

Supervisory Board Committees

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

Changes in the Supervisory Board Committees in 2019

	Audit and Risk Committee		Compensation, Corporate Governance and Nominations Committee		Strategy and Capital Markets Committee	
	Elected on 15.06.18	Elected on 28.05.19	Elected on 15.06.18	Elected on 28.05.19	Elected on 15.06.18	Elected on 28.05.19
William Forrester Owens (Independent Director)			+	+	+	+
Andrew Sergio Gazitua (Independent Director)			+	+	+	+
Roman I. Avdeev (Non-Executive Director)					+	+
Thomas Günther Grasse (Non-Executive Director)	+	+			+	+
Vladimir A. Chubar (Executive Director)					+	+
Andreas Klingon (independent director)	+	+			+	+
Ilkka Seppo Salonen (Independent Director)	+	+			+	+
Sergey Yu. Menzhinsky (Non-Executive Director)					+	+
Lord Daresbury (Peter) (Independent Director)			+	+	+	+

Chairman

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

Number of Supervisory Board Issues Pre-Reviewed by its Committees



The Audit and Risk Committee

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

🔍 The full list of the Committee's functions and competences is given in the Regulation on the Audit and Risk Committee.

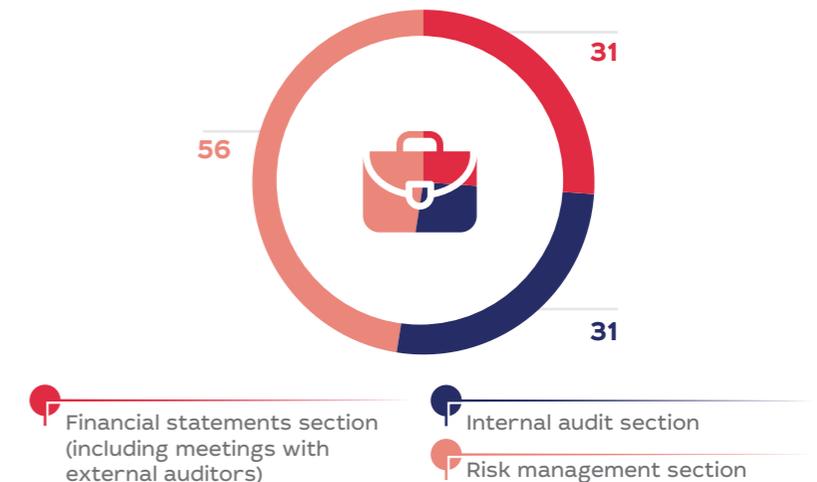
Audit and Risk Committee's Report

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

🔍 The Regulation of the Audit and Risk Committee and any amendments shall be approved by the Supervisory Board and is published on the website of Credit Bank of Moscow: <https://mkb.ru/en/investor/emitent-news>

The ARC routinely covers financial statements and management, risk management, internal control, internal audit (including relevant corporate governance issues) as well as external audit and information security. Other topics are considered as they arise in coordination with the Chair of the Supervisory Board.

Issues Addressed by the Audit and Risk Committee in 2019



The Committee is accountable to the Supervisory Board and its work is governed by Russian Legislation, the Bank's Charter, Regulation on Supervisory Board as well as Regulation on The Audit and Risk Committee, the pertinent regulatory documents of the Central Bank of Russia and the recommendations issued by the regulator. The Audit and Risk Committee minutes are tabled for the Supervisory Board's meeting for consideration and the Committee Chairman updates the Board in each meeting verbally on the Committee proceedings and recommendations on areas within its responsibility.

The Committee has three members: Thomas Grasse (Non-Executive Director), Andreas Klingen (Independent Non-Executive Director) and Ilkka Salonen (Independent Non-Executive Director, Chair). Its members have a wide range of skills and experience in finance, internal audit, risk management and compliance. In an effort to obtain an integrated holistic view of the bank and as a general practice all Members of the Supervisory Board participate in the meetings of the Committee, with the right to comment the agenda items. Also the CEO, CRO, CFO, the Head of Internal Audit and the external auditors of the bank attend the ARC meetings. Key members of the management team, Risk Management Group and the Head of Internal Control who are also responsible for the Compliance function of the bank are also invited to attend as appropriate.

During 2020 the ARC had 5 meetings in person and 15 in absentia respectively. The participation activity of the members in the meetings was as follows: all committee members participated in any of the 20 meetings.

The meetings are split in to three sections, one dealing with Finance, the other with Internal Audit and third with Risk Management Issues.

In addition to the meetings in person and in absentia, the Committee had 4 meetings held by means of conference calls in which matters related to financial reporting were discussed. The calls were attended by the bank's senior management and the International Finance Reporting Standards (IFRS) Auditor.

MKB has been a systemically important credit institution since 2017. The committee therefore emphasized the need for the bank to do its planning of capital accounts with high quality. This was reflected especially in the tasks of the Finance and Risk Management functions and through this also had an impact on the priorities the Committee set in its work.

The ARC continuously evaluates in any of its meetings the professional level of the personnel of the functions it supervises as well as the prevailing procedures and policies and assesses whether they are on an appropriate level in regard to the bank's operational environment and the risks it is facing. Based on our findings we are comfortable with the quality of the human resources involved and the processes used in the management of the Finance, Risk Management and Internal Control Functions in Credit Bank of Moscow and note with satisfaction that the bank acknowledges the need to continuously develop them.

Finance

In Finance the ARC's duty is to control that the bank's financial statements are produced, both in International Standards and by Russian Accounting Practices (RAP), in such a way that they are in compliance with financial reporting standards and governance requirements [give a fair picture of its accounts both in the annual reports as well as in the interim statements]and to prepare approval by the Supervisory Board. The integrity of MKB financial statements and financial reporting, principal risks, areas where material accounting judgements and management estimates have been made as well as scope and clarity of disclosures was comprehensively reviewed and considered in detail by the Committee and it received regular updates from the bank's financial management as well as the external auditors.

The Committee reviews the Management Letter produced by the external auditors and monitors recommendations implementation, as appropriate via the head of internal audit.

An essential part of this process is assessment of the effectiveness and independence of the Auditors and their Senior Partners engaged in the audit process. The Committee looked at the issue attentively and its conclusion is that in 2019 this requirement was met in a fully satisfactory manner.

The IFRS Auditor of the Bank is KPMG Russia, having won the tender organized in 2018. In Autumn of the year 2019 the Auditing Partner, Natalia Lukashova announced that she is leaving the company and Ekaterina Tatarinova replaced her as the Auditing Partner. The KPMG team made a report in each of the ARC meetings. In addition the members of the ARC met from time to time with the Auditing Partner without the presence of the bank's representatives.

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

With the migration to IFRS9 standard the importance of models used in assessment of the quality of the loan book of the bank has grown substantially. This means that these models have to be regularly validated. In Credit Bank of Moscow the validation is responsibility of the finance function and consequently this topic was discussed in depth in the Finance section during the year. An external consultant was hired to assess the models and in the last meeting of the year the results of their work were brought to the attention of the Committee.

Internal Audit

The Committee's responsibility is to ensure the independence of Internal Audit function with among other things controlling that the IAD is being allocated enough resources and overseeing that its planned audits reflect the risks imbedded in the internal control processes. In addition to the annual budget of the Internal Audit Division, the Committee also recommends to the Supervisory Board the level of remuneration (both fixed and variable part) of the Head of the Internal Audit.

Bringing the Internal Audit function to meet the highest industry standards was high on the agenda of the ARC in 2019. An external consultant was engaged to support the management of the Internal Audit Division in the process. Planning process of the audits was also included in the scope of the project. As a result of this project the internal audit charter and the internal audit manual were also considered and updated.

The committee gave also substantial amount of attention to make sure that the audit processes in the bank and its subsidiaries are coherent and that the head of the bank's Internal Audit Division is having full information on the Audits conducted in the subsidiaries.

The resources allocated to Internal Audit grew to 28 persons during the year, which corresponds to the needs. The budget for professional training was also brought to the level corresponding to the new level of headcount. The IAD personnel continued their efforts to receive Certified Internal Auditor certificates.

Risk Management

In respect to risk management functions the ARC is to control the reliability and effectiveness of the bank's risk management, internal capital adequacy assessment procedures and internal control systems. This includes reviewing and evaluating the risk management and internal control policies.

The Committee focuses on supervising and reviewing the Group risk strategy, risk management framework, risk appetite statement, risk tolerance and in all its meetings monitored key risk indicators developments as per reports provided by the Chief Risk Officer. Furthermore, regular stress testing results for several risk categories and management's key assumptions underlying each scenario testing were reviewed by the ARC to assess resilience as well as regulatory compliance with minimum standards set by the Central Bank of Russia.

The Committee also comprehensively reviews and monitors strategic plans and projects developed by Risk Management Division addressing complex risk management solutions involving several business lines and business functions. The ARC is committed to strive for a holistic understanding of bank's risk management ecosystem as well as new potential emerging risks to assist the Supervisory Board in its decisions. In addition the ARC pledges to guide the bank to a risk culture appropriate to an institution of its position.

The Bank's Internal Control Section was reorganized during the year in order to ensure that the compliance- and AML-related processes are centralized. Throughout the year the Committee reviewed and monitored the effectiveness and status of sanctions risk compliance controls, the Anti Money

Laundering and Anti Terrorist Financing as well as Know Your Customer policies, procedures and processes implemented by the bank. Another important item was the assessment of the Business Continuity and Disaster Recovery Plan and its consequent development to close the gaps existing vis-à-vis the industry's best practices.

The Committee followed – and will continue to follow – the work done in the sphere of IT-risks, including the cyber-risks.

Notwithstanding the credit risk and all related portfolio aspects remain a central risk consideration. Therefore, risks imbedded in the bank's balance sheet were discussed in every session of the Committee.

The bank concentrated its management of liquidity risk in to the Treasury function. With this change the ARC has started to receive regular reports from the Treasury in each of its meeting.

The Committee updated its Regulation which was subsequently approved by the Supervisory Board and performed a self assessment to consider its performance.

The Compensation, Corporate Governance and Nominations Committee

The Compensation, Corporate Governance and Nominations Committee formulates the bank's remuneration policy, principles and criteria for Supervisory Board members, Management Board members and the Chairman of the Management Board, preliminarily appraises the Management Board and the Chairman of the Management Board and annually conducts a self-appraisal, puts forward proposals to the Supervisory Board as to terms of contracts with Management Board members (including early termination provisions), advises the Board of Directors on setting the principles governing remuneration and bonus payments for the Corporate Secretary, communicates with shareholders to prepare recommendations for them as to voting on the election of Supervisory Board members, plans appointments and advises on building a good corporate governance system.

🔍 The full list of the Committee's functions and competences is given in the Regulation on the Compensation, Corporate Governance and Nominations Committee, available on the bank's website.

Compensation, Corporate Governance and Nominations Committee's Report

The Compensation, Corporate Governance and Nominations Committee was established to advise the Supervisory Board on matters of corporate governance system development, appointment and succession of the bank's management, providing recommendations to the Bank's shareholders as to nominations to the Supervisory Board and remuneration of Supervisory Board members, advising the Supervisory Board regarding the remuneration policy for and approving the actual remuneration to Management Board members, and ensuring compliance with all appropriate regulations within the committee's responsibilities.

Due to the increased importance of Environment, Social and Governance matters, the duties of the Committee were amended to include the review of sustainability reports of the bank to be published annually, with continuing responsibility for corporate governance improvement. The Committee also recognized the importance of succession planning for Supervisory Board members, and this was also added to the Committee's functions.

Issues Addressed by the Compensation, Corporate Governance and Nominations Committee in 2019



The Committee consists of three members: William Owens (Chairman of the Committee), Andrew Gazitua and Lord Daresbury (Peter). All Committee members are independent directors, as required by the Moscow Exchange for admitting securities to its first level quotation list.

During 2019, twelve Committee meetings were held, six of which were in person. The Committee reviewed and provided recommendations to the Supervisory Board on the following matters:

- The Committee actively worked in the areas of sustainability, ESG and improved corporate governance. The Committee assisted in the CRS activities of the Bank, working to gain ESG rating of Rating-Agentur Expert RA GmbH. In addition, the Committee managed the implementation of resolutions approved by the Supervisory Board and its committees, developed plans to improve the bank's corporate governance system, amended internal regulations related to the Committee competence, and reviewed a report on compliance with principles and recommendations of the Bank of Russia's Corporate Governance Code;
- With respect to remunerations, the Committee conducted performance appraisals of the Management Board and its Chairman, advised the Supervisory Board on the amount of remuneration to be paid, developed KPIs for the Management Board and its Chairman, reviewed issues concerning large remuneration payments and deferred award payments, conducted the annual performance appraisal of the Corporate Secretary and prepared recommendations to the Supervisory Board concerning the Secretary's bonus;
- With respect to HR management strategy, motivation, nominations, the Committee conducted performance appraisals of the Supervisory Board and its committees and developed ways to improve Supervisory Board performance, evaluated nominees to the Supervisory Board for election at the annual General Shareholders' Meeting, discussed and approved changes in the Management Board, reviewed HR strategy, and discussed a long-term incentive plan for members of the Management Board, a succession program for Management Board members, and risk taker/risk manager categorization criteria;
- With respect to organization, monitoring and control of the payroll system, the Committee reviewed proposed changes to internal regulations.

The Committee believes it made progress last year in improving the compensation system and corporate governance of the Bank, while also fulfilling its role in nominations and management approvals.

The Strategy and Capital Markets Committee

The Strategy and Capital Markets Committee analyses the bank's strategic management issues and ensures functioning of the strategic management cycle, formulation of the bank's dividend policy and evaluates the effectiveness of the bank's long-term performance. The Committee also focuses on preparing recommendations for the Supervisory Board regarding fund raising from international capital markets, optimising the internal processes related to the bank's capital market activities and building a model of internal cooperation in connection with funding.

In addition to the above tasks, the Committee is involved in the budget process, reviews information at the stage of budget preparation, and performs a preliminary review of the bank's financial model.

🔍 The full list of the Committee's competences is given in the Regulation on the Strategy and Capital Markets Committee, available on the bank's website.

Strategy and Capital Markets Committee's Report

As one of the top private banks in the Russian market, MKB continued to focus on capitalizing on its leading position in the market in 2019. The overall banking environment had improved in 2019 as the level of nonperforming loans have fallen but limited areas of growth and shrinking margins still presented challenges for market players. The Russian banking market is highly competitive, dominated by large state-owned banks which allow for certain advantages. Within this context, MKB has developed a strategy of identifying areas of profitable growth within its universal banking framework where the bank serves both corporate and SME/retail segments of the market.

The Strategy and Capital Market Committee (SCMC) has focused its efforts this year on supporting managements initiatives in developing new areas of profitable growth, with a strong focusing on the bank's IT/digital transformation.

A key oversight of the SCMC is the monitoring of MKB's financial progress against an agreed budget throughout the year. The bank's financial performance was marked by a not strong results in the first half of the year: significant amount of high-liquid assets on the bank's balance sheet as well as faster growth of retail deposits and repricing of big corporate deposits in 1H2019 led to a lower net interest margin. This result and the challenge of growing the corporate bank loan book drew closer attention by the SCMC over the course of 2019 to focus on management's efforts of enhancing its corporate strategy to mirror the bank's ambitions. Management responded by devising clear targeted initiatives around specific sectors and upgraded the team and the bank's offering to targeted blue chip clients.

By the fourth quarter, these efforts had begun to show signs of progress, positioning MKB to enter into 2020 with a stronger basis to grow its corporate business and achieve the targets in place for the year. The other key areas of the bank, notably retail and investment banking, achieved their targets.

Issues Addressed by the Strategy and Capital Markets Committee in 2019



A key item to note is the bank's continued strong growth in funding, surpassing its targets for both corporate and retail deposits as well as placement of bonds and loans domestically and internationally. These achievements continue to broaden the bank's funding base and reduce reliance on single sources. Although the overall monthly performance of the bank by the end of 2019 was satisfactory, the year's total performance was hampered by the poor performance in the first part of the year, partly due to specific accounting treatment of the FX-nominated perpetual Tier 1 subordinated Eurobonds given the stronger rouble in 2019.

In 2019, MKB's retail business showed good growth and met its target for the year. The retail management team has devised clear strategies and targets, many of which relay on the continued transformation of the bank's digital capabilities. The team has continued to refine its risk management framework as it drives to attract profitable clients without sacrificing the overall quality of the portfolio. In investment banking, MKB is now firmly positioned among the top 5 arrangers in the Russian domestic bond market, with more than 80 issuances of over RUB900 bln in 2019. This capability helps the bank offer its corporate clients a seamless offering in respect to debt opportunities across a broad spectrum. As the bank evolves, the investment banking team is looking to expand its offering to clients by offering.

During the course of the year, SCMC spent significant time reviewing MKB's various strategic initiatives. As the bank continues to position itself among the leading banks in Russia, the bank continues to develop strategies to differentiate itself from its competitors. Each division and key operating subsidiary of the bank made numerous presentations on their strategies to the SCMC over the course of the year. In November, SCMC held an offsite with key members of management to broaden the discourse and ensure a holistic approach to MKB's strategy. This exercise has reinforced key aspects of the bank's vision and has served to undertake a further review which is targeted to be completed in the first quarter of 2020.

As a bank with a strong presence in Moscow and growing business in the St Petersburg region, MKB believes that an important area for potential growth is beyond its core markets. A key strategy for the bank is the further development of its digital offerings both with retail and corporate customers. The bank also is indirectly employing its key subsidiaries as a means to expand beyond its core markets, a strategy that allows for growth through alternative and less costly approaches. SKS Bank and Elecsnet JSC target primarily retail clients by providing fee-based services and products through a fast-growing agency network and through one of the largest networks of payment terminals and ATMs in Russia. Inkakhran employ cash services throughout many regions of Russia and are used to support corporate clients of MKB. The bank continuously reviews acquisition opportunities (M&A deals) in the market as a potential way to expand, as exemplified by acquisition of retail deposit base of Sovetsky bank and rebranding its branches. SCMC monitors opportunities presented by management.

A core focus of the SCMC has been reviewing the evolution of MKB's Information Technology division ("IT") and the bank's digitalisation platform and services. Like all leading financial institutions, MKB's IT strategy has become the corner stone for the bank's future endeavours and performance.

In 2018, a new management assumed leadership of the IT division and introduced a clear framework and plan to elevate MKB's IT functionality and robustness. Last year, this team articulated a clear plan with milestones to be achieved during 2020. During the course of the year, the SCMC met with the IT leadership each quarter to review progress of the plan's implementation. SCMC believes the success of MKB is highly dependent on effective implementation of IT strategy and takes particular interest in supporting the bank's efforts in this area.

As part of its quarterly review, the SCMC monitors MKB's key capital and liquidity ratios in order to assist in assessing the bank's capital market needs and activities. MKB is among the most active issuers of bonds in the international markets among the Russian banks. Management has made it a priority to establish and maintain strong relationships with international investors, knowing that is very important to diversify the sources of funding and capital for the bank as well as help to manage its currency and liquidity gaps. Throughout the year, a dedicated IR team and senior management attend all the key investor conferences and visit or entertain calls from investors on a regular basis. A key priority of management has been to broaden its base of investors, targeting potential sources from Asia, in particular China, and the middle east. This effort made by management has resulted in MKB being well known in the international markets. In 2019, the bank was able to tap into the international markets with two very successful issuances in the first quarter, a USD 500 mm Eurobond at 7.12% and a EUR 500 mm Eurobond at 5.15%. As part of its cost management, in November the bank successfully concluded a tender offer of USD 150 mm for 2 series of notes, Loan Participation Notes due 2027 and Perpetual Callable Loan Participation Notes, issued by CBoM Finance p.l.c followed by the redemption of USD 247 mm of the same notes. The bank also signed syndicated loan agreement of up to USD 500 mm in April with 12 large lenders from Europe, the USA, Middle East and Asia, ING BANK N.V., London Branch acted as a Facility agent, and successfully concluded a syndicated loan facility of up to RMB 2,000 mm in December with a consortium of regional Chinese banks led by HARBIN BANK CO. LTD. and HUIZHANG BANK CO. LTD. This syndicated loan is symbolic of not only a new source of funding for the bank but also represents the

opening up of the Chinese market for further activities for MKB. In September, the bank, responding to the advent of higher capital buffers for strategically important banks and the bank's growth in balance sheet, issued a primary offering of RUB 14,712 mm of common equity shares to support its capital ratios. Most of the shares were taken up by existing shareholders.

The financial year ending in December 2019, was a year of consolidation for MKB. The various teams in the bank devised and made decisions on several key initiatives which positions the bank to grow profitably across several segments without compromising its risk parameters. The overall economic environment remains uncertain but the bank has identified attractive segments for growth in 2020 and beyond and will continue to monitor the market for attractive opportunities as they become evident. SCMC and management are closely aligned and understand to succeed in the Russian market a disciplined but flexible approach is essential.