loans that represent the Bank's participation in a number of syndicated loans received by major companies and denominated in US dollar and euros, with the interest rate varying from 1.85% to 3.79% as of the reporting date).

Collateral and other credit enhancements

During 2020 and 2019, the Bank did not have any overdue payments on principal or interest.

As of 31 December 2020 and 2019, based on individual analysis, the Bank had no impaired loans.

In accordance with the CBR requirements, loans may only be written off as approved by the Board of Directors and, in certain cases, upon the respective court decision.

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

The Bank obtains guarantees from parent companies for loans to their subsidiaries. The Bank also obtains guarantees from the parent bank for loans to counterparties.

Concentration of loans to customers

As of 31 December 2020, the Bank had 19 borrowers with an aggregate loan amount of RUB 100,000 thousand or above. These loans amounted to RUB 35,215,513 thousand (2019: 27 borrowers with a total amount of RUB 39,883,755 thousand), or 99.54% of the loan portfolio (2019: 99.36%).

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans have been extended to the following types of customers (the amounts are given on a gross basis):

	2020	2019
Private companies	26,089,334	30,079,584
Syndicated loans	9,287,650	10,061,114
Individuals	52	92
	35,377,036	40,140,790

Loans are made principally within Russia in the following industry sectors:

	2020	2019
Lease services	12,373,570	2,010,581
Machine building	8,055,919	2,237,192
Manufacturing	5,477,259	10,750,894
Finance	3,618,381	10,823,073
Trade	3,076,786	10,078,344
Services	1,829,673	4,223,257
Transport	685,396	17,357
Metal production	260,000	-
Individuals	52	92
	35,377,036	40,140,790

Information on the fair value of loans to customers, including by level of fair value hierarchy, is disclosed in Note 21. Geographical and liquidity analyses, as well as credit quality of loans to customers are disclosed in Note 20. Information on related party transactions is provided in Note 24. Maturity profile of loans to customers is presented in Note 23.

9. Investment securities

Investment securities at fair value through other comprehensive income comprise Russian State bonds (OFZ). OFZs are state securities denominated in Russian rubles. These bonds are sold at a discount or with a premium to nominal value and carry a coupon income payable semiannually. As of 31 December 2020, these bonds mature in August 2021 and July 2022 (2019: May 2019), and bear coupon rates of 7.5% and 7.6% (2019: 6.4%).

Investment securities at FVOCI	2020	2019
Russian State bonds (OFZ)	2,132,051	1,012,461

An analysis of changes in the ECL allowance for debt securities at FVOCI are as follows:

Debt securities at FVOCI	Stage 1	Stage 2	Stage 3	Total
ECL allowance as of 1 January 2020	403	-	-	403
New purchased or originated assets	3,158	-	-	3,158
Assets redeemed	(403)	-	-	(403)
Assets sold	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Effect on ECL at the year-end due to transfers between stages during the year	-	-	-	-
Unwinding of discount (recorded in interest income)	-	-	-	-
Changes in models and inputs used for ECL assessment	-	-	-	-
Reimbursement of losses	-	-	-	-
Write-off	-	-	-	-
Translation differences	-	-	-	-
	3,158	-	-	3,158
ECL allowance as of 31 December 2020	3,158	-	-	3,158

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

9. Investment securities (continued)

<i>Debt securities at FVOCI</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as of 1 January 2019	910	–	–	910
New purchased or originated assets	403	–	–	403
Assets redeemed	(910)	–	–	(910)
Assets sold	–	–	–	–
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–
Unwinding of discount (recorded in interest income)	–	–	–	–
Changes in models and inputs used for ECL assessment	–	–	–	–
Reimbursement of losses	–	–	–	–
Write-off	–	–	–	–
Translation differences	–	–	–	–
31 December 2019	403	–	–	403

An analysis of investment securities at FVOCI by their credit quality as of 31 December 2020 is as follows:

<i>Investment securities at FVOCI</i>	<i>Russian State bonds (OFZ)</i>	
	<i>2020</i>	<i>2019</i>
From BBB+ to BBB- rated	2,132,051	1,012,461

Information on fair value of investment securities, including the breakdown by levels in the measurement hierarchy is provided in Note 21. Geographical, currency and interest rate analysis of investment securities is disclosed in Note 20. Maturities of investment securities are analyzed in Note 23.

10. Credit loss expense

The table below shows analysis of expected credit losses on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2020:

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Cash and cash equivalents	5	(51,107)	–	–	(51,107)
Amounts due from credit institutions	7	(4,488)	–	–	(4,488)
Loans to customers	8	(18,335)	85	–	(18,250)
Debt securities at FVOCI	9	(2,755)	–	–	(2,755)
Credit-related commitments	17	(3,472)	(1,329)	–	(4,801)
Total credit loss expense		(80,157)	(1,244)	–	(81,401)

The table below shows analysis of expected credit losses on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2019:

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Cash and cash equivalents	5	24,064	–	–	24,064
Amounts due from credit institutions	7	10	–	–	10
Loans to customers	8	3,898	1,300	–	5,198
Debt securities at FVOCI	9	507	–	–	507
Credit-related commitments	17	339	268	–	71
Total reversal of allowances for credit loss expense		28,818	1,032	–	29,850

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

11. Property and equipment

The movements in property and equipment were as follows:

	<i>Right-of-use assets</i>	<i>Computers and office equipment</i>	<i>Intangible assets</i>	<i>Leasehold improvements</i>	<i>Investments in the purchase of property and equipment and intangible assets</i>	<i>Total</i>
31 December 2018	–	44,958	9,283	67,159	–	121,400
Effect of adoption of IFRS 16 (Note 3)	331,226	–	–	–	–	331,226
1 January 2019	331,226	44,958	9,283	67,159	–	452,626
Additions	–	1,591	3,008	–	19,841	24,440
Disposals	–	–	–	–	–	–
31 December 2019	331,226	46,549	12,291	67,159	19,841	477,066
Additions	–	12,713	5,465	145	64,502	82,825
Disposals	–	(1,384)	–	–	–	(1,384)
31 December 2020	331,226	57,878	17,756	67,304	84,343	558,507
Accumulated depreciation and amortization						
31 December 2018	–	(28,473)	(2,465)	(50,617)	–	(81,555)
Depreciation and amortization charge	(63,052)	(5,670)	(2,080)	(7,622)	–	(78 424)
Disposals	–	–	–	–	–	–
31 December 2019	(63,052)	(34,143)	(4,545)	(58,239)	–	(159,979)
Depreciation and amortization charge	(63,398)	(7,374)	(3,247)	(7,719)	–	(81,738)
Disposals	–	–	–	–	–	–
31 December 2020	(126,450)	(41,518)	(7,792)	(65,958)	–	(241,718)
31 December 2018	–	16,485	6,818	16,542	–	39,845
31 December 2019	268,174	12,406	7,746	8,920	19,841	317,087
31 December 2020	204,776	16,360	9,964	1,346	84,343	316,789

12. Taxation

Income tax expense

The corporate income tax expense comprises:

	<u>2020</u>	<u>2019</u>
Current tax expense	138,650	312,131
Deferred tax expense – origination and reversal of temporary differences	83,194	(43,020)
Income tax expense	<u>221,844</u>	<u>269,111</u>

Russian legal entities have to file individual corporate income tax declarations to the tax authorities. Standard income tax rate for companies (including banks) comprised 20% for 2020 and 2019. Income tax rate applicable to interest (coupon) income on state and mortgage-backed bonds in 2020 and 2019 was 15%.

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

	<u>2020</u>	<u>2019</u>
Profit before tax	964,544	1,231,366
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	192,909	246,273
Income on state securities taxed at different rates	(4,404)	(3,058)
Non-deductible expenses / (non-taxable income)	33,339	25,896
Income tax expense	<u>221,844</u>	<u>269,111</u>

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

12. Taxation (continued)

Income tax expense (continued)

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

	Origination and reversal of temporary differences			Origination and reversal of temporary differences			2020
	2018	In the statement of profit or loss	Directly in equity	2019	In the statement of profit or loss	Directly in equity	
Tax effect of deductible temporary differences							
Accruals	3,903	(1,247)	–	2,656	–	–	2,656
Allowance for impairment	9,848	(9,848)	–	–	19,381	–	19,381
Valuation of securities	–	–	–	–	4,122	–	4,122
Tax losses carried forward	1,710	(1,710)	–	–	–	–	–
Property and equipment	5,493	1,369	–	6,862	(6,862)	–	–
Financial liabilities at fair value through profit or loss	(1,968)	1,968	–	–	1,501	–	1,501
IFRS 16	–	–	–	–	2,553	–	2,553
Deferred tax assets	18,986	(9,468)	–	9,518	20,695	–	30,213
Tax effect of taxable temporary differences	18,986						
Currency revaluation of claims acquired	(130,818)	75,649	–	(55,169)	(119,700)	–	(174,869)
Allowance for impairment of loans	–	(18,150)	–	(18,150)	18,150	–	–
Property and equipment	–	–	–	–	(6,712)	–	(6,712)
Valuation of securities	(440)	(638)	(1,812)	(2,890)	–	(1,851)	(4,741)
Financial liabilities at fair value through profit or loss	–	(2,325)	–	(2,325)	2,325	–	–
IFRS 16	–	(2,048)	–	(2,048)	2,048	–	–
Deferred tax liability	(131,258)	52,488	(1,812)	(80,582)	(103,889)	(1,851)	(186,322)
Deferred tax asset/(liability)	(112,272)	43,020	(1,812)	(71,064)	(83,194)	(1,851)	(156,109)

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

13. Derivative financial instruments

Most of the Bank's derivative trading activities relate to foreign exchange forwards with customers. Forwards are customized contracts transacted in the over-the-counter market. The Bank enters into deliverable forwards, which are normally laid off with counterparties. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2020			
	<i>Notional principal</i>	<i>Notional principal</i>	<i>Fair value</i>	
	<i>(assets)</i>	<i>(liabilities)</i>	<i>Asset</i>	<i>Liability</i>
Foreign exchange contracts				
Forwards – foreign	3,501,598	(3,381,231)	98,060	(5,695)
Forwards – domestic	5,070,202	(5,196,048)	6,332	(106,203)
Total derivative assets/liabilities	8,571,800	(8,577,279)	104,392	(111,898)
	2019			
	<i>Notional principal</i>	<i>Notional principal</i>	<i>Fair value</i>	
	<i>(assets)</i>	<i>(liabilities)</i>	<i>Asset</i>	<i>Liability</i>
Foreign exchange contracts				
Forwards – foreign	8,076,108	(8,626,499)	46	(490,696)
Forwards – domestic	8,689,010	(8,126,386)	502,296	(22)
Total derivative assets/liabilities	16,765,118	(16,752,885)	502,342	(490,718)

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As of 31 December 2020 and 31 December 2019, forwards – foreign were concluded with the parent bank branch (Mizuho Bank, Limited (UK)). Domestic contracts were entered into with Russian companies that are the Bank's customers.

Information on the fair value of derivative financial instruments, also including by level of fair value hierarchy, is disclosed in Note 21. Geographical analysis of derivative financial instruments is presented in Note 20. Information on related party transactions is provided in Note 24. Maturity profile of derivative financial instruments is presented in Note 23.

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2020	2019
Correspondent accounts and overnight deposits of other banks	6,001	491
Time deposits of the parent bank branch (Mizuho Bank, Limited (UK))	33,565,635	29,076,684
Amounts due to credit institutions	33,571,636	29,077,175

As of 31 December 2020, interest rates varied from 4.25% to 7.65% for deposits in Russian rubles, from 0.205% to 2.05% for deposits in US dollars, and were set at 0.01% for deposits in euros (2019: from 6.11% to 7.9% for deposits in Russian rubles, from 1.4778% to 2.805% for deposits in US dollars, from 0.01% to 0.01% for deposits in Japanese yens, and from 0.01% to 0.2389% for deposits in euros).

Information on the fair value of amounts due to credit institutions, also including by level of fair value hierarchy, is disclosed in Note 21. Geographical analysis of amounts due to credit institutions is disclosed in Note 20. Information on related party transactions is presented in Note 24. Maturity profile of amounts due to credit institutions is presented in Note 23.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

15. Amounts due to customers

Amounts due to customers comprise:

	2020	2019
Current accounts	6,545,645	3,667,850
Time deposits	28,930,628	34,229,150
Amounts due to customers	35,476,273	37,897,000

As of 31 December 2020, amounts due to ten largest customers comprised RUB 24,892,952 thousand, or 70.17% of total amounts due to customers (2019: RUB 30,962,182 thousand, or 81.7%).

As of 31 December 2020, the Bank had no time deposits of individuals (2019: the Bank had RUB 12 thousand of time deposits of individuals). In accordance with the Russian Civil Code, the Bank is obliged to repay deposits of individuals upon demand of a depositor.

Amounts due to customers include accounts of the following types of customers:

	2020	2019
Private companies	35,379,536	37,809,828
Individuals	96,737	87,172
Amounts due to customers	35,476,273	37,897,000

An analysis of customer accounts by economic sector is as follows:

	2020	2019
Manufacturing	13,618,233	11,729,618
Trade	11,075,650	19,546,382
Machine building	5,502,777	152,182
Service sector	2,894,425	3,943,788
Hotel services	649,515	626,193
Lease services	505,023	385,056
Production of musical instruments	299,636	244,593
Embassies and foreign representations	236,978	155,019
Sale of own immovable property	191,617	36,104
Construction	163,452	309,904
Individuals	101,284	87,172
Other	85,443	176,443
Consulting services	79,705	39,739
Education	65,915	57,523
Insurance	4,392	407,284
Transport	2,228	-
Amounts due to customers	35,476,273	37,897,000

Information on the fair value of amounts due to customers, also including by level of fair value hierarchy, is disclosed in Note 21. Geographical analysis of amounts due to customers is disclosed in Note 20. Information on related party transactions is provided in Note 24. Maturity profile of amounts due to customers is presented in Note 23.

16. Equity

The movements in shares outstanding, issued and fully paid were as follows:

	Number of ordinary shares	Nominal amount of ordinary shares	Share premium	Inflation adjustments	Total
31 December 2018	87,833,363	8,783,336	2,216,664	156,803	11,156,803
31 December 2019	87,833,363	8,783,336	2,216,664	156,803	11,156,803
31 December 2020	87,833,363	8,783,336	2,216,664	156,803	11,156,803

*(thousands of Russian rubles)***16. Equity (continued)**

As of 31 December 2020, the number of authorized, issued and fully paid ordinary shares was 87,833,363, with a nominal value of RUB 100 per share (2019: 87,833,363 shares with a nominal value of RUB 100 per share). As of 31 December 2010, the share capital of the Bank was contributed by the shareholders in US dollars. As of 31 December 2020 and 2019, the share capital of the Bank was contributed by the shareholders in Russian rubles.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL. As of 31 December 2020, the Bank's undistributed and unreserved earnings amounted to RUB 6,955,348 thousand (2019: RUB 6,201,267 thousand).

Additional paid-in capital

	<i>Additional paid-in capital</i>
31 December 2020 and 31 December 2019	5,955

Additional paid-in capital represents contributions made by the parent bank in the form of office equipment for no cost recognized at the fair value at the date of contribution.

Nature and purpose of other reserves

Unrealized gains (losses) from investment securities at fair value through other comprehensive income

This reserve is used to record changes in the fair value of investments at FVOCI.

Fair value reserve

This reserve is used to record changes in the fair value of financial assets at FVOCI.

Statutory general reserve

The statutory general reserve is created as required by the regulations of the Russian Federation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve is created in accordance with the Bank's Charter, which provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in accordance with RAL. As of 31 December 2020, the Bank's statutory general reserve amounted to RUB 439,167 thousand, or 5% of the share capital (2019: RUB 439,167 thousand, or 5% of the share capital). The statutory general reserve is fully established in accordance with the Bank's Charter. Profit for 2020 will not be allocated to the statutory general reserve.

17. Commitments and contingencies**Operating environment**

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

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

Legal

In the ordinary course of business, the Bank is not subject to legal actions and complaints.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

17. Commitments and contingencies (continued)

Taxation

The Bank's business activity is carried out in the Russian Federation. Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are often subject to varying interpretations (which, in particular, may apply to legal relations retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. Therefore, management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal regulatory authorities at any time in the future. The tax authorities may be taking a more assertive approach in interpreting and enforcing various provisions of this legislation, performing tax audits and assessing additional taxes. It is therefore possible that the tax authorities may challenge transactions, operations and tax accounting methods of the Bank that have not been challenged in the past. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances, tax reviews may cover longer periods.

Russian tax, currency and customs legislation is vaguely drafted and is often subject to varying interpretations (which, in particular, may apply to legal relations retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. Management's interpretation of legislative provisions as applied to the Bank's transactions and activities may be challenged by the relevant regional or federal authorities.

The current Russian transfer pricing legislation allows tax authorities to apply transfer pricing adjustments and impose additional income tax and value added tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market price. The list of "controlled" transactions includes transactions between related parties (Russian and foreign) and certain types of transactions between unrelated parties that are considered the same as controlled transactions. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2020, the Bank determined its tax liabilities arising from these "controlled" transactions using actual transaction prices.

From 1 January 2015, the rules for the taxation of controlled foreign companies and such concepts as "beneficial owner of income" and "tax residency of legal entities" were introduced. Overall, the adoption of the law should increase the administrative and, in some cases, tax burden on Russian taxpayers that have foreign subsidiaries and/or conduct transactions with foreign companies.

The introduction of the regulations above and interpretation of certain provisions of the Russian tax legislation together with the latest trends in judicial practice indicate a potential increase in both taxes payable and penalties assessed, including due to the fact that the tax authorities and courts may take a more assertive position in applying the legislation and reviewing tax calculations. However, it is not possible to determine their amounts or evaluate the probability of a negative outcome in the event of claims brought by the tax authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year of review. Under certain circumstances, tax reviews may cover longer periods.

As of 31 December 2020, the Bank's management believes that its interpretation of the relevant legislation is appropriate and that the Bank will be able to defend its tax, currency and customs positions.

As of 31 December, the Bank's commitments and contingencies comprised the following:

	<u>2020</u>	<u>2019</u>
Credit-related commitments		
Undrawn loan commitments	1,430,000	1,465,000
Commitments under guarantees issued	4,144,621	2,672,167
Less – ECL allowance	(5,853)	(1,052)
Total credit-related commitments	<u>5,568,768</u>	<u>4,136,115</u>

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

17. Commitments and contingencies (continued)

Taxation (continued)

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL provision as of 1 January 2020	567	485	–	–	1,052
New purchased or originated assets	3,928	1,705	–	–	5,633
Assets derecognized or redeemed (except for write-offs)	(545)	(485)	–	–	(1,030)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	(13)	13	–	–	–
Transfers to Stage 3	–	–	–	–	–
Changes in models and inputs used for ECL assessment	75	78	–	–	153
Reimbursement of losses	–	–	–	–	–
Write-off	–	–	–	–	–
Translation differences	27	18	–	–	45
31 December 2020	4,039	1,814	–	–	5,853

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL provision as of 1 January 2019	906	217	–	–	1,123
New purchased or originated assets	205	–	–	–	205
Assets derecognized or redeemed (except for write-offs)	(36)	–	–	–	(36)
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Changes in models and inputs used for ECL assessment	(508)	268	–	–	(240)
Reimbursement of losses	–	–	–	–	–
Write-off	–	–	–	–	–
Translation differences	–	–	–	–	–
31 December 2019	567	485	–	–	1,052

In 2020, the Bank received a collateral of RUB 2,658,153 thousand (2019: RUB 2,503,787 thousand) from the companies which have international rating of not less than AA- for commitments under guarantees issued.

The primary purpose of credit-related commitments is to ensure that funds are available to customers as required. The Bank's commitments under guarantees and letters of credit, which represent payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to loan commitments, the Bank is potentially exposed to a loss in the amount equal to total unused loan commitments. However, the likely amount of losses is less than the total amount of unused commitments since most commitments to extend credit are contingent upon customers meeting certain creditworthiness requirements. The Bank monitors the remaining maturity of credit-related commitments since longer-term commitments usually have a greater degree of credit risk than short-term commitments.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

18. Net fee and commission income

Net fee and commission income comprises:

	2020	2019
Cash and settlement operations	26,404	27,528
Currency control operations	16,646	20,924
Other	26,209	4,505
Fee and commission income	69,259	52,957
Guarantees received	(163,315)	(132,225)
Cash operations	(3,902)	(3,394)
Other	(1,995)	(1,617)
Fee and commission expense	(169,212)	(137,236)
Net fee and commission expense	(99,953)	(84,279)

19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2020	2019
Staff costs	357,767	333,524
Professional services	115,206	102,157
Amortization and depreciation of right-of-use assets, equipment and intangible assets (Note 11)	81,738	78,424
Taxes other than income tax	44,524	40,648
Telecommunication services	33,799	24,414
Other expenses related to property and equipment	6,429	6,100
Security services	4,534	4,214
Rent expenses	2,490	1,986
Other	33,506	35,769
Personnel and other operating expenses	679,993	627,236

Included in staff costs are statutory social security and pension contributions (insurance contributions) of RUB 50,363 thousand (2019: RUB 46,705 thousand).

Included in professional services are fees of RUB 51,450 thousand (2019: RUB 49,459 thousand) paid to the parent bank for its outsourced personnel.

20. Risk management

Introduction

The Bank's development strategy is based on further development of corporate services. The Bank is working towards the development of new products to satisfy the needs of the Bank's customers. The major risks arising from the Bank's activities include credit, market, liquidity, and operational risks. The risk management policies of the Bank aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and respective controls, and to continuously monitor risk levels and compliance with the set limits. The procedure for the identification, assessment and limitation of each group of risks is determined by the respective internal documents of the Bank and corporate policies of Mizuho Financial Group (Japan).

Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered. In case of a certain concentration of operations in a fairly small market sector, the Bank performs high-risk operations with due diligence and tries to avoid doubtful and risky investments. Such a policy significantly reduces liquidity and market risks. The focus on a small product line helps control the risk of change in parameters.

For risk management purposes, the potential negative impact of the Bank's operations on its capital and/or liquidity is assessed taking into account the implementation of risk management and internal control procedures. Identification and measurement of risks is a process that covers all stages of a product's life, from its development to the reporting stage.

(thousands of Russian rubles)

20. Risk management (continued)

Introduction (continued)

Risk management system principles

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

Continuous operation

The Bank has established a continuous banking risk management process.

Unified risk management model

The risk management system is created not only by the Bank's Board of Directors and management, but also by officers and employees from all Bank's departments. This process is integrated into all Bank's business-processes, therefore risk identification, management and limitation is performed at all levels.

Avoiding conflict of interest in the course of risk management

The existing banking risk management structure rules out conflicts of interests.

Independence of departments

The Bank complies with the principle of independence of its departments assessing the level of risks assumed by the Bank from the subdivisions performing operations (transactions) involving the risk of losses.

Development of a comprehensive risk-management system

The established system complies with the legislation, takes into account the risk management principles set by the Mizuho Financial Group as well as recommendations of international organizations.

Effective notification system

The Bank's risk management system helps to timely identify potential areas of increased risk and notify the President, the Management Board and the Bank's Board of Directors of such risks and measures taken to mitigate them.

Risk management system

An effective risk management system requires consideration, analysis, constant assessment and management of significant risks which may have an adverse effect on achieving the Bank's goals. This assessment should cover all risks inherent in the Bank's activities.

The Bank's risk management system includes:

- ▶ Identification, assessment and determination of acceptable level of banking risks, including standard risks of losses and (or) liquidity deterioration due to adverse events related to internal and (or) external factors of the Bank's activities;
- ▶ Constant monitoring over the banking risks;
- ▶ Taking measures to maintain the acceptable level of banking risks;
- ▶ Continuous monitoring of the risk management system status. Methods, rules, frequency, procedures for review of monitoring results are defined in separate regulatory documents of the Bank.

(thousands of Russian rubles)

20. Risk management (continued)

Introduction (continued)

Risk management and internal control bodies

Risks are managed by the following bodies and departments within the scope of their powers as set forth in the Bank's founding and internal documents:

- ▶ Board of Directors;
- ▶ Management Board;
- ▶ President of the Bank;
- ▶ Credit Committee;
- ▶ Other committees;
- ▶ Risk Management Function;
- ▶ Risk Management Department;
- ▶ Other departments of the Bank.

The Bank aggregates all significant risks-related information broken down by its business lines, types of assets, industries, regions and other profiles that allow the Bank to identify and recognize in the financial statements its exposure to risks, risk concentration and emerging risks.

Risk reporting system includes the following reports:

- ▶ ICAAP report (including the information on compliance with planned (target) level of capital, capital adequacy, planned capital structure, planned (target) risk levels and target risk structure);
- ▶ Report on the size of capital, results of capital adequacy assessment and assumptions used in the assessment;
- ▶ Report on compliance with mandatory prudential ratios;
- ▶ Report on stress-testing results;
- ▶ Report on significant risks, including:
 - ▶ Aggregated amount of significant risks assumed by the Bank;
 - ▶ Amount of each significant risk assumed, including its changes and the effect of such change on the capital adequacy;
 - ▶ Amount of significant risks assumed by the Bank's departments and their use of the limits allowed;
 - ▶ Events of breaches of the established limits by departments and measures taken to eliminate the identified breaches.

Information on the level of risks assumed by the Bank is included in the internal accounts and communicated by the respective departments to the Bank's Management Board and Board of Directors on a regular basis:

- ▶ Heads of departments and members of Committees responsible for the risk management, as well as the Head of the Risk Management Function, review the reports prepared by the Risk Management Department on a daily basis;
- ▶ The Bank's Management Board reviews reports from departments on a monthly basis;
- ▶ The Bank's Board of Directors reviews the report prepared by the Management Board on a quarterly basis.

The powers of risk management bodies are regulated by the Bank's internal documents.

(thousands of Russian rubles)

20. Risk management (continued)

Introduction (continued)

The Board of Directors of the Bank is empowered to:

- ▶ Establish and maintain the effective functioning of the risk and capital management system;
- ▶ Ensure that the Bank's organizational structure is established in compliance with the key risk and capital management principles;
- ▶ Determine risk and capital management policies, approve the Bank's internal documents regulating key risk management principles, and approve amendments and changes thereto, particularly, in case of changes in Russian laws;
- ▶ Set limitations and standards for the amounts, areas and types of risk as well as methods of their assessment and management;
- ▶ Exercise control over the completeness and frequency of the audits of compliance with the key risk management principles by the Internal Control Function;
- ▶ Assess the effectiveness of the risk management system and procedures;
- ▶ Exercise control over the activity of the Bank's executive bodies responsible for risk management.

The Management Board of the Bank is empowered to:

- ▶ Determine the areas of investment activity;
- ▶ Set investment amounts;
- ▶ Determine the Bank's key sources of financing;
- ▶ Set limitations and standards for the amounts, areas and types of risk as well as methods of their assessment and management;
- ▶ Assess the risk associated with transactions (on a sampling basis);
- ▶ Organize and support the Bank's risk and capital adequacy management processes, including preliminary review, preparation and submission for approval to the Board of Directors of matters to be considered;
- ▶ Establish additional risk and capital management bodies of the Bank (committees, departments), determine their authorities and develop operating procedures, approve internal documentation governing their activities;
- ▶ Consider and approve internal documents and amendments thereto, except for the internal documents subject to approval by other management bodies in accordance with the Bank's Charter and internal documents, in relation to the Bank's activity (regulations, procedures, rules, methods, regulations, tariffs, etc.), including documents:
 - ▶ On the procedures for banking operations, preparation of correspondence and documents;
 - ▶ On lending terms;
 - ▶ On the criteria used to assess the financial position of potential borrowers and persons applying for a bank guarantee;
 - ▶ On the procedures and terms of loans, borrowings, bank guarantees, sureties issuance;
 - ▶ On the means to secure obligations associated with issued loans, borrowings, sureties and guarantees;
 - ▶ On creating favorable conditions for professional development and training of the Bank's employees.

The President of the Bank is empowered to:

- ▶ Make decisions concerning transactions (and determine interest rates on transactions) which are not subject to mandatory approval by the Credit Committee or the Management Board:
 - ▶ Provide incentives to the Bank's employees depending on the impact of their performance on the risk level take disciplinary action against employees;
 - ▶ Ensure involvement in risk management processes of all of the Bank's employees in line with their job responsibilities;
- ▶ Exercise control over the activities of the Bank's departments.

(thousands of Russian rubles)

20. Risk management (continued)

Introduction (continued)

The Credit Committee is empowered to:

- ▶ Develop and submit for approval to the Bank's Management Board:
 - ▶ Criteria used to assess the financial position of potential borrowers and persons applying for a bank guarantee;
 - ▶ Procedures and terms of loans, borrowings, bank guarantees, sureties issuance;
 - ▶ Means to secure obligations associated with issued loans, borrowings, sureties and guarantees;
- ▶ Makes decisions on the amount and terms of a loan/borrowing or a bank guarantee/surety issue to a particular individual or legal entity.

The Risk Management Function is empowered to:

- ▶ Organize and support the Bank's risk and capital adequacy management processes, including preliminary review, preparation and submission for approval to the Board of Directors of matters to be considered;
- ▶ Develop the Bank's internal ICAAP documentation describing ICAAP procedures(including methodologies);
- ▶ Execute control over the compliance with risk management procedures, amounts of the risk assumed and established limits;
- ▶ Regularly prepare and present reports on the risk level and risk management to the Bank's management bodies for ICAAP purposes.

The Risk Management Department is empowered to:

- ▶ Assess and manage credit, liquidity, interest and currency risks, including to:
 - ▶ Perform preliminary assessment of risk associated with each issued loan;
 - ▶ Perform preliminary assessment of risks for the total credit portfolio, including risk of losses on loans, sector concentrations, portfolio liquidity;
 - ▶ Monitor loans receivable;
 - ▶ Notify the Bank's management bodies of identified risks;
 - ▶ Develop risk-mitigating measures;
 - ▶ Regularly prepare and present reports on the risk management level and progress to the Bank's management bodies.

Internal Control Bodies of the Bank:

- ▶ Internal Control Function (ICF);
- ▶ Internal Audit Department (IAD);
- ▶ Other departments of the Bank.

Powers of the Internal Control Function and the Internal Audit Department

The ICF and the IAD were established to exercise control over compliance with the existing rules and procedures and to assist the Bank's management bodies in maintaining an effective internal control system.

The ICF was established to assist the Bank's management bodies in managing the regulatory risk as well as in ensuring the Bank's effective operation, and is a part of internal controls. The Bank has a decentralized model to manage the regulatory risk. The ICF responsibilities are assigned to employees of various internal departments of the Bank. The ICF is headed by the Head of the Legal Support and Compliance Control Department, who coordinates the activities related to the regulatory risk management and performed by employees of various internal departments of the Bank.

(thousands of Russian rubles)

20. Risk management (continued)

Introduction (continued)

The IAD performs regular audits of all Bank's activities, including the risk management system established by the Bank in accordance with the annual Work schedule approved by the Board of Directors. The IAD informs the Board of Directors, the Management Board and the President of the Bank on the fulfilled work schedule, identified violations and weaknesses, and measures taken to implement the recommendations and eliminate identified violations at least semiannually. The aims, scope of activity, goals, functions, working principles, procedure for presentation and review of the ICF and IAD's progress reports, as well as rights and duties of its employees are determined by the Bank's Charter, as well as the Regulation on the Internal Control Function and the Regulation on the Internal Audit Department.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its debtor failed to discharge its contractual financial obligations to the Bank, or discharged them in an untimely fashion or not in full.

Credit risk is limited by setting individual credit risk limits and exercising control over compliance therewith. Individual credit risk limits are set by the Credit Committee and the Assets and Liabilities Committee as part of credit transactions, taking into account credit risk limits per one borrower or a group of interdependent borrowers.

Credit risk mitigation. The Bank uses the following instruments to manage and mitigate credit risk:

- ▶ Obtaining of collateral;
- ▶ Risk-based pricing and credit term determination;
- ▶ Legal support of credit transactions for the purpose of providing maximum protection of the creditor's interests;
- ▶ Timely managerial decision-making in case of deterioration in the loan quality, including bad debt management measures – pre-trial activity and resolution of disputes in courts.

The Bank monitors the credit quality, the borrower's financial position and the status of collateral over the term of the transaction in order to ensure a prompt and timely response to changes in the risk level, as well as assessment of their effect on equity. The Bank performs preliminary, current and follow-up control over credit transactions.

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee. They expose the Bank to risks similar to credit risks and these are mitigated by the same control processes and policies.

See *Collateral and other credit enhancements* in Note 8 *Loans to customers* for the details of types of collateral held and used to mitigate credit risk.

Credit quality per class of financial assets

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

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

Risks associated with credit-related commitments

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to credit risks and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

(thousands of Russian rubles)

20. Risk management (continued)

Credit risk (continued)

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

More detailed information on the maximum exposure to credit risk for each class of financial instrument is disclosed in the relevant notes. The effect of collateral and other risk mitigation techniques is described in Note 8.

Impairment assessment

The Bank calculates ECL on the basis of several probability-weighted scenarios to assess expected cash shortfalls, which are discounted using the EIR or its approximate value. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that an entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

Probability of default (PD)	The <i>probability of default</i> is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
Exposure at default (EAD)	The <i>exposure at default</i> is an estimate of the exposure at default at a certain future date, adjusted to reflect its changes expected after the reporting date, including payments of interest or principal amount due under a contract or otherwise, expected repayment of loans issued and interest accrued on overdue payments.
Loss given default (LGD)	The <i>loss given default</i> is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The estimated provision for ECL is calculated based on credit losses that are expected during the asset lifetime (lifetime ECL), if there has been a significant increase in credit risk since the initial recognition, otherwise the estimated provision is calculated in the amount equal to 12-month ECL. 12-month ECL are part of lifetime ECL and represent ECL arising from defaults on a financial instrument possible to occur within 12 months after the reporting date. Both lifetime and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying basic portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the changes in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans as follows:

Stage 1:	At initial recognition of a loan, the Bank recognizes an estimated allowance in the amount equal to 12-month ECL. Stage 1 also includes loans and other credit facilities, for which credit risk has decreased to such an extent that they have been reclassified from Stage 2.
Stage 2:	If there has been a significant increase in credit risk for the loan since its initial recognition, the Bank recognizes an estimated allowance in the amount equal to lifetime ECL. Stage 2 also includes loans and other credit facilities, for which credit risk has decreased to such an extent that they have been reclassified from Stage 3.
Stage 3:	Credit-impaired loans. The Bank recognizes an estimated allowance in the amount equal to lifetime ECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. The allowance for ECL is only recognized or derecognized to the extent that there is a subsequent change in the lifetime expected credit losses.

Default and recovery

For ECL calculation purposes, the Bank considers the financial instrument to be in default, and, therefore, includes it in Stage 3 (credit-impaired assets) whenever a borrower is 90 days late with contractual payments or the Bank's customer is under "the strict management" according to the Bank's internal classification.

(thousands of Russian rubles)

20. Risk management (continued)

Credit risk (continued)

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

- ▶ Internal rating of the borrower indicating default or near-default. Internal rating of D1 or external rating drops by 2 or more points;
- ▶ The share price drops by 30% or more for the last 3 months;
- ▶ EBITDA of the last financial quarter (or the latest available financial information) decreases by 30% and more as compared to the similar period of the last year;
- ▶ Losses are identified in the available financial statements of the company;
- ▶ The loans to deposits ratio equals 120% or more;
- ▶ The customer is controlled by the Head Office.

If the above events occur, the customer will be on the list of customers with probability of default. This list is controlled by the respective department and is revised on a quarterly basis. If the customer's financial performance recovers, the customer is excluded from this list.

The decision on whether a recovered asset should be included in Stage 2 or Stage 1 depends on the revised credit rating at the time of recovery and the assessment of whether a significant increase in credit risk has occurred since the initial recognition.

Internal rating and PD estimation process

The Bank's independent credit risk department develops and operates its internal rating models. The Bank uses separate models with respect to main portfolios, the customers of which are assigned the internal rating ranging from 1 to 17. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Treasury and interbank relationships

The Bank's treasury and interbank relationships comprise relationships with such counterparties, as financial services institutions and banks. For these relationships, the Bank's credit risk department analyzes publicly available information such as financial statements and other external data, e.g., external ratings, and assigns the internal rating, as shown in the table below.

Corporate lending

In the event of corporate lending, the Bank's special credit risk department assesses the borrowers. The credit risk assessment takes into account various historical, current and forward-looking information, such as:

- ▶ Historical financial information with forecasts and plans broken down by customers. Such financial information includes data on realized and expected results, solvency and liquidity ratios and any other ratios that are relevant for the assessment of the financial performance of the customer. Part of such indicators is established in the customer agreements, and, therefore, more attention is paid to their assessment.
- ▶ Publicly available information on customers from external sources. Such information includes external rating grades assigned by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles.
- ▶ Macroeconomic or geopolitical information, e.g., GDP growth rates applicable to the specific industry and geographical regions in which the customer operates.
- ▶ Other reasonable and supportable information on the management quality and customer's opportunities that are relevant for the determination of the entity's performance.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

20. Risk management (continued)

Credit risk (continued)

The Bank uses the following grades of internal credit rating in relation to external rating grades:

Customer classification	Credit rating grade	Customer profile	Status according to regulations on the capital adequacy	Comparable external rating grade	
Regular customers ¹	A1	Performance of obligations is highly probable. Credit management is very stable.	Absence of default	AAA	
	A2			AA	
	A3			A	
	B1	At the moment ² there are no issues related to the performance of obligations. Credit management is stable enough.		BBB-/BBB	Investment class
	B2	At the moment there are no issues related to the performance of obligations and stability of the credit risk management plan.		BBB-	
	C1	At the moment there are no issues related to the performance of obligations and stability of the credit risk management plan.		(BB)	Non-investment class
	C2			(B)	
	C3				
	D1	At the moment there are no issues related to the performance of obligations, however, the resistance to future changes in the business climate is minor.			
	D2				
D3					
Customers requiring special attention (I)	E1	Customers requiring close monitoring, e.g. customers operating in a business climate that tends to deteriorate; customers showing unstable performance; customers having insignificant issues with the financial position or having issues with the financial position but expecting improvement according to the plan.	(CCC or lower)		

¹ Business climate is favorable and the customer has no particular issues with financial position.

² "At the moment" means that if in the future the business climate changes, it is probable that the change will affect the customer.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

20. Risk management (continued)

Credit risk (continued)

Customer classification	Credit rating grade	Customer profile	Status according to regulations on the capital adequacy	Comparable external rating grade	
Customers requiring special attention (II)	E2	Customers requiring very close monitoring, e.g., customers with distressed lending terms, e.g. with decreased, written-off or suspended interest; customers failing to perform their obligations, e.g. having past due principal amount and/or interest payable; and customers operating in a deteriorating business climate, showing unstable performance or having a poor financial position.	Absence of default	(CCC or lower)	Non-investment class
Customers under strict management	E2R	According to the assessment, customers subject to strict management under Clause 4, Paragraph 4 of the Law Concerning Urgent Measures on the Recovery of Financial System Operation (1998, Rules and Regulations No. 2 of the Financial Recovery Commission) in the presence of risk.	Default		
Insolvent customers	F1	Solvent customers experiencing difficulties due to insufficient progress in implementing business plans. There is a high probability that the customer will become insolvent (including customers receiving continuous support from a financial institution and/or other organization).			
Non-recoverable customers	G1	Customers not legally or formally bankrupt, however, experiencing serious difficulties with business and considered to have no prospects for recovery. The customers are actually bankrupt.			
Insolvent customers	H1	Customers bankrupt both legally and formally.			

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the customer's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for Stage 1 loans, the Bank assesses the possible default events within 12 months for the calculation of the 12-month-ECL. For Stage 2, Stage 3 and POCI financial assets, the EAD is considered for events over the lifetime of the instruments.

The Bank determines the EAD by modeling the range of possible outcomes in case of default at various moments of time that corresponds to multiple scenarios. Then, depending on the Bank's model results, each economic scenario is assigned PD under IFRS 9.

The Bank offers loans to its customers with the right to withdraw them and/or to reduce the limits assigned to them. The Bank does not limit the exposure to risk of credit losses by the contractual term to file the notification and instead calculates the ECL for the period that represents the Bank's expectations with respect to the customer's behavior, probability of default and future measures to reduce the credit risk taken by the Bank, which may involve reducing or terminating credit lines.

(thousands of Russian rubles)

20. Risk management (continued)

Credit risk (continued)

Loss given default

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates include the expected EAD as compared to the amounts expected to be recovered or realized as a result of the sale of collateral held.

The Bank classifies its loans into homogeneous groups based on key characteristics relevant for the assessment of future cash flows. For this purpose, historical loss data is used and a wide range of characteristics attributable to transactions (e.g., type of product, type of collateral) and the borrower's characteristics are considered.

Where required, new data and forward-looking economic scenarios are used to determine the LGD rate under IFRS 9 for each group of financial instruments. When assessing the forward-looking information, the expected results are based on multiple scenarios.

The LGD rates are assessed for all Stage 1, 2, and 3 and POCI assets. Inputs for such LGD rates are assessed and, where possible, are adjusted by testing based on historical data with regard to the latest recoveries. This is repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank believes an increase in the credit risk related to a financial asset since the date of its initial recognition to be significant, if lifetime PD under IFRS 9 has doubled since the date of initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/loan to the watch list, or restructuring the account due to a credit event. In some cases, the Bank can also consider events described above in the Definition of default section as the indication of a significant increase in credit risk, rather than as default. Regardless of the change in credit rating grades, if contractual payments are more than 90 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECL on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Considering that the Bank has not faced the default for the last ten years, there is insufficient data on default for the prior periods to design a statistical model. The Bank will continue to collect data on defaults. If inputs are sufficient, the development of an internal model will be considered.

Forward-looking information and multiple economic scenarios

The Bank used the forecasts of the real GDP growth prepared by the International Monetary Fund (IMF) presented in its World Economic Survey (WES) data sets. The IMF is a globally reputable source of economic data for the prior periods and economic forecasts. The data presented in the WES are prepared by the IMF personnel at the time of the WES issue. Data for the prior periods and forecast assessments are based on the information collected by the IMF employees on a country-by-country basis as part of their missions in the IMF member countries and through the ongoing analysis of the changing situations in each country. The IMF forecasts are published every six months, in April and October.

Credit quality per class of financial assets¹

The credit quality of financial assets is managed by the Bank's internal credit rating system, as described above. The table below shows the credit quality by class of assets for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

20. Risk management (continued)

Credit risk (continued)

As of 31 December 2020, the credit quality of financial assets is as follows:

	Note		A1-A3	B1-B3	C1-C3	<D1	Total
Cash and cash equivalents (except for cash on hand)	5	Stage 1	977,381	36,866,041	1,000,033	–	38,843,455
		Stage 2	–	–	–	–	–
Amounts due from credit institutions	7	Stage 1	3,044,061	7,062,046	–	–	10,106,107
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Loans to customers at amortized cost		Stage 1	9,025,429	23,566,147	2,263,246	522,213	35,377,035
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
		POCI	–	–	–	–	–
Debt investment securities: - at FVOCI	9	Stage 1	–	2,132,051	–	–	2,132,051
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Loan commitments	17	Stage 1	–	1,170,000	250,000	–	1,420,000
		Stage 2	–	–	–	10,000	10,000
		Stage 3	–	–	–	–	–
Financial guarantees	17	Stage 1	3,412,163	527,047	67,921	–	4,007,131
		Stage 2	–	–	140,364	–	140,364
		Stage 3	–	–	–	–	–
Total			16,459,034	71,323,332	3,721,564	532,213	92,036,143

As of 31 December 2019, the credit quality of financial assets is as follows:

	Note		A1-A3	B1-B3	C1-C3	<D1	Total
Cash and cash equivalents (except for cash on hand)	5	Stage 1	983,189	30,091,781	1,000,205	–	32,075,175
		Stage 2	–	–	–	–	–
Amounts due from credit institutions	7	Stage 1	1,114,961	9,570,710	–	–	10,685,671
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Loans to customers at amortized cost		Stage 1	13,519,345	17,288,600	7,770,695	1,040,556	39,619,196
		Stage 2	–	–	446,591	75,002	521,593
		Stage 3	–	–	–	–	–
		POCI	–	–	–	–	–
Debt investment securities: - at FVOCI	9	Stage 1	–	1,012,461	–	–	1,012,461
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Loan commitments	17	Stage 1	–	455,000	–	–	455,000
		Stage 2	–	–	–	10,000	10,000
		Stage 3	–	–	–	–	–
Letters of credit	17	Stage 1	–	–	–	–	–
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Financial guarantees	17	Stage 1	2,091,548	531,412	49,208	–	2,672,168
		Stage 2	–	–	–	–	–
		Stage 3	–	–	–	–	–
Total			17,709,043	58,949,964	9,266,699	1,125,558	87,051,264

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

20. Risk management (continued)

Credit risk (continued)

As of 31 December 2020 and 2019, there were no overdue loans.

Carrying amount of financial assets whose terms have been renegotiated, by class

As of 31 December 2020 and 2019, the Bank had no financial assets, the terms of which had been renegotiated.

Impairment assessment

The main considerations for the loan impairment assessment include: whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank assesses loans for impairment on an individual basis.

Country risk

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

Major share of the Bank's foreign placements falls on Japan which is included by the International Monetary Fund in the list of economically developed countries. To mitigate country risk, the Bank will continue to maintain the current structure of foreign placements.

The geographical concentration of the Bank's financial assets and liabilities is set out below.

	2020				2019			
	Russia	Japan	Other countries	Total	Russia	Japan	Other countries	Total
Assets								
Cash and cash equivalents	36,901,722	974,527	931,853	38,808,102	30,997,386	988,030	102,965	32,088,381
Obligatory reserve with the CBR	975,132	–	–	975,132	718,683	–	–	718,683
Amounts due from credit institutions	10,100,252	–	–	10,100,252	10,684,303	–	–	10,684,303
Derivative financial assets	98,060	6,332	–	104,392	502,295	47	–	502,342
Loans to customers	33,793,053	–	1,557,246	35,350,299	38,043,070	–	2,089,232	40,132,302
Investment securities at FVOCI	2,132,051	–	–	2,132,051	1,012,461	–	–	1,012,461
Other assets	307,102	11,099	511	318,712	230,360	10,955	920	242,235
	84,307,372	991,958	2,489,610	87,788,940	82,188,558	999,032	2,193,117	85,380,707
Liabilities								
Amounts due to credit institutions	6,001	33,565,635	–	33,571,636	491	29,076,684	–	29,077,175
Amounts due to customers	34,010,200	1,103,242	362,831	35,476,273	37,455,828	421,462	19,710	37,897,000
Derivative financial liabilities	5,402	106,496	–	111,898	22	490,696	–	490,718
Other liabilities	241,713	18,758	2,021	262,492	260,285	12,441	9,220	281,946
	34,263,316	34,794,131	364,852	69,422,299	37,716,626	30,001,283	28,930	67,746,839
Net assets and liabilities	50,044,056	(33,802,173)	2,124,758	18,366,641	44,471,932	(29,002,251)	2,164,187	17,633,868

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to meet its payment obligations as they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral, which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of customer funds attracted.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

20. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the CBR. As of 31 December, these ratios were as follows:

	2020, %	2019, %	Statutory ratio
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand)	122.20	95.5	Over 15
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	121.3	94.4	Over 50
N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year)	56.3	54.9	Less than 120

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December 2020 and 2019 based on contractual undiscounted repayment obligations, except for gross settled derivatives which are shown by contractual maturity.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay; therefore, the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities as of 31 December 2020	Less than 3 months	3 to 12 months	More than 1 year	Total
Amounts due to credit institutions	7,184,954	8,914,507	18,967,055	35,066,516
Gross settled derivative financial instruments (including derivative financial assets)				
- Contractual amounts payable	3,273,003	1,934,022	–	5,207,025
- Contractual amounts receivable	(3,216,494)	(1,877,936)	–	(5,094,430)
Amounts due to customers	35,476,273	–	–	35,476,273
Lease liabilities	1,699	68,517	160,408	230,624
Other liabilities (except lease liabilities)	23,437	12,323	275,526	311,286
Total undiscounted financial liabilities	42,742,872	9,051,433	19,402,989	71,197,294

Financial liabilities as of 31 December 2019	Less than 3 months	3 to 12 months	More than 1 year	Total
Amounts due to credit institutions	6,533,220	7,192,362	17,117,804	30,843,386
Gross settled derivative financial instruments				
- Contractual amounts payable	6,785,566	1,840,448	–	8,626,014
- Contractual amounts receivable	(6,424,510)	(1,710,787)	–	(8,135,297)
Amounts due to customers	37,879,194	104,243	–	37,983,437
Other liabilities	57,116	167,184	394,639	618,939
Total undiscounted financial liabilities	44,830,586	7,593,450	17,512,443	69,936,479

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies (Note 17). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	3 to 12 months	1 to 5 years	Total
2020	5,574,621	–	–	5,574,621
2019	4,137,167	–	–	4,137,167

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

20. Risk management (continued)

Liquidity risk and funding management (continued)

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in amounts due to customers are time deposits of individuals. In accordance with Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 15).

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank has no trading portfolio. Non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Market risk – non-trading

Interest rate risk

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

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held.

As of 31 December 2020 and 2019, the Bank discloses the effect of changes in LIBOR and EURIBOR rates on financial assets which are sensitive to changes in interest rates.

Change in LIBOR rate in % 2020	Effect on profit before tax 2020	Change in LIBOR rate in % 2019	Effect on profit before tax 2019
1.00%/(0.25%)	52,499/(13,125)	0.35%/(0.35%)	24,700/(24,700)
Change in EURIBOR rate in % 2020	Effect on profit before tax 2020	Change in EURIBOR rate in % 2019	Effect on profit before tax 2019
0.20%/(0.20%)	18,136/(181)	0.15%/(0.15%)	4,507/(4,507)
Change in MOSPRIME rate in % 2020	Effect on profit before tax 2020	Change in MOSPRIME rate in % 2019	Effect on profit before tax 2019
1.50%/(1.00%)	5,910/(3,940)	1.25%/(1.25%)	13,474/(13,474)

The sensitivity of equity is calculated by revaluing fixed rate financial assets at FVOCI as of 31 December 2020 and 2019 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	Increase in basis points 2020	Sensitivity of equity 2020
RUB	150	(34,929)

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

20. Risk management (continued)

Market risk (continued)

Currency	Decrease in basis points 2020	Sensitivity of equity 2019
RUB	(150)	34,929

Currency	Increase in basis points 2019	Sensitivity of equity 2019
RUB	125	(5,166)

Currency	Decrease in basis points 2019	Sensitivity of equity 2019
RUB	(125)	5,166

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board set limits on positions by currency based on the CBR regulations. Positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank has significant exposure as of 31 December 2020 and 2019 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a possible movement of the currency rate against the ruble on the statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of profit or loss or in equity, while a positive amount reflects a net potential increase.

Currency	Change in currency rate in % 2020	Effect on profit before tax 2020	Change in currency rate in % 2019	Effect on profit before tax 2019
USD	16%/(16%)	(5,741)/5,741	13%/(11%)	6,380/(5,398)
JPY	16%/(16%)	(293,208)/293,208	13%/(13%)	3,911/(3,911)
EUR	16%/(16%)	(1,354)/1,354	13%/(11%)	1,800/(1,523)
GBP	16%/(16%)	1,946/(1,946)	13%/(11%)	1,557/(1,318)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Bank is not sensitive to this risk as early repayment of loans is not common for the Bank's customers and the amount of early repayments is not significant in the total volume of loans granted. The Bank does not provide extensive mortgage loans which also mitigates prepayment risk.

Operational risk

Operational risk is the risk of losses resulting from inconsistency with the nature and scope of the Bank's business and (or) non-compliance with applicable legislation of internal practices and procedures of banking and other transactions, their breach by the employees of the Bank and (or) other persons, inappropriate (insufficient) functionalities (specifications) of IT, technical and other systems applied by the Bank and (or) their failures (malfunctions), or ensuing from the effect of external events.

The purpose of operational risk management is to maintain the risk accepted by the Bank at the level defined by the Bank subject to its strategic objectives, identification, assessment, monitoring, control and (or) mitigation of all factors promoting operational risks. The priority is to ensure to a maximum extent the safeguarding of assets and equity on the basis of mitigation (elimination) of potential losses and business continuity.

The need for operational risk management is defined by a significant amount of potential losses which may jeopardize the financial position of the Bank and Mizuho Financial Group (Japan) in general.

(thousands of Russian rubles)

20. Risk management (continued)

Operational risk (continued)

Correct operational risk assessment should identify and take account of the following internal and external factors:

- ▶ Accidental or intentional acts of individuals and (or) legal entities against the interests of the credit institution;
- ▶ Shortcomings of the organizational structure of the credit institution related to the distribution of powers, order and procedures of banking transactions and other operations, inefficient internal control;
- ▶ System and equipment faults;
- ▶ Unfavorable external circumstances falling beyond reasonable control of the credit institution.

Operating losses resulting from various combinations of operational risk factors are classified as losses resulting from:

- ▶ Fraud or other irregularities on the part or with participation of the Bank's personnel;
- ▶ Illegal actions of the third parties of the credit institution;
- ▶ Violation of the applicable legislation; failure to perform or improper performance of contractual obligations; violation of business practices;
- ▶ Damage or loss of property and equipment or other tangibles;
- ▶ Equipment and system breakdown;
- ▶ Inappropriate organization of activities, management and performance faults.

The Bank pays special attention to the following operational risks:

- ▶ Risk resulting from the Bank personnel's faults in performing banking transactions and other operations;
- ▶ Risks of system and equipment failures;
- ▶ Risks of business discontinuity and (or) failure to resume activities disrupted due to contingencies;
- ▶ Legal risks;
- ▶ Reputational risks;
- ▶ Risks related to the Bank's personnel;
- ▶ Risk of damage or loss of property and equipment or other tangibles;
- ▶ Risks arising from changes in regulatory framework.

To mitigate the operational risk, the Bank takes the following measures:

- ▶ Three-step control over banking transactions: preliminary, current and follow-up;
- ▶ Compilation of reports identifying operating control factors and analysis of received data to adjust current processes and procedures;
- ▶ Analysis of changes capable of affecting the performance of the credit institution;
- ▶ Analysis of new activities' exposure to operational risk;
- ▶ Analysis of individual banking and other transactions;
- ▶ Analysis of internal procedures.

Legal risk

Legal risk is a risk of losses which the credit institution may incur due to:

- ▶ Non-compliance with regulations and agreements;
- ▶ Lack of diligence and due care exercised by the Bank's lawyers in the course of banking activities (inadequate legal advice or improper document preparation, particularly, in the course of legal settlement of claims);
- ▶ Weaknesses of the legal system (contradictory legislation, lack of regulation for certain issues arising in the course of credit institution's activities);
- ▶ Violations of regulations and agreements by counterparties.

(thousands of Russian rubles)

20. Risk management (continued)

Legal risk (continued)

Internal factors of legal risk include:

- ▶ The Bank's non-compliance with the legislation of the Russian Federation, constituent documents and by-laws;
- ▶ Non-compliance of the Bank's internal documents with the legislation of the Russian Federation, as well as the Bank's failure to bring its activities and documents into compliance with changes in laws;
- ▶ Inefficient organization of legal work resulting in legal errors in the Bank's activities caused by the actions of personnel or management bodies;
- ▶ The Bank's non-compliance with the agreements;
- ▶ Lack of diligence and due care given to legal issues in developing and implementing new technologies and terms of banking and other transactions, financial innovations and products.

External factors of legal risk include:

- ▶ Weaknesses of the legal system (insufficient legal control, contradictory legislation of the Russian Federation, exposure to changes, in particular as related to weaknesses in state regulation and (or) control, incorrect application of foreign law and (or) international law), inability to settle disputes by negotiations, weaknesses of existing enforcement procedures;
- ▶ Failure by customers and counterparties to perform their contractual obligations;
- ▶ The Bank's customers, counterparties and affiliates residing in various jurisdictions.

Legal risks are included into operational risks. What differs legal risk from other banking risks is the possibility to avoid a critical risk level given banking parties fully comply with applicable laws and regulations, internal documents and procedures of the Bank.

Measures used to prevent legal risks are as follows:

- ▶ Recruitment of qualified specialists;
- ▶ Segregation of powers;
- ▶ Compliance with the effective legislation;
- ▶ Internal and documentary control;
- ▶ And other measures, as appropriate.

Reputational risk

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

The key target of the internal control system at this level is the state of the decision-making system and conformity of the adopted business development strategy to the objectives set by the shareholders and formalized in the respective documents.

To mitigate the reputational risk, the Bank takes the following measures:

- ▶ Compliance with the effective legislation and regulations of the CBR;
- ▶ Analysis of changes at financial markets and economic situation;
- ▶ Recruitment of qualified specialists;
- ▶ Segregation of powers and availability of job descriptions for employees.

Strategic risk

Strategic risk is a risk of losses which the Bank may incur as result of mistakes (deficiencies) in making decisions defining the credit institution's business and development strategy (strategic management) and manifesting through lacking or inadequate accounting for potential threats to the Bank's operations, insufficiently reasoned or incorrect determination of priority areas where the Bank can achieve competitive advantages, lack or insufficient resources required (financial, material and technical, human resources) and organizational activities (management decisions) that could contribute to achieving the Bank's strategic goals.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

21. Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

The following table shows an analysis of financial assets and liabilities by level of the fair value hierarchy:

31 December 2020	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Derivative financial instruments	–	104,392	–	104,392
Investment securities at FVOCI	2,132,051	–	–	2,132,051
Assets for which fair values are disclosed				
Cash and cash equivalents	–	38,808,102	–	38,808,102
Obligatory reserve with the CBR	–	975,132	–	975,132
Amounts due from credit institutions	–	–	10,100,252	10,100,252
Loans to customers	–	–	35,350,299	35,350,299
Liabilities measured at fair value				
Derivative financial instruments	–	111,898	–	111,898
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	33,571,636	33,571,636
Amounts due to customers	–	–	35,476,273	35,476,273
31 December 2019				
Assets measured at fair value				
Derivative financial instruments	–	502,342	–	502,342
Investment securities at FVOCI	1,012,461	–	–	1,012,461
Assets for which fair values are disclosed				
Cash and cash equivalents	–	32,088,381	–	32,088,381
Obligatory reserve with the CBR	–	718,683	–	718,683
Amounts due from credit institutions	–	–	10,684,303	10,684,303
Loans to customers	–	–	40,132,302	40,132,302
Liabilities measured at fair value				
Derivative financial instruments	–	490,718	–	490,718
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	29,077,175	29,077,175
Amounts due to customers	–	–	37,897,000	37,897,000

Management has estimated that as of 31 December 2020 and 2019 the fair values of assets and liabilities for which fair values are disclosed did not differ from their carrying amounts.

While the table containing analysis of the Bank's financial assets and liabilities by level of the fair value hierarchy was prepared, the following methods and assumptions were used to estimate the fair values:

Assets and liabilities measured at fair value

Derivatives

Derivatives valued using a valuation technique with market observable inputs are forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, and foreign exchange spot and forward rates.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

21. Fair values of financial instruments (continued)

Assets and liabilities measured at fair value (continued)

Investment securities

Fair value of investment securities at FVOCI is based on market quotes, and as of 31 December 2020 it amounted to RUB 2,132,051 thousand.

Fair value of investment securities at FVOCI is based on market quotes, and as of 31 December 2019 it amounted to RUB 1,012,416 thousand.

Assets and liabilities for which fair values are disclosed

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amount approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates at the date when these financial instruments were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Due to short term nature of transactions (less than one year), the fair values of the majority of loans issued and funding attracted approximate their carrying amount. Loans issued are linked to funding received from the Parent Bank. Interest rates and terms of transactions are revised at maturity and might be further prolonged.

Transfers between hierarchy levels

Financial instruments are transferred from Level 2 to Level 1 of the fair value hierarchy where they became actively traded and their fair value can therefore be determined based on quoted prices in active markets.

Financial instruments are transferred from Level 1 to Level 2 of the fair value hierarchy where they ceased to be traded in active markets. The market for such instruments is insufficiently active to use quoted prices for their valuation, therefore, the fair value is determined using valuation techniques for which all significant inputs used are observable in active markets.

The Bank had no transfers between levels of the fair value hierarchy in 2020 and 2019.

22. Offsetting of financial instruments

As of 31 December 2020 and 2019, the Bank had no financial assets offset against financial liabilities in the statement of financial position.

The table below shows the effect of enforceable master netting agreements and similar agreements (ISDA, RISDA and analogous) that do not result in an offset in the statement of financial position:

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities offset in the statement of financial position</i>	<i>Net amount of financial assets recognized in the statement of financial position</i>	<i>Related amounts not offset in the statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Cash collateral received</i>	
31 December 2020						
Financial assets						
Derivative financial assets	104,392	–	104,392	–	–	104,392
Financial liabilities						
Derivative financial liabilities	111,898	–	111,898	–	–	111,898

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

22. Offsetting of financial instruments (continued)

31 December 2019	Gross amount of recognized financial assets	Gross amount of recognized financial liabilities offset in the statement of financial position	Net amount of financial assets recognized in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Derivative financial assets	502,342	–	502,342	(69)	–	502,411
Financial liabilities						
Derivative financial liabilities	490,718	–	490,718	(69)	–	490,787

23. Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 20 *Risk management* for the Bank's contractual undiscounted repayment obligations.

	2020			2019		
	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year	Total
Cash and cash equivalents	38,808,102	–	38,808,102	32,088,381	–	32,088,381
Obligatory reserve with the CBR	975,132	–	975,132	718,683	–	718,683
Amounts due from credit institutions	3,028,182	7,072,070	10,100,252	5,184,303	5,500,000	10,684,303
Derivative financial assets	104,392	–	104,392	502,342	–	502,342
Loans to customers	24,873,746	10,476,553	35,350,299	28,290,543	11,841,759	40,132,302
Investment securities at FVOCI	1,048,616	1,083,435	2,132,051	1,012,461	–	1,012,461
Other assets	299,756	18,956	318,712	224,568	17,667	242,235
Total	69,137,926	18,651,014	87,788,940	68,021,281	17,359,426	85,380,707
Amounts due to credit institutions	18,314,946	15,256,690	33,571,636	12,178,046	16,899,129	29,077,175
Amounts due to customers	35,476,273	–	35,476,273	37,897,000	–	37,897,000
Derivative financial liabilities	111,898	–	111,898	490,718	–	490,718
Other liabilities	47,716	214,776	262,492	67,102	214,844	281,946
Total	53,950,833	15,471,466	69,422,299	50,632,866	17,113,973	67,746,839
Net position	15,187,093	3,179,548	18,366,641	17,388,415	245,453	17,633,868

For managing its net position the Bank calculates projected net position indicators with maturities of 1 day, 1 week and 1 month on a weekly basis. In case projected indicators reach 80% of the established maximum values, the Bank takes respective measures to find missing funding sources by making use of operations at the local monetary market and funds from the parent bank.

24. Related party disclosures

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

As of 31 December 2020 and 2019, Mizuho Bank, Ltd. (Japan) was the ultimate shareholder of the Bank.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2020 financial statements

(thousands of Russian rubles)

24. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

	2020		2019	
	Parent	Subsidiaries of the Parent	Parent	Subsidiaries of the Parent
Assets				
Cash and cash equivalents	–	–	–	–
Correspondent accounts and overnight deposits in the parent bank at the end of the period (contractual interest rate is 0%)	430,432	520	678,502	834
ECL allowance for correspondent accounts	(335)	0	(75)	–
Time deposits in the parent bank at the end of the period (contractual interest rates in 2020 and 2019 were 0.01% and 1.52%, respectively)	544,094	–	309,529	–
ECL allowance for time deposits	(424)	–	(34)	–
Derivative financial assets	6,332	–	47	–
Other assets	10,414	–	10,890	–
Liabilities				
Amounts due to other banks	33,565,635	–	29,075,776	–
Time deposits at the end of the period, contractual interest rate as of 31 December 2020: 0.205%-1.4778% for deposits denominated in USD, 4.25%-7.65% for deposits denominated in RUB, 0.01% for deposits denominated in EUR (31 December 2019: 1.4778%-2.805% for deposits denominated in USD, 6.11%-7.9% for deposits denominated in RUB, 0.01% for deposits denominated in JPY, 0.01%-0.2389% for deposits denominated in EUR)				
Derivative financial liabilities	106,203	–	490,696	–
Other liabilities	18,480	–	13,417	–
Interest income				
Interest income on current accounts, overnight and time deposits	27,188	2	26,629	–
Interest expense				
Interest expense on amounts due to credit institutions	(1,297,410)	–	(1,192,281)	–
Fee and commission income/(expense)				
Fees and commissions received on settlement transactions	3,435	–	2,843	–
Fees and commissions paid on settlement transactions	(794)	–	(2,168)	–
Commission paid on guarantees obtained	(163,594)	–	(132,219)	–
Gains/(losses) from foreign currencies				
Gains/(losses) from forward transactions	756,428	–	(802,504)	–
Result on dealing in foreign currencies	–	–	2,555	(347)
Other gains/(losses)				
Other operating income	3,650	–	5,273	–
Other operating expenses	–	–	(18,138)	–

Commitments and guarantees received as of 31 December 2020 comprise guarantees received from the Parent in the amount of RUB 92,913,257 thousand (2019: RUB 77,359,175 thousand).

Compensation to key management personnel comprises the following:

	2020	2019
Salaries and other short-term benefits	41,920	37,666
Social security costs	3,487	2,645
Total key management personnel compensation	45,407	40,311

(thousands of Russian rubles)

25. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, principles and ratios established by the Basel Capital Accord 2010 and the ratios established by the CBR in supervising the Bank.

During 2020 and 2019, the Bank had complied with its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. No changes were made in the capital management objectives, policies and processes in 2020 in comparison with prior years.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholder, return capital to shareholders or issue capital securities (Note 16).

The CBR requires banks to maintain a capital adequacy ratio above the prescribed minimum percentage of risk-weighted assets computed based on RAL. As of 31 December 2020 and 2019, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

26. Events after the reporting period

Subsequent events those consequences are difficult to predict are:

- ▶ Unpredictable changes of market conditions and currency exchange rate against Russian ruble;
- ▶ Negative effect of COVID-19 pandemic that causes decrease of economic activity in certain economic sectors;
- ▶ Increase of geopolitical risks connected with the consequences of economic sanctions by the USA, the EU and by certain countries against the Russian Federation and certain Russian legal entities in case of political tension increase.