TINKOFF

NEW CHALLENGES, NEW SOLUTIONS

ANNUAL REPORT 2019
TCS GROUP HOLDING PLC

№1

BEST IN MOBILE BANKING IN CENTRAL AND EASTERN EUROPE

* by Global Finance 2019

CONTENTS

TCS GROUP IS RUSSIA'S LEADING PROVIDER OF ONLINE FINANCIAL AND LIFESTYLE SERVICES VIA ITS TINKOFF ECOSYSTEM.

STRATEGIC REVIEW

DIRECTORS' REVIEW

FINANCIALS

TCS Group or Tinkoff (or the Group) are the names used in this Report for TCS Group Holding PLC and its group of companies operating under the Tinkoff brand in Russia. These include Tinkoff Bank and Tinkoff Insurance.
Summary of presentation of financial and other information.
All financial information in this document is derived from the financial statements of TCS Group Holding PLC and has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap 113, which are for the year ended 31 December 2019 included in this document. A detailed description of the presentation of financial and other information is set out after page 63 of this document.
Market data used in this document, including statistics in respect of market share, have been extracted from official and industry sources TCS Group Holding PLC believes to be reliable and is sourced where it appears. Such information, data and statistics may be approximations or estimates. Some of the market data in this document has been derived from official data of Russian government agencies, including the CBRF, Rosstat and the FSFM. Data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries.

Certain statements and/or other information included in this document may not be historical facts and may constitute "forward looking statements". The words "believe", "expect", "anticipate", "intend", "estimate", "plan", "forecast", "project", "will", "may", "should" and similar expressions may identify forward looking statements but are not the exclusive means of identifying such statements.
Forward looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, operations or performance, capital expenditures, financing needs, our plans or intentions relating to the expansion or contraction of our business as well as specific acquisitions and dispositions, our competitive strengths and weaknesses, our plans or goals relating to forecasted operations, reserves, financial position and future operations and development, our business strategy and the trends we anticipate in the industry and the political, economic, social and legal environment in which we operate, together with the assumptions underlying these forward looking statements. We do not make any representation, warranty or prediction that the results anticipated by such forward looking statements will be achieved.
Nothing in this document constitutes an invitation to invest in securities of TCS Group.

COVID-19
The existence of COVID-19 was confirmed in early 2020 and has spread across China, to Russia and beyond, causing disruptions to businesses and economic activity. Governments in affected countries are imposing travel bans, quarantines and other emergency public safety and fiscal measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak.
The Group has put contingency plans in place both to protect the workforce and ensure that we mitigate the impact of COVID 19. For instance, currently, our employees are mainly working from home due to travel restrictions imposed by governments. The ultimate severity of the Covid-19 outbreak is uncertain at this time, and therefore the Group cannot reasonably estimate the impact it may have on future operations. However, our technology systems continue to operate to the high levels we demand and the Group has high levels of both liquidity and capital reserves. Therefore, the Directors have concluded that there is currently no material impact on the Group's operations and liquidity at the time of publication of this report as a result of COVID-19.

THE LEADING LIFESTYLE AND FINANCIAL SERVICES ECOSYSTEM

TINKOFF

№1 Consumer Digital Bank in CEE*

19mn downloads

1.8mn daily active users

101mn sessions per month

5.6mn monthly active users

Daily banking
- Debit cards
- Credit products
- Payments
- P2P transfers
- Utilities payments

Small business
- Business account
- Salary projects
- Overdraft
- Business loans
- Accounting

Savings & Investments
- Deposits
- Securities
- Pensions
- Investment strategy

Real Estate
- Insurance
- Valuation
- Legal support
- Utility bills, taxes
- Rent payments

Mobile
- Own number
- Own mobile network code
- Own SIM cards

Auto
- Fines
- Insurance
- Auto loans

Insurance
- Cars
- Travel
- Property
- Health
- Life

Entertainment
- E-commerce
- Ticketing
- Restaurant reservations
- Stories
- Travel

ONE CLICK
LIFESTYLE BANKING WITH YOUR MOBILE PHONE

*Source: Global Finance

PROVEN TRACK RECORD OF DRIVING SUSTAINABLE GROWTH

HIGHLIGHTS

Growth

- 3 million acquired customers, reaching 10.3 million.
- Loan book growth of 66% in 2019, powered by the successful scaling up of new, non-credit card products
- Highest ever engagement growth on our mobile app: reached DAU of 1.8m and MAU 5.6m at YE19.
- Exponential growth of our retail brokerage platform, opening >1m accounts in 2019
- Retail current accounts growth of 54% YoY., amounting to a record 51% of total customer accounts.

New business lines

- Share of non-credit cards in the loan book portfolio at a historic high of 39%, with secured lending accounting for 15% of the total loan book
- Tinkoff Investments reached break even in July 2019
- Tinkoff Business recorded record high net income of RUB 4.8 billion
- Insurance revenues doubled in 2019
- Launched Russia's and Europe's first Super App

Profitability

- Record high net income of RUB 36.2 billion, growing 31% YoY, with industry leading ROAE of 55.9%
- Tinkoff's net income CAGR of 49% in 2016-19 exceeded ambition provided in 2016 of 20-40% annual growth

Capital Markets

- Listed our GDRs on the Moscow Stock Exchange on October 28.
- Raised $300m of equity in an oversubscribed deal
- Raised RUB 20bn in Rub bonds to fund our growing secured lending portfolio
- Fitch upgraded our Long-term FX and RUB rating from BB- to BB with Stable Outlook
- Moody's rating upgraded to Ba3 stable from B1 stable.

Liquidity and capitalisation

- Total assets up by 55% to RUB 581bn, with cash and treasury portfolio up at RUB193bn
- Total equity up by 127% to RUB 96.1 bn
- 31 December 2019 CBRF N1 statutory capital ratio of 12.1% and Basel III Common Equity Tier 1 at 15.9%
- Treasury portfolio of RUB135bn of highly liquid CBRF repoable bonds

2019

Customer accounts
411.6
RUBbn

Total assets
579.5
RUBbn

ROE 2019
55.9
%

Net profit
36.1
RUBbn

N1.0 at the end of 2019
12.1
%

New credit customers
+1.6
mn

OUR HISTORY

HIGHLIGHTS OF TCS GROUP'S INNOVATIVE DEVELOPMENT — NET PROFIT (RUBBN)

2019 — 36.1

- Launch of the first "Super App" in Russia and Europe
- Raised $300m in equity financing
- Introduction of Oleg, the world's first voice assistant for financial and lifestyle tasks
- Increased equity stake in Cloudpayments from 55% to 95%
- Started offering for sale to third parties the proprietary Tinkoff VoiceKit

2017–2018 — 46.1

- Acquisition of a stake in Kassir.ru to enrich our lifestyle offering
- A multi-currency platform launched accommodating up to 30 currencies
- Full brokerage and depositary services license obtained
- Launch of Tinkoff Junior app, a service for children and teenagers
- Launched Cyprus-based home call centre
- Home equity loans pilot started
- Launch of a virtual development hub, eleventh IT-hub of Tinkoff
- Launch of Tinkoff Mobile
- Roll-out of own ATM's across Russia
- Acquisition of a 55% stake in CloudPayments
- Launch of Stories for mobile app
- Launch of Tinkoff Property
- A partnership with Skolkovo Innovation Center announced
- Tinkoff Bank was admitted to membership in the FinTech Association

2014–2016 — 16.3

- Launched a network of software development hubs countrywide, the first in St Petersburg
- Joined the Russian blockchain consortium
- Introduced a face recognition system for scoring
- Launched a new management long term incentive plan
- One of the first launching Apple Pay and Samsung Pay in Russia
- Acquired parts of Svyaznoy Bank's credit card portfolios
- Became Russia's second largest credit card provider
- Launched a range of new business lines, transitioning to online financial marketplace Tinkoff.ru
- Issued new co-branded cards
- New brand - Tinkoff Bank
- Launch of a series of co-branded cards
- Launch of a number of mono mobile applications

2010–2013 — 11.8

- TCS Group IPO on the London Stock Exchange Main Market
- Launch of Tinkoff Insurance
- Launch of cash loans
- Minority stakes sold to Baring Vostok and Horizon
- Launch of online POS loan programme
- Launch of mobile banking
- Launch of the mobile and telesales sub-channels of Tinkoff Bank online customer acquisition platform
- Launch of online acquisition channel for credit cards
- Launch of "smart courier" service

2006–2009 — -0.6

- Launch of the retail deposit programme
- First debit card issued
- Minority stakes sold to Goldman Sachs and Vostok Nafta
- Launch of internet bank
- First credit card issued
- Tinkoff Credit Systems Bank was created by Oleg Tinkov

BUSINESS MODEL

TCS GROUP'S RAPIDLY EVOLVING CLOUD BUSINESS MODEL IS SCALABLE WELL BEYOND FINANCIAL SERVICES. COMBINED WITH A SMART BALANCE SHEET AND A BEST IN CLASS BROKER PLATFORM SOLUTION IT GIVES THE BIGGEST COMPETITIVE ADVANTAGE IN A RAPIDLY DEVELOPING FINTECH MARKET

OPERATING FLEXIBILITY

TCS Group has built an advanced platform that is highly suited for the Russian market and operating environment. The Group's platform is entirely branchless, with a low fixed cost base and high degree of operating flexibility. Cost efficiencies are enhanced by its best-in-class centralised IT system, with continued investments and advancements in the field of artificial intelligence and machine learning. The low level of retail financial services penetration in Russia, the rapid growth of online and mobile payments, and high margins and barriers to entry make our business model attractive in terms of sustainable profitability, growth potential and competitive edge.

ROBUST DATA AND RISK MANAGEMENT

TCS Group employs a highly scientific, data-driven and conservative risk management approach, which underpins the success of the business model. All aspects of the client life cycle – from acquisition to services and collections – are carefully monitored and evaluated. We make loan approval decisions based on a range of available information, including credit bureau data, a rigorous application verification process and proprietary scoring models.

DIVERSIFIED PROVIDER OF RETAIL FINANCIAL, INSURANCE AND QUASI-FINANCIAL SERVICES

Originally the first purpose-built credit card focused lender in Russia, Tinkoff has evolved into a focused online financial supermarket living in the cloud, providing a full range of its own retail financial services such as retail lending, transactional, savings products, insurance, SME, internet acquiring, securities dealing, mobile solutions as well as non-Tinkoff products through the full-cycle brokerage model. Tinkoff continues to operate in the mass market segment, and focuses on expanding the mass affluent segment by way of offering an ever expanding range of financial services and targeted lifestyle recommendations, advice and entertainment features.

HIGH LIQUIDITY AND DIVERSIFIED FUNDING BASE

Tinkoff has established a robust liquidity risk management framework that ensures it maintains sufficient liquidity, including a significant cushion of liquid assets. TCS Group's funding strategy provides effective diversification in the sources and tenor of funding. The Group maintains strong relationships with market participants to promote effective diversification of funding sources.

POWERFUL DISTRIBUTION

Tinkoff offers remote access customer service through its award-winning mobile banking as well as through internet banking and high-volume call centres. Our use of direct marketing channels has revolutionised the way customers are acquired in Russia. Distribution channels, which include online (the Internet, mobile services and telesales), direct mail and direct sales agents, allow TCS Group to attract new customers right across the country. Supporting the branchless platform is a "smart courier" network which allows next day delivery.

PREMIUM-LEVEL SERVICE AND BRAND

TCS Group is unusual among Russian retail financial services providers in offering a premium-level service to mass market and mass affluent customers. Our customers enjoy convenient 24 hours a day, 7 days a week access to their accounts and financial transaction services through the combination of Tinkoff's free mobile, Internet and call centre service platforms.

Tinkoff is an online financial supermarket offering customers the full range of financial, transactional, and lifestyle services. Through our mobile and internet platforms we offer Tinkoff-branded products – credit products, current accounts, deposits, cash loans, securities dealing, insurance and mobile solutions, as well as non-Tinkoff products through our full-cycle brokerage. For small businesses, we offer current accounts, transactional services, credit products salary projects and online merchant acquiring. We deliver premium services to mass market and mass affluent customers in Russia through a unique online, branchless platform.

TINKOFF

MARKET CONTEXT

Retail lending

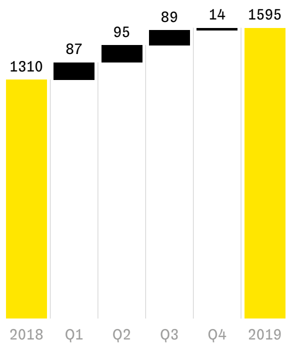
In 2019, retail lending continued to demonstrate high growth. This was particularly noticeable in the first half of the year. Despite macroeconomic stability, early signs of consumer leveraging and regulatory tightening by the Central Bank of Russia led to a decline in growth rates towards the end of 2019. In fact, the CBR not only introduced further risk-weight increases in an attempt to cool the market down, but also developed a new PTI (payment-to-income) regulation which required more capital to be held against loans to more indebted parts of the population.

State banks and a few sizeable private players, including Tinkoff, continued to take market share in this growing market. In Tinkoff's case, a key contributor to this was the successful scaling up of Tinkoff secured lending portfolio (home equity and car loans) which had been in test phase throughout 2018. This portfolio is expected to continue growing even taking into account the CBR's increasing efforts to regulate the market, given that these products have low penetration and are highly innovative.

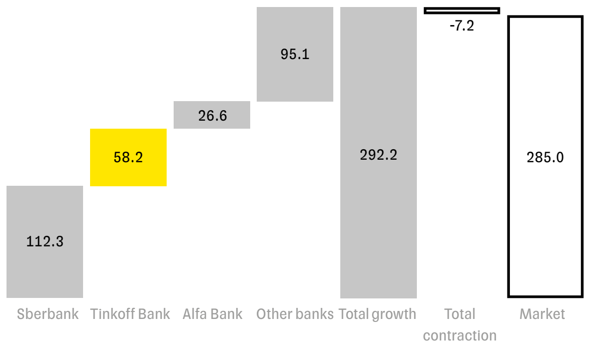
Credit card market in Russia (RUBbn)

IN 2019 THE CREDIT CARD LENDING SECTOR IN RUSSIA GREW BY

21.8%



Market dynamics in 2019 (RUBbn)



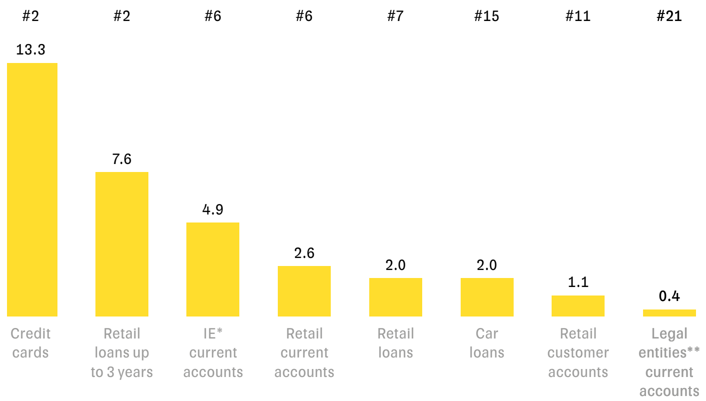
Source: CBRF

MARKET POSITION

Credit business

In 2019 Tinkoff further cemented its position as the number 2 credit card player in Russia after Sberbank. But most remarkable has been its growth in the overall retail credit market (loans < 3 years) where now Tinkoff is the second player in Russia with a 7.6% market share, overtaking VTB. Despite a normalization in risk costs from overly positive dynamics in 2018, Tinkoff's credit business remains extremly profitable and will continue to contribute to customer growth in future years.

Tinkoff market share as of 1 January 2020

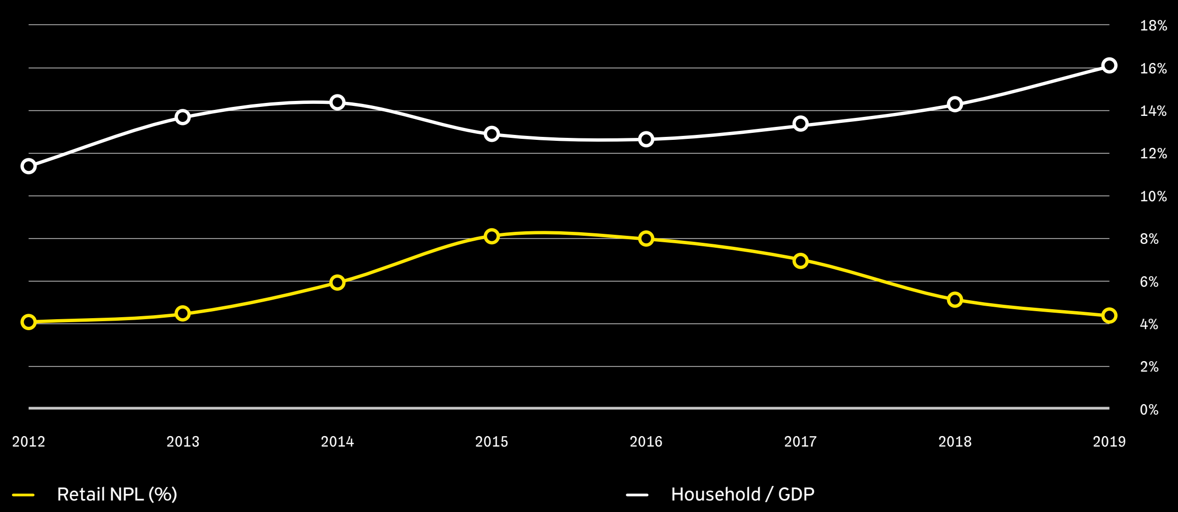


*IE - individual entrepreneurs
**Legal entities including individual entrepreneurs
Source: RAS reporting from www.cbr.ru

Transactional business

In 2019, Tinkoff opened 0.8 million debit card accounts to reach 7.1 million. Tinkoff Black remains the main feeder for Tinkoff ecososteym growth and feeds cross-sell potential. This product is key in accessing a younger and more mass affluent customer base: the average user is 34 years old and predominantly urban. These customers have shown higher propensity to utilize more of the Tinkoff product suite - and Tinkoff Black is a key feeder for our Tinkoff Investments, Insurance, Credit Card, SME business lines. The Tinkoff Black debit card is also the main tool to access Tinkoff's increasingly comprehensive array of lifestyle services - including ticketing, entertainment, and e-commerce - services that Tinkoff provides itself and often in conjunction with partners.

Household debt continued to grow in 2019 while NPLs were improving



Source: Data from cbr.ru and gks.ru

A leader in the mobile financial and lifestyle solutions in Russia

The share of mobile internet users in Russia is growing year-on-year. Tinkoff being a leader in the mobile space from its very first day continues to pay a close attention to not only interfaces and seamlessness of processes in its mobile application but also hugely invests into customer satisfaction and retention. The launch of our Super-App at the end of 2019 is the latest evolution of the Tinkoff platform - it not only aggregates all of the Tinkoff Group produts under one umbrella, but seamlessly allows customers to satisfy their daily banking, credit, transactional, and lfiestyle needs. The app is complemented by Stories – targeted AI based tips based on customer's transaction activity, restaurant reservations, shopping experience, cinema, theatre and concert tickets and travel.

Cinema
Concerts
Theatre
Restaurants
Shopping
Travel
Journal
Stories

STRATEGY

SELL OR CROSS-SELL ANY FINANCIAL, INSURANCE AND QUASI-FINANCIAL PRODUCTS BY DEVELOPING AND CROSS-SELLING NEW PRODUCTS TO EXISTING CUSTOMERS, TINKOFF EXPECTS TO DIVERSIFY ITS REVENUE STREAMS, LOWER CUSTOMER ACQUISITION COSTS AND MAXIMIZE LIFETIME VALUE OF OUR CUSTOMERS.

01. Sell or cross-sell financial, insurance and quasi-financial products

By developing and cross-selling new products to existing customers, Tinkoff expects to diversify its revenue streams, increase its revenue per customer and increase its customer retention rates.

Tinkoff Insurance

Tinkoff Insurance has developed a proprietary and advanced IT platform and leveraged the vast expertise of Tinkoff Bank to build a customised choice of insurance products, as well as a convenient claims settlement and sales process, which can be accessed online from anywhere in Russia. The new online insurance products are delivered to the Group's traditionally high customer service standards.

Tinkoff Insurance is currently offering personal accident insurance, property, travel and car insurance - KASKO and OSAGO. Tinkoff Insurance is rated as "ruBBB-" (a high rate of reliability) by Expert-RA rating agency.

02. Maintain leadership in customer service

High quality customer service has been a key driver of Tinkoff Bank's rapid growth. Tinkoff invests to maintain and improve key components, such as our simple application processes, convenient and 24/7 access to accounts, the reach of our "smart courier" service, free loan repayments and straightforward complaints resolution process. Through the launch of a new financial supermarket portal Tinkoff Bank is now able to serve not only its existing customers but also non-clients when they are allowed to make transactions without full identification within the legislatively approved limit of 15,000 Roubles. This is a strategic step for Tinkoff Bank to increase its exposure throughout the financial market.

03. High liquidity and well-balanced funding base

The Group has established a robust liquidity risk management framework that ensures it maintains sufficient liquidity, including a significant cushion of liquid assets. Tinkoff Group's funding strategy provides effective diversification in the sources and tenor of funding. The Group aims to maintain an on-going presence in a broad range of capital market segments and strong relationships with market participants to promote effective diversification of funding sources.

04. Support business expansion using advanced IT systems

Tinkoff Bank operates a low-cost, branchless model and seeks to outsource wherever feasible while retaining core functions in-house. This complementary outsourcing strategy allows us to retain focus on and develop core competencies to economise on capital expenditures, to manage workflow and to maintain a flexible cost base with low fixed expenses.

The Group's in-house IT team develops a significant part of the software used by Tinkoff, including software used in its online customer acquisition and service platform. This enables Tinkoff to regularly and quickly roll-out new products and services to customers or new versions with enhancements.

Tinkoff Bank continues to expand its technological advantages over traditional Russian banks. In 2016 Tinkoff Bank announced its IT expertise expansion through a number of IT development centers in big cities across Russia. By the end of 2018 the number of IT hubs grew to 11 including the virtual development center opened in November. In 2018 Tinkoff Bank: 1) launched nationwide biometric data collection and became an official vendor for the Unified Biometrics System supplying voice recognition technology; 2) joined forces with Russia's leading IT companies to set up the Big Data Association to set the stage for promoting big data technology and products in Russia, and 3) launched a joint project with NSPK (National Payment Card System) that enables Tinkoff customers to view card receipts details in their user accounts.

05. Develop and deploy transactional and payment products to acquire new customers and increase retention rates for existing customers

The technology and experience acquired by Tinkoff in building its high-tech online customer acquisition and service platform has helped it to expand its transactional and payment products such as current accounts, SME solutions, online acquiring, and mobile mono-applications. We intend to support the growth of these products that constitute an important channel for acquiring new customers and for cross-selling other products, particularly credit cards. These transactional and payment products are also being offered to existing customers of Tinkoff, helping to boost retention rates.

Tinkoff E-commerce products

Being a pure online player since its very first day, Tinkoff Bank specifically focuses on the e-commerce market. Our existing electronic online and mobile platforms together with a rapidly developing e-com sector give us significant advantages on the market. Besides our core mobile banking application Tinkoff Bank offers a wide range of mobile mono applications (traffic fines payments, card-to-card transfers, MoneyTalk, GoAbroad, Tinkoff SME, Tinkoff Investments, Tinkoff Junior) (and there are plans for more to follow).

A wide range of insurance products, including car insurance, is also available online for customers. In 2018 after a series of product tests and market analysis, we launched a full cycle POS loans and car loans programmes available for our customers purely online. Sophisticated interfaces and advanced risk scoring allows us to not only efficiently scale these new business lines but also reach out to new customers from different social-demographic groups.

06. Effectively manage credit risk using sophisticated data analysis and modelling

As a data-driven organisation, the Group uses a wide range of databases in its loan approval processes and portfolio management and is constantly in search of new sources of relevant data. We take loan approval decisions based on a range of available information, including credit bureau data and scores, proprietary scoring models, a proprietary application verification process and sophisticated NPV models.

The Group will continue to develop credit risk management capabilities and to use increasingly more sophisticated data analysis and modelling to achieve this goal. Credit risk management remains one of the core strengths of Tinkoff and will remain critical to sustaining its competitive advantage.

07. Further improve cost-efficiency of Tinkoff's operations

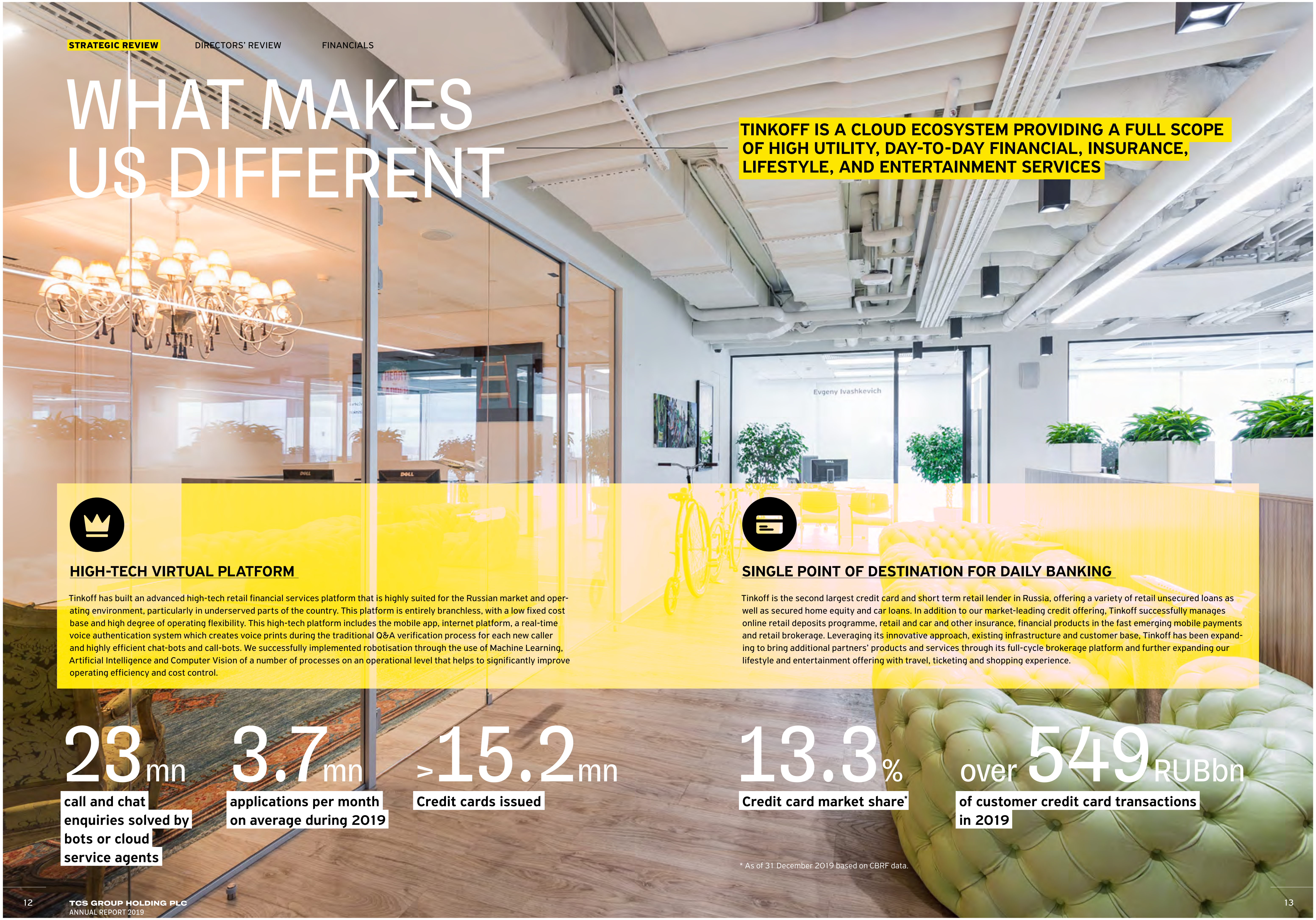
The Group intends to further increase the cost-efficiency of its operations by placing an even greater emphasis on its Internet banking, mobile banking and Home Call Centre operations and constantly seeking new ways to achieve further reductions in operating and customer acquisition costs.

08. Develop The High-Growth Concept Of The Financial Supermarket, A Platform Offering A Choice Of Consumer Lending, Insurance And Transactional And Payment Services Of Tinkoff As Well As Lifestyle, Entertainment And Partner Products

Retail lending remains Tinkoff's core business. In 2019 we significantly broadened the range of our credit products, with credit cards accounting for 60% of the loan portfolio and secured lending reaching a record high 15%. The contribution from non-credit related business lines further improved in 2018.

Tinkoff Investments, the final business line, was successfully launched in April. Since our non-credit business lines are up and running our focus now is on scaling, monetization and cross-sell potential within our ecosystem. In 2019 we significantly improved our lifestyle and entertainment offering to the customers - culminating in the launch of our Super App - the aggregator of all Tinkoff Group products and a platform that enables customers to satisfy all their credit, transactional, and lifestyle needs.

The Super App enables seamless integration with partners and now allows customers to access Stories (AI*-based recommendations and user tips based on transactional activity) as well as complete restaurant reservations, purchase cinema, theatre and concert tickets and complete e-commerce transactions. The introduction of Oleg, the world's first financial services voice assistant, makes navigation through the Tinkoff platforms seamless and convenient.



WHAT MAKES US DIFFERENT

TINKOFF IS A CLOUD ECOSYSTEM PROVIDING A FULL SCOPE OF HIGH UTILITY, DAY-TO-DAY FINANCIAL, INSURANCE, LIFESTYLE, AND ENTERTAINMENT SERVICES

HIGH-TECH VIRTUAL PLATFORM

Tinkoff has built an advanced high-tech retail financial services platform that is highly suited for the Russian market and operating environment, particularly in underserved parts of the country. This platform is entirely branchless, with a low fixed cost base and high degree of operating flexibility. This high-tech platform includes the mobile app, internet platform, a real-time voice authentication system which creates voice prints during the traditional Q&A verification process for each new caller and highly efficient chat-bots and call-bots. We successfully implemented robotisation through the use of Machine Learning, Artificial Intelligence and Computer Vision of a number of processes on an operational level that helps to significantly improve operating efficiency and cost control.

SINGLE POINT OF DESTINATION FOR DAILY BANKING

Tinkoff is the second largest credit card and short term retail lender in Russia, offering a variety of retail unsecured loans as well as secured home equity and car loans. In addition to our market-leading credit offering, Tinkoff successfully manages online retail deposits programme, retail and car and other insurance, financial products in the fast emerging mobile payments and retail brokerage. Leveraging its innovative approach, existing infrastructure and customer base, Tinkoff has been expanding to bring additional partners' products and services through its full-cycle brokerage platform and further expanding our lifestyle and entertainment offering with travel, ticketing and shopping experience.

23mn call and chat enquiries solved by bots or cloud service agents

3.7mn applications per month on average during 2019

>15.2mn Credit cards issued

13.3% Credit card market share*

over 549 RUBbn of customer credit card transactions in 2019

* As of 31 December 2019 based on CBRF data.

WHAT MAKES US DIFFERENT

TCS GROUP IS TRANSFORMING THE RUSSIAN FINANCIAL SERVICES MARKET AND DRIVING A DIFFERENTIATED CUSTOMER PROPOSITION.

POWERFUL DISTRIBUTION

Tinkoff offers remote access customer service through its award-winning Internet banking as well as through mobile banking and high-volume call centres. Our use of direct marketing channels has transformed the way customers are acquired in Russia. Distribution channels, which include online (the Internet, mobile services and telesales), direct mail and direct sales agents, allow Tinkoff to attract new customers anywhere in the country. Supporting the branchless platform is a "smart courier" network covering around 2,100 cities and towns in Russia which allows next day delivery. In addition, Tinkoff 's online origination process makes extensive use of online data and behavioural profiles, and gives it clear advantages over competitors in terms of underwriting.

CREATING VALUE IN CHALLENGING MARKETS

Our entrepreneurial approach to products, premium-quality customer service and effective credit risk management, based on sophisticated data analysis and modelling, enable us to achieve a combination of sustainable growth and good returns even in a market downturn. The strong trend to adoption of online and mobile consumer technology in Russia, together with the low penetration and growth potential in the country's retail financial services, represent a tremendous opportunity for Tinkoff to continue its success.

51.2%
Net loan portfolio CAGR 2008-2019

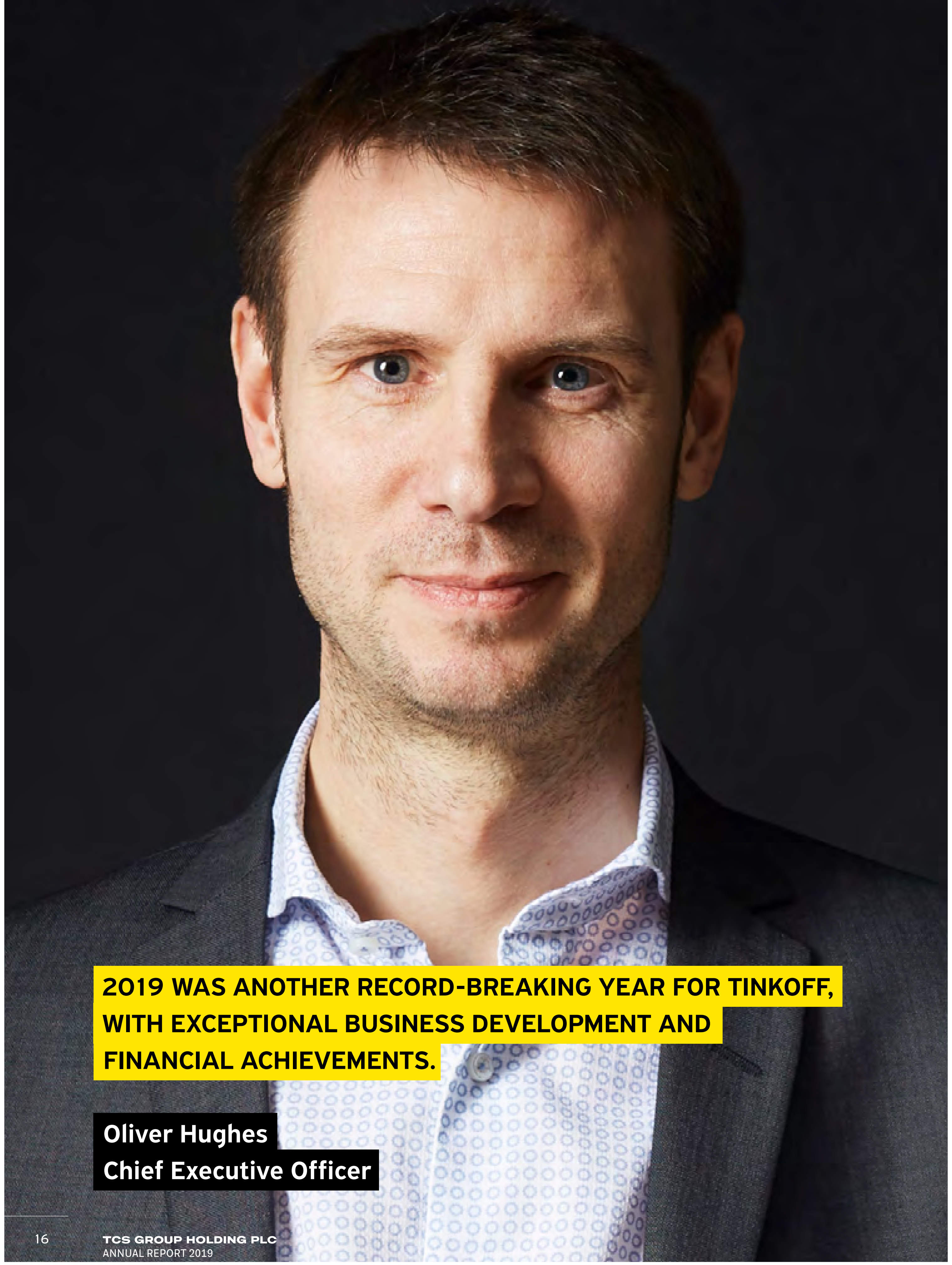
91x
Equity grew by 91x in 10 years (from 2009 to 2019)

55.9%
ROAE

№1
Best mobile banking app in Central and Eastern Europe*

30%
of all customer requests across the products processed by chat-bots in 2019

* by Global Finance



2019 WAS ANOTHER RECORD-BREAKING YEAR FOR TINKOFF, WITH EXCEPTIONAL BUSINESS DEVELOPMENT AND FINANCIAL ACHIEVEMENTS.

Oliver Hughes
Chief Executive Officer

CEO STRATEGIC REVIEW

Dear Investors

It is always a pleasure to announce excellent results, and we did so again in mid March this year for FY2019. 2019 was another record-breaking year for Tinkoff, with exceptional business development and financial achievements. Our Ecosystem strategy is bearing tangible fruits, with our products and services more joined-up than ever, and our customers more engaged with us than ever before. We have come such a long way in the last thirteen years; we have evolved into a fully-fledged and rapidly growing lifestyle and financial services Ecosystem – with a suite of transactional, lending and lifestyle offerings that are loved by our customers right across Russia.

The first part of the current year also reminds us, not that we needed reminding, that unexpected challenges are a part of operating in the Russian markets, though many of the challenges have their origins outside Russia. I will say something more about these later in this strategic review but these should not divert focus from 2019, from the Tinkoff success story of 2019. I am confident in any case that the Group, with its unique business model, the Tinkoff brand, its energy and dynamism, a great strategy, will be able to navigate not just these challenges successfully but also others which will likely confront us in 2020 and beyond.

FY2019 was another year of record-high profits.

I would like to review 2019 by looking at several themes of the 2019 results, before briefly looking ahead, sharing some of our plans:

- Tinkoff's significant growth in 2019;
- high growth did not come at the cost of profitability;
- asset quality maintained;
- some highlights of 2019;
- some observations on what to look forward to, our plans.

2019 was a year of significant growth for Tinkoff

We added a total of close to three million customers, more than we have ever added in a single year, to reach and pass the milestone figure of 10 million customers. These customers are increasingly using more of the Tinkoff suite of products, with almost 25% of them using two or more products. Not only are we growing customer numbers, but we are also engaging more with each one of them, thanks to our continued efforts on customer experience, user interface, cross-sell, data management and loyalty initiatives. Our DAU, or daily active users, have reached 1.8 million up from 1.1 million a year ago, and our MAU, or monthly active users, have reached 5.6 million from 3.7 million a year ago. We see further engagement gains ahead as we leverage our Super App – the first of its kind in Russia and Europe. This Super App contains all our digital services under one umbrella and allows our customers to satisfy their lifestyle and financial needs at the touch of a screen, by seamlessly accessing Tinkoff as well as partner products. This is a highly technological platform that enables us to have very quick time to market and to provide an extremely engaging customer experience in a capital light and flexible manner.

Our lifestyle services have raced ahead. We have over half a million monthly active users for these services. Every month, our customers are buying on average 350K cinema tickets, 25K concert tickets, 20K theater tickets, making 10K restaurant bookings, 50K flight reservations and 50K hotel reservations. We have a great pipeline of additional entertainment and ticketing options that should continue to drive customer engagement on this platform.

Growth did not come at the expense of the bottom line and increased profitability

Despite the investments required for our fast-paced growth, our 2019 net income of RUB36.1 bn represents a rise of 33% year on year, giving us an industry-leading return on equity of 55.9%. You may recall that in 2016 we disclosed to the market our ambition that our net income would grow 20% to 40% per annum until the end of 2019. I am proud to say that as of the end of 2019 we delivered 49% annual growth over the last three years – an outstanding achievement.

Our net loan book grew 66% year-on-year in 2019, reaching RUB329bn and this was powered by both our more mature credit card product, as well as our newest credit products – personal loans and POS loans on the unsecured side, and home equity and car loans on the secured side. The secured part of the portfolio grew from RUB5bn to RUB48bn, now accounting for 15% of total loans. These secured products will we predict continue to be major drivers of growth in future years. They have great risk adjusted margins, are geared to higher quality mass affluent customers, and are relatively capital light.

ROAE IS 55.9% AND TOTAL EQUITY CLIMBED TO RUB 96.1BN

55.9%

CONTINUED

CEO STRATEGIC REVIEW

To capture these credit growth opportunities, in 2019 we decided to tap the markets for US$300m of fresh equity and RUB20 bn of debt financing alongside suspending our quarterly dividend for 2 quarters. This equity fund raising, the first by a Russian group for many years, was heavily oversubscribed and delivered with a record low discount to MV. We thank all investors for their support and continued confidence in our business.

Our 2019 profitability was powered not only by the fast-paced growth of the credit portfolio, but also by the ongoing scaling up of our non-credit lines. I will give you a brief update of the main ones here:

Despite some regulatory pressure on small business, our small and medium sized (SME) business line closed the year with 535K customers and a record operating income of RUB4.8 bn. Our product suite is increasingly geared to larger and more profitable accounts, which should help to deliver high quality growth of the SME business line into the future.

Tinkoff Insurance more than doubled its revenue and was one of the fastest growing business lines in the Ecosystem, albeit from a low base. This remains a tricky market but one that is we feel prime to be disrupted.

Tinkoff Investments went from strength to strength, breaking even in July 2019 and finishing the year with 1.1 million individual customers. We were the #1 retail broker on the Moscow Stock exchange both in terms of account openings and active customers. This is a highly engaging platform, with different tariffs for different kinds of customers, with a Social Network called 'Pulse' with over 100K users where investment ideas and discussion forums are held. There is a wide selection of financial assets on offer, some of which Tinkoff now provides ourselves through our in-house asset manager Tinkoff Capital. This is a business line we are particularly excited about as households should continue to diversify their savings away from cash and deposits.

Our online merchant acquiring business grew revenues by 57% from RUB4.2 bn to RUB6.6 bn, as we consolidated our position as the third largest online acquirer in Russia. This business line is profitable, and we know how to grow it further.

Tinkoff Black, our current account business, has gone viral as we added 2.6 million customers. This product remains the key feeder to our Ecosystem: in fact, more than 40% of our Tinkoff Black customers use two or more Tinkoff products – and we believe this is just the start.

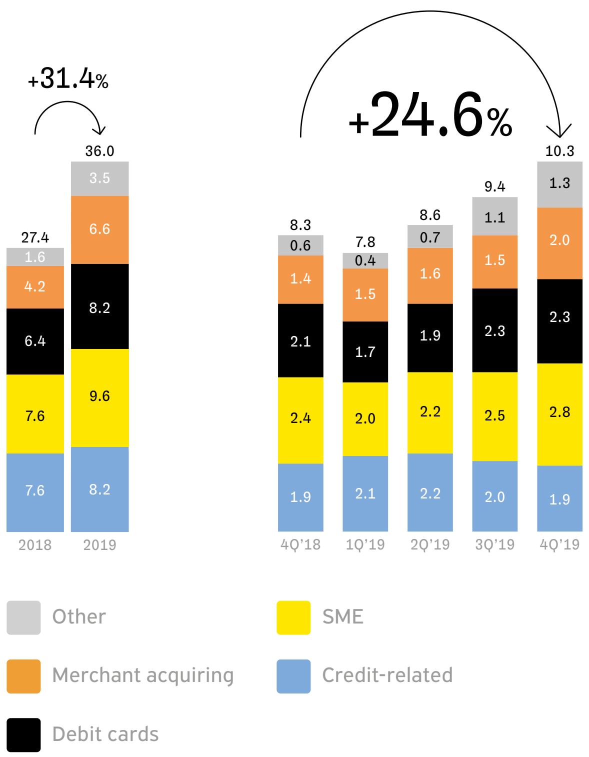
Overall, despite the rapid growth, we managed to keep our operating expenses and funding costs in check. As more of our newer businesses hit break-even, our cost to income ratio declined by nearly 5 percentage points in 2019, from 41.9% to 37.1%. On the funding cost side, our attractive product and brand proposition led to a 54% year-on-year increase in retail current accounts, which contributed to our funding costs declining 50 basis points to 5.7%.

A word on asset quality

2019 was the first year since the 2014-15 crisis where Tinkoff experienced a cost of risk increase year-on-year, from 6% to 8.5%.

There were several factors at play. First, the impact of frontloading of provisioning due to the IFRS9 accounting standard, which is especially meaningful on a fast growing portfolio. Second, there was some re-leveraging of the Russian consumer in some pockets of the population. This led to a softening of roll rates – meaning that when customers went into delinquency, they became slightly more difficult to collect and return to current status. We identified this trend early on, sooner we feel than the competition, and tightened our approval rates. The results of these initiatives were seen in the fourth quarter of 2019, with cost of risk declining to 8.1%.

Fee and commission income (RUBbn)



Our business has never been more sustainable and we are in an excellent position to grow it further

Our business has never been more sustainable. Here I don't mean statistics like responsible lending, CO2 emissions and the profile of our workforce important though they are. I mean fundamental business sustainability. Our well targeted spending on research and development, our returns on capital expenditure, renewing and expanding our tangible and intangible facilities, our recruitment and promotions of top talent to the key Management team, building out our Ecosystem.

Our credit portfolio has never been more diversified. Our non-credit businesses are gaining momentum and increasingly contributing to our bottom line. Our customer base is increasingly composed of highly transactional, highly engaged, young, urban customers. Our Super App is best in class as is our customer service capability. Our technology and advancements in artificial intelligence and machine learning power everything we do at Tinkoff. We know how to acquire customers with positive unit economics and have very clear monetization strategies. At the same time, we are extremely alert to our responsibilities as a lender. In 2019 a number of the policies and practices we already had to prevent our customers over-extending themselves were refined and expanded.

So while 2019 was an exceptional year, everyone at Tinkoff is extremely excited and motivated for what is ahead as we work to double our active customer base to twenty million in the medium term.

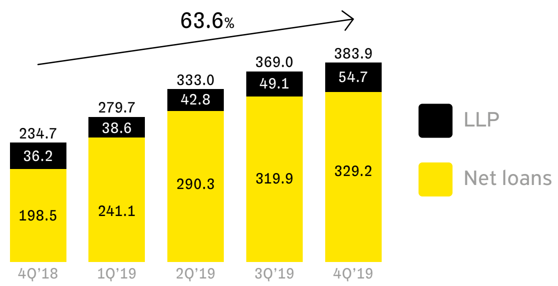
My personal choice of business highlights of 2019

As ever, a year has raced by but a few key moments stand out and I would like to bring a few to your attention that show the perhaps surprisingly wide range of cutting edge activities across the Group;

- In February, Tinkoff Bank was in the first wave of Russian banks to launch the disruptive Faster Payments System for its customers. The CBRF introduced the system to allow nationwide instant P2P payments using mobile phone numbers;
- In July, Tinkoff Group raised $300 mn gross in additional capital through a successful SPO that was highly oversubscribed and saw significant interest from investors across a variety of regions, including strong demand from the US;
- Also in July, Tinkoff launched sales of proprietary Tinkoff VoiceKit text-to-speech and speech-to-text technologies to corporate customers;
- In September, Tinkoff signed an exclusive sponsorship contract with Russian tennis ace Daniil Medvedev; and more recently signed a title partnership agreement with the Russian Football Premier League covering the 2019/2020 and two following seasons;
- In September, Tinkoff launched Pulse, a free social network for retail investors which has been a runaway success;
- In September, Tinkoff reached a new milestone, issuing our 10 millionth Mastercard card;
- In October, Tinkoff held a hackathon in partnership with McKinsey with a prize pool of RUB1 mn;
- In October, Tinkoff GDRs were admitted to trading on the Moscow Exchange, making the shares more accessible to Russian investors and supporting liquidity and market capitalization growth.

I am sure I have missed many that deserve a mention: Ilya Pisemsky also lists his choices elsewhere in this annual report, in his Financial Review.

Gross loans



CONTINUED

CEO STRATEGIC REVIEW

Looking ahead

More recently, we announced a capped, tranched EUR 25m investment into a European fintech start up venture that aims to offer non-credit products to customers in Europe. It is too early to discuss the details of this project, but watch this space as our colleagues put our expertise in building and growing a fintech business to the test outside the CIS.

As we move into 2020, we believe that we can continue to disburse high quality loans with attractive risk adjusted margins and returns and to grow our non-credit business-lines further. You will find a more detailed analysis of our 2019 financial results in the Financial Review form our CFO, Ilya Pisemsky. I recommend you read it.

I would like to wrap up with a word on the current situation and some thoughts on what is ahead more generally.

I referred earlier to the challenges we face. Tinkoff has been in existence for 13 years and during that time we have been tested by a number of different stress situations. These include the 2008-2009 global financial crisis, the 2014-2015 Russian crisis including a sharp RUB devaluation and a run on the banks across the whole system, the collapse of many Russian private banks, Tinkoff GDR, RUB and commodities price volatilities, very significant new regulations on retail lending, the global spread of coronavirus and no doubt there will be more. Our crisis response teams have been activated more frequently than most of our peers. Our crisis response teams, which include many of the sharpest and most imaginative minds in Tinkoff, of course prepare for a wide variety of events and combinations of events.

We know though how to handle ourselves in all situations as we have demonstrated time and time again for over a decade and we factor crises into our planning as a matter of course. But we are not complacent and we never let our guard down.

A long term ongoing project to which we have devoted much time, thought, expertise and resource is the Group's corporate governance and over recent years we have tried to further enhance our governance so that it is commensurate with the ever-changing size and scope of the Group. We have always striven to maintain the highest standards of corporate governance at Tinkoff, to go well beyond the legal minimum. In the coming months we will reach a critical stage in our evolving roadmap of changes to enhance governance at the holding company level and in a change perhaps with past practice share it more widely in advance. As well as legal input, we have and will continue to seek investor input into this process in order to incorporate as much stakeholder feedback as possible. We will look for workable, robust solutions to the more complex issues to try to balance the interests of all parties, as well as safeguarding the viability of the business.

To close, I would like to thank the very many people who have made contributions to the success that was 2019-our customers, our founder Oleg Tinkov, the core Management team, employees, investors, business counterparties and our wide range of stakeholders, but above all others our growing pool of customers.

THANK YOU!

Oliver Hughes

Chief Executive Officer

OUR RECENT AWARDS

Global Finance

- Best Information Security and Fraud Management in Central and Eastern Europe
- Best Online Portal Services in Central and Eastern Europe
- Best Online Cash Management in Central and Eastern Europe
- Best Integrated Consumer Bank Site in Central and Eastern Europe
- Best Online Deposit, Credit and Investment Product Offerings in Central and Eastern Europe
- Best Corporate Digital Bank in Russia
- Best Consumer Digital Bank in Russia
- Best Consumer Digital Bank in Central and Eastern Europe
- World's Best Corporate Digital Bank in Information Security and Fraud Management

VISA

- Global Service Quality Performance Awards 2018, Highest Authorisation Approval Rate – Card Not Present (CNP)
- Global Service Quality Performance Awards 2018, Highest Authorisation Approval Rate – Cross-Border Consumer Point of Sale (POS)
- Global Service Quality Performance Awards 2018, Emerging Payment Adoption – Contactless

Markswebb Rank&Report

- 1st place, Daily Banking category, Mobile Bank Rank 2019
- 1st place, Internet Banking Rank 2019 (Russia's best internet banks for individuals)

banki.ru

- Best Investment Company (for the best performance in the investment market in 2019)
- Best Bank, People's Rating of Banks
- Best Mobile Operator, People's Rating of Mobile Operators

J.P.Morgan

- Quality Recognition Award (for the high quality of customer foreign currency payments in 2019)

USABILITYLAB

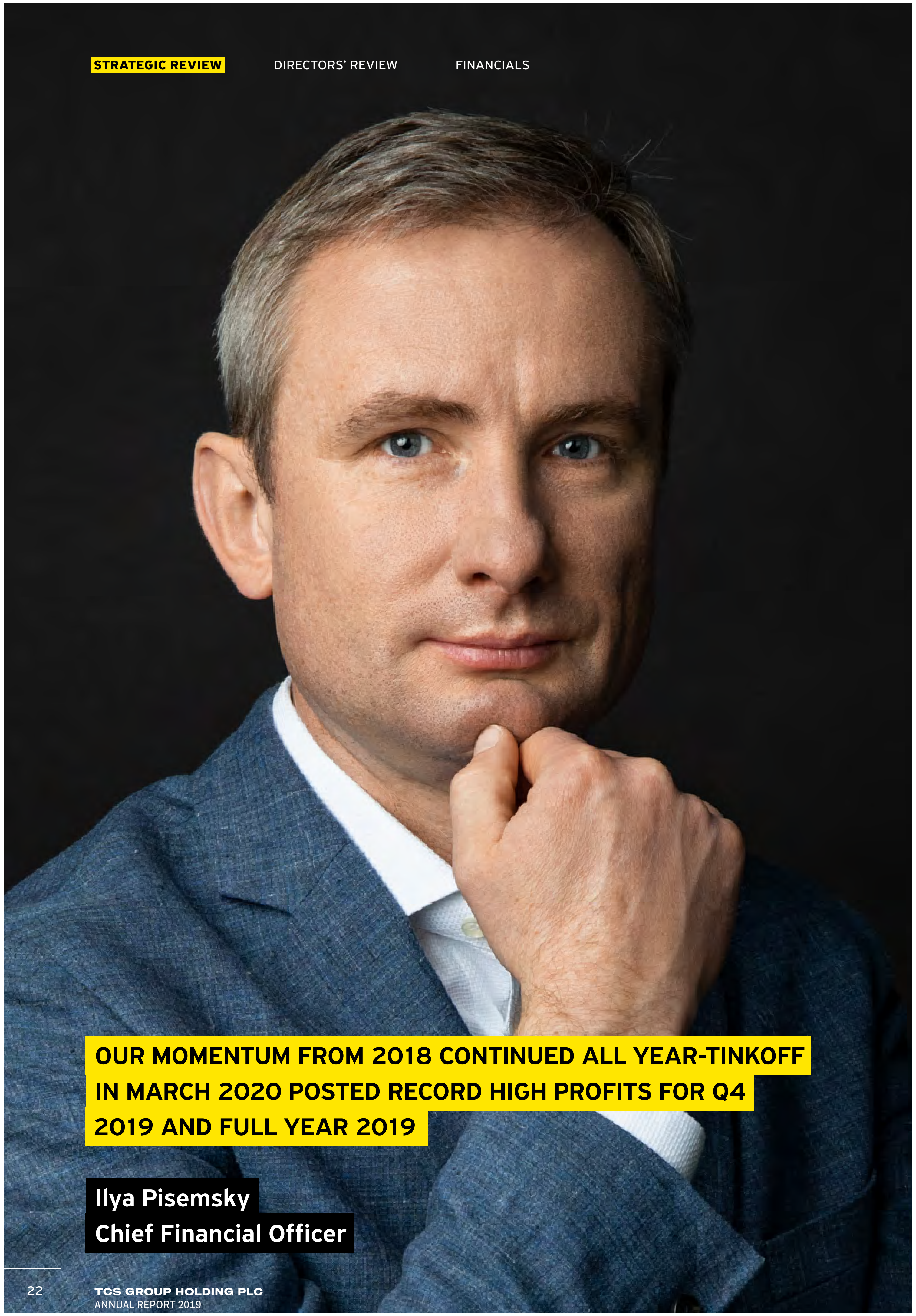
- Best Bank for Sole Proprietors

FRANK RG

- Best Digital Premium Banking, Premium Banking Russia 2019

effie RUSSIA

- Gold, Banking/Finance/Insurance (for Investing is Simple, an advertising campaign for Tinkoff Investments)



OUR MOMENTUM FROM 2018 CONTINUED ALL YEAR-TINKOFF IN MARCH 2020 POSTED RECORD HIGH PROFITS FOR Q4 2019 AND FULL YEAR 2019

Ilya Pisemsky
Chief Financial Officer

FINANCIAL REVIEW

Dear Investors

Last year I ended my Financial Review by saying 2018 had been an excellent year, a year in which we could see tangible and very positive results flowing through from the Tinkoff Ecosystem. 2018 ended on a high note giving us forward momentum going into 2019 –a year which we at Tinkoff believed had the potential to be even better than 2019. And so it has proved, that momentum continued all year-Tinkoff in March 2020 posted record high profits for Q4 and full year 2019. These results secure Tinkoff's place as the second largest player in the Russian credit card market, with a market share of 13.3% at 31 December 2019, though since it has increased further.

Following my previous course, I would like to bring to your attention some particular highlights of 2019 before turning to the financial results. Although many of these have a financial flavor, they also show up some of the ground-breaking technological innovations that Tinkoff is involved, as well as initiatives in educational outreach to retail investors. These we expect will turn out to be the engines of future profitability.

My highlights must include:

- In February 2019 Moody's upgraded our rating to Ba3 with a stable outlook; and in April the Russian National Analytical Credit Agency-ACRA-reaffirmed Tinkoff Bank's rating at A(RU) with a stable outlook;
- In April we launched a 3-year RUB10bn local bond with a 9.25% coupon;
- Also in April we launched a co-branded card with Yandex, offering up to 10% cashback for one of 15 services available through Yandex.Plus;
- at the same time we announced we had built the supercomputer, the Kolmogorov cluster, the most powerful supercomputer among financial institutions, reducing the time required for machine learning and AI-related tasks;
- In June we launched Tinkoff Capital, the Group's in-house asset management company, to offer a range of proprietary ETFs;
- In July we closed a successful SPO on the LSE, raising USD300mln in gross proceeds at a narrow discount;
- In October Fitch upgraded Tinkoff Bank's credit rating to BB with a stable outlook;
- In October Tinkoff GDRs were admitted to trading on the Moscow Exchange;

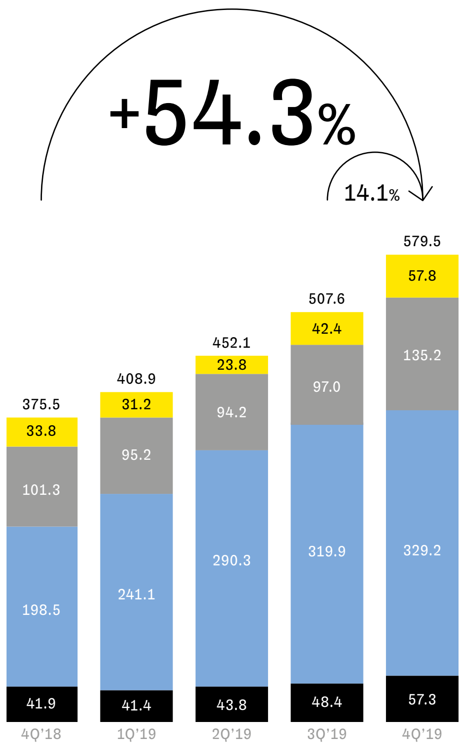
and

- In November/December Tinkoff Journal launched a free course for novice investors, following up its earlier YouTube show 'Money Doesn't Sleep'.

These developments, aspects of our superior and innovative offering, are just some of the many which Management believe underpin Tinkoff's place as Russia's leading fintech brand. They are the result of many good decisions over many years and the stepping stone to future progress.

I would now like to describe some of the main trends and patterns that we observed in our business throughout 2019.

Assets growth RUBmn



Cash and cash equivalents

Investment securities and REPO

Net loans

Other

CONTINUED

FINANCIAL REVIEW

The Group's balance sheet

Traditionally I will start with the Balance Sheet composition. Total Assets of the Group grew by 54.3% year-on-year. The substantial growth in cash balances and in the investment portfolio during the year was a result of strong inflows from SME and retail current accounts. This trend was especially pronounced during the fourth quarter, pushing the balance sheet proportions towards a strong balance of 33% in cash and securities at the year-end with net loans at 57% of total assets. The structure of our securities portfolio changed throughout the year towards more state and quasi-state bonds, which now represent more than 80% of the portfolio. Throughout the year we built a significant positive revaluation on this portfolio - part of it was realized during 2019 and we plan part of it will be realized in 2020, positively contributing to our net income in 2020.

Our loan portfolio showed an impressive 63.6% growth for the year on a gross basis and 65.8% growth for the year on a net basis. This growth was driven by several components of the credit book, including credit cards, cash loans, POS loans and collateralized loans. SME lending remains in test mode, but even there the results are encouraging. The fourth quarter loan book growth was a moderate 4.1% as we rebalanced our channel mix and managed cost of risk.

The credit card portfolio grew 38% year-on-year thanks to strong customer acquisition efforts: we added 2.4m new activated credit cards in 2019 as a whole. The main channels for distribution during the year were internet and mobile, cross-sell and telesales. Despite showing the strongest year-on-year growth in credit cards in our history, the share of credit cards in the loan portfolio declined to 61% of the net credit book, as a result of the solid growth in other components of the portfolio. That said, credit cards remain a key core product for us and we still see huge potential in this market.

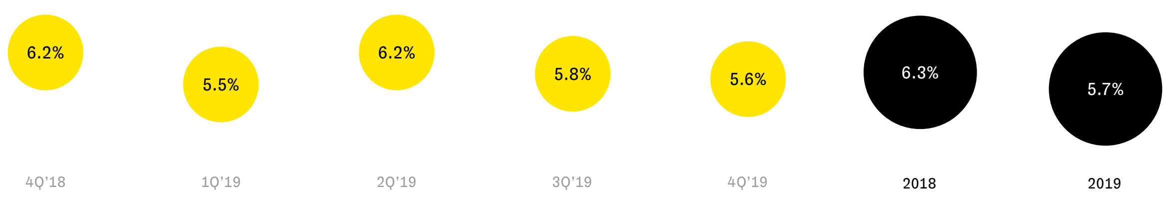
The cash loan portfolio did not increase in the second half of the year despite strong loan disbursement. The reason for this is the high early repayment rate for cash loans at the level of approximately 10% per month. Despite this slowdown, this sub portfolio still grew by 65% year-on-year. Looking forward into 2020, this part of the lending business should be an essential middle point between credit cards and home equity loans, allowing us to capture all the upsell and downsell credit opportunities in terms of size, duration and yield.

Home equity lending was a story of success in 2019, growing profitably eleven-fold from a mere test into a meaningful business line with over RUB 33bn loans disbursed during the year and RUB 9bn loans repaid. State of the art onboarding and collateral registration processes allowed good conversion rates and high NPS scores from our applicants, which in turn led to relatively cheap acquisition cost and positive selection in terms of risk. Two loans have gone through the full repossession cycle already, with apartments sold on the auctions by bailiffs in early 2020. In both cases, we lost no money despite the loans going into default – testament to our strict underwriting standards and low LTV.

BY THE END OF 2019 TINKOFF BANK HAD ISSUED OVER 15.2MN CREDIT CARDS

15,2mn

Cost of Borrowing



Car lending is also developing strongly and already became break-even in the second half of the year. We target two key sales channels here – offline through dealerships in the regions where we try to bundle our loan product with car insurance and online through car sale aggregators. Both approaches seem to be working well, so we will continue our efforts there in 2020.

The POS business surprised us greatly in 2019. Point of sale loans is an important channel for cross-sell and we were ready to tolerate it being a mildly loss-making on a standalone basis. However, constant optimization of our product offering, conversions and mix of partners led this business to become profitable in 2019, with the portfolio growing 68% year-on-year. We expect it to remain profitable on a standalone basis in 2020.

Cost of risk improved in the 4th quarter after the mild deterioration seen earlier in the year. This was due to certain adjustments to our approval and channel mix in the summer, and a certain degree of seasonality towards the end of the year. The NPL ratio went up to 9.1% which is still lower than a year ago while loans 90 to 180 days overdue increased to 3.3% of the gross portfolio.

Our funding base is growing strongly mirroring asset growth. The total funding balance of the Group grew by 45.5% year-on-year. Growth was most visible in retail current accounts, term deposits and funds from SME customers which grew by 54%, 37% and 49% respectively during the year. Most of the current account money funds our treasury portfolio or resides in cash, while term deposits together with bonds and most of the equity fund the loan portfolio. There is an overlap in this fund distribution as we use current account money to fund shorter duration loans such as POS loans and credit cards in grace period. At year-end this overlap constituted 20% of the gross loan portfolio, the same as a year ago. Our liquidity position therefore remains exceptionally strong.

I would like to reiterate that the Group holds a neutral currency position with all long term liabilities covered to maturity with FX swaps.

Shareholders' equity increased by 15.2% in the fourth quarter to RUB96.1 bn thanks to strong quarterly profits and the suspension of dividends for two quarters.

Our Basel ratios are in the 19% area. Statutory ratios have increased after the SPO and THE temporary dividend suspension - the N1.0 and N1.1 ratios went up to 12.1% and 9.5% respectively. Going forward, we will target N1.0 above 12.5% and N1.1 above 9%. These are targets we believe we can achieve while resuming our quarterly dividend payments this year. Because of the low share of FX-denominated assets and our USD-denominated AT1 perpetual instruments, the sensitivity of our capital ratios to changes in RUB exchange rate in 2019 was negligible.

The Risk Weighted Assets of the Group are distributed amongst credit, operational and market risks. During the year our RWAs grew by 45%, mostly because of the credit component, which has almost doubled. We expect the retail book RWA density to grow in 2020 from 168% at the end of 2019. This is due to the gradual implementation of higher risk weights announced by the CBR, which will be in part be offset by an increased proportion of secured loans with 100% risk weight.

CONTINUED
FINANCIAL REVIEW

Profit and loss statement

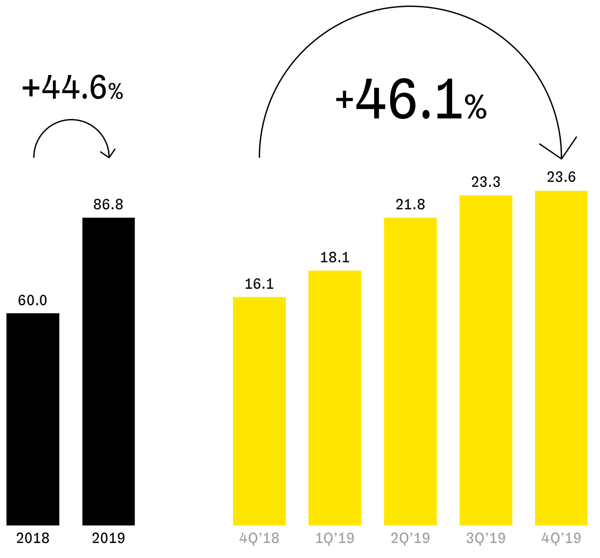
Now I will turn to the Income Statement and our revenue dynamics. Compared to 2018 our revenue grew by 45% to RUB165 bln, with the share of revenue from credit business lines declining from 68% in 2018 to 67% in 2019 despite the strong growth of the credit business. This trajectory we believe should continue into 2020.

In 2019 interest income grew by 43%. Our headline gross interest yield on the credit portfolio decreased from 36.0% to 32.1%, mostly due to the more rapidly growing part of non credit card loan portfolio. It is likely that during 2020 gross yield will continue to gradually move down as a result of the changing portfolio mix.

Interest expenses grew by 38% year-on-year compared to 45+% growth of the average funding base. Our blended cost of borrowing declined from 6.3% to 5.7% thanks to large inflows of cheaper retail and SME funding sources.

Net interest income increased by 45% in 2019, while net interest margin went down to 21.6% and our risk-adjusted net interest margin decreased to 14.9%. This was due to the reduction in the gross yield explained earlier and growing cost of risk, which went up into the 9% area during the summer and went down into the 8% area during the 4th quarter. Cost of risk for the year increased from 6% to 8.5%, leading to an 8bn RUB negative pretax effect, amounting to 17.5% of our pretax profit. Nonetheless, even at this level of cost of risk we continue to see many NPV positive lending opportunities.

Net interest income RUBbn



Now some comments on our fee and commission business. In 2019 fee and commission income increased by 31%, with impressive growth across all business lines and especially strong dynamics in the growth of insurance premia earned.

With over 7 million customers and with almost RUB212bn of balances, our current account business contributed RUB8.2bn in fee and commission income in 2019, net of the cashback that we return to our customers. We continue to develop this product as the cornerstone of subsequent cross-sell opportunities. Our present intention is to keep our bottom-line result for this business at break-even. We see more value in growing the customer base and in the potential synergetic effect with other business lines rather than as a source of pure net income.

Our SME business is developing at a good pace, bringing us new customers, which in turn increases the transaction volumes. At the end of 2019 we had 535K customers with over RUB60bn in balances on SME current accounts. We earned RUB9.6bn in fees during the year in addition to treasury income. The SME lending business is still in test mode with a total loan balance of about RUB1 bn.

Our investment business is profitable and is growing remarkably fast. Over a million customers opened accounts on our Tinkoff Investments platform, with quarterly transaction volumes exceeding 500bn Rubles compared to RUB77bn a year ago. The total balances held on accounts has tripled over a year to over RUB53bn. Fee income grew almost 5 times if we compare Q4 2019 with Q4 2018. While this business's contribution to Group results was still marginal in 2019, we are optimistic about its prospects in 2020 and onwards. We will continue to develop our platform, product proposition and grow our customer base into 2020, as always, trying to find a fine line between the profitability and growth.

Now some comments regarding operating expenses. In the recent quarters you can see that our costs were relatively flat which had a positive effect on our operating efficiency, with the cost to income ratio declining almost 5% for the year from 41.9% to 37.1%. Total administrative costs grew 28.9% year-on-year, which is only 60% of our top line growth and only 53% of asset growth. This is testament to the business's ability to keep lean and to show economies of scale.

Last but by no means least, profits. The Group yet again achieved a quarterly record profit of RUB11bn in Q4 2019 and RUB36.1bn for the full year 2019 which is 33% higher than for 2018. Return on equity of 55.9% remains industry leading despite the significant increase in our equity base. Return on assets remained at an impressive 8% despite an outstanding liquidity buffer of 33% of total assets.

TINKOFF BANK ISSUED OVER 7.1MN DEBIT CARDS AT YE2019

DEBIT CARDS

>7.1mn

So I believe this gives you a fair picture of FY2019, a year which was in many ways a year of continuity. Further building out of the Ecosystem and expanding our non-credit business lines, while achieving a great many important technological milestones; these combined with hard work from the entire Management team and insightful and timely decision-making delivered excellent financial results. FY2019 as the latest in a string of record breaking years may prove a hard year to beat, but we in Tinkoff can assure you every effort will be made to do so. We are confident that we will deliver in 2020.

Ilya Pisemsky

Chief Financial Officer

ASSET, LIABILITY AND RISK MANAGEMENT

The purpose of the Group's asset, liability and risk management ("risk management") strategy is to evaluate, monitor and manage the risks arising from the Group's activities. The main types of risk inherent in the Group's business are credit risk, market risk, which includes foreign currency exchange risk, interest rate risk and liquidity risk. The Group designs its risk management policy to manage these risks by establishing procedures and setting limits that are monitored by the relevant departments.

Risk Management Organisational Structure

The Group's risk management organisation is divided between policy making bodies that are responsible for establishing risk management policies and procedures (including the establishment of limits) and policy implementation bodies whose function is to implement those policies and procedures, including monitoring and controlling risks and limits.

Policy Making Bodies

The policy making level of the Group's risk management organisation consists of the Board of Directors, and at the Tinkoff Bank level its Board of Directors, the Management Board, the Finance Committee, the Credit Committee and the Business Development Committee.

These bodies perform the following functions:

Board of Directors

The Board of Directors is responsible for the creation and supervision of the operations of the internal control system of the Group and approves the Group's credit policy ("Credit Policy") and approves certain decisions that fall outside the scope of the Credit Committee's authority.

Management Board

The Bank's Management Board, which, in addition to its Chairman, also includes the Group's Risk Director, Chief Financial Officer, Chief Accountant, Chief Legal Counsel, Chief Operational Officer and Head of Payment Systems, has overall responsibility for the Group's asset, liability and risk management operations, policies and procedures. The Management Board delegates individual risk management functions to each of the various decision making and execution bodies within the Group's risk management structure. The Chairman of the Management Board appoints members of the Finance Committee and Credit Committee.

Finance Committee

The purpose of the Finance Committee is to ensure the long-term economic effectiveness and stability of the Group's operations. The Finance Committee establishes the Group's policy with respect to capital adequacy and market risks, including market limits, manages the Group's assets and liabilities, establishes the Group's medium term and long term liquidity risk management policy and sets interest rate policy and charges with respect to individual loan products. The Finance Committee must consist of at least five members (currently there are seven members) and the Chairman of the Management Board acts as the Chairman of the Finance Committee. The Finance Committee meets on a weekly basis and makes its decisions by simple majority provided that a quorum of at least half of the members of the Finance Committee is present.

Credit Committee

The Credit Committee supervises and manages the Group's credit risks. With respect to credit cards, the Credit Committee approves the consumer lending policy, the underwriting methodologies and the scoring models used for assessment of the probability of default, the initial credit limit assignment and subsequent account management strategies, provisioning rates and decisions to write off non-performing loans. This Committee must consist of at least five members (currently there are six members) and the Chairman of the Management Board acts as the Chairman of the Credit Committee. It meets when necessary, but at least once each month, and makes its decision by a simple majority vote of all the members present provided that a quorum of at least half of the members of the Committee is present.

Business Development Committee

The Business Development Committee is responsible for the development, design and marketing of the Group's financial products and provides recommendations to the Group's risk management bodies with respect to changes to the Group's lending policies and procedures and the pricing of the Group's loan products. This Committee consists of 12 members appointed by the Management Board. It meets on a weekly basis and makes its decisions by a simple majority provided that a quorum consisting of at least half of the appointed members of the Business Development Committee is present.

THE GOAL OF THE GROUP'S RISK MANAGEMENT FUNCTION IS TO IDENTIFY POTENTIAL PROBLEMS BEFORE THEY MATERIALIZE AND HAVE A PLAN FOR ADDRESSING THEM IF AND WHEN, AND IN THE FORM, THEY DO. COVERING BOTH INTERNAL AND EXTERNAL RISKS WHICH MIGHT HAVE AN ADVERSE IMPACT ON THE GROUP, THE GROUP'S APPROACH CAN BE STRIPPED DOWN TO FOUR ESSENTIALS: DEFINING A RISK MANAGEMENT STRATEGY, IDENTIFYING AND ANALYZING AND RE-ANALYZING RISKS, PRO-ACTIVELY MANAGING RISKS THROUGH IMPLEMENTING THAT STRATEGY AND DRAWING UP A CONTINGENCY PLAN AND/OR PREVENTATIVE MEASURES.

Policy Implementation Bodies

The policy implementation level of the Group's risk management organisation consists of the Finance Department, the Risk Management Department, the Collections Department and the Internal Control Service.

Finance Department

The Finance Department is responsible for managing correspondent accounts, daily currency liquidity, money transfer control and daily money transfer modelling to support the required currency liquidity level for correspondent accounts and compliance with the CBR's liquidity ratios.

The Finance Department is also responsible for closing international and local transactions in accordance with the Group's limits as approved by the Finance Committee and in compliance with the CBR's regulations, as well as for short term placements, currency hedging and interest rate hedging.

Risk Management Department

The Risk Management Department is responsible for the development and implementation of the Group's consumer lending policy after the final approval of such policy by the Credit Committee. The Risk Management Department is also responsible for credit risk assessment of all proposed new products and related marketing communications, for approval of credit card applications and other loan products applications and for subsequent account management programmes.

Collections Department

The Collections Department is responsible for collection of amounts due but unpaid by delinquent Group customers. The Management Board approves the Group's collections policy, which is then implemented by the Collections Department.

Internal Control Service

The Internal Control Service assesses the adequacy of internal procedures and professional standards, as well as their compliance with CBR regulations. The Internal Control Service is controlled by, and reports to, the Bank's Board of Directors.

Management Reporting Systems

The Group has implemented an online analytical processing management reporting system based on a common SAS data warehouse that is updated on a daily basis. The set of daily reports includes (but is not limited to) sales reports, application processing reports, reports on the risk characteristics of the credit card portfolio, vintage reports, transition matrix (roll rates) reports, reports on pre, early and late collections activities, reports on compliance with the CBR's requirements, capital adequacy and liquidity reports, operational liquidity forecast reports and information on intraday cash flows.

Some reports are submitted for the review of the Board of Directors on a monthly basis. These include selected financial information based on IFRS and adjusted to meet the requirements of internal reporting, analytical reports on credit risk and lending, reports on the status of the Group's credit card business accompanied by management commentary and analysis and reports on the Group's performance versus budget and operational risk reports.

Overview of principal risks

The Group is subject to a number of principal risks which might adversely impact its performance.

All of the Group's assets and customers are located in or have businesses related to Russia. Consequently the Group is affected by the state of the Russian economy which is itself to a significant degree dependent on exports of key commodities such as oil, gas, iron ore and other raw materials, on imports of material amounts of consumer and other goods and on access to international sources of financing. During recent years the Russian economy has been significantly and negatively impacted by a combination of macroeconomic and geopolitical factors such as a significant decline in the price of oil, ongoing political tension in the region, economic sanctions imposed against Russian individuals and companies, economic restrictions imposed by Russia on other countries, capital outflows as well as depreciation of the Rouble and a decrease in Russia's international reserves. In addition emerging markets such as Russia are subject to greater risks than more mature markets, including significant political, economic and legal risks. This over-arching risk environment could impact one or more of the principal risks.

CONTINUED

ASSET, LIABILITY AND RISK MANAGEMENT

The principal activity of the Group is banking operations and so it is within this area that the Principal Risks occur. Management considers that those principal risks, are:

- Credit risk;
- Market risk;
- Foreign currency exchange risk;
- Interest rate risk;
- Liquidity risk; and
- Operational risk.

Credit Risk

The Group is exposed to credit risk, which is the risk that a customer will be unable to pay amounts in full when due. Credit risk arises mainly in the context of the Group's consumer lending activities.

The general principles of the Group's credit policy are outlined in the Credit Policy approved by the Board of Directors. This document also outlines credit risk controls and monitoring procedures and the Group's credit risk management systems. Credit limits with respect to credit card applications are established by the Credit Committee and by officers of the Risk Management Department.

The Group structures the levels of its credit risk exposure by placing limits on the amount of risk accepted in relation to different online (Internet, mobile and telesales) and offline (sales through retailers) customer acquisition channels and sub-channels. Such risks are monitored on an ongoing basis and are subject to quarterly or more frequent review with the approval of the Management Board.

The Group uses automated systems to evaluate an applicant's creditworthiness ("scoring"). The system is regularly modified to incorporate past experience and new data acquired on an iterative basis. The Group performs close credit risk monitoring throughout the life of a loan.

Loan Approval Criteria and Procedures

The Group is primarily focused on reducing incoming credit risk at the acquisition stage. The Group's Credit Committee has established general principles for lending to individual customers. According to these principles, the minimum requirements for potential customers are as follows:

- Citizenship of the Russian Federation;
- Aged from 18 to 70 inclusive;
- Possession of a mobile phone;
- Permanent current employment;
- Monthly income above five thousand Roubles; and
- Permanent or temporary place of residence.

In almost all cases, the decision to issue a credit card or other loan product to a potential customer is made automatically, based on the credit bureaus information, verification of the customer's identity and credit score of the applicant calculated using one of the acquisition channel-specific scoring models. In very rare cases, decisions to issue credit cards to high income or high net worth customers are taken manually by members of the Credit Committee, but the number of loans granted under such circumstances is immaterial.

The decision to issue a credit card or loan to a customer is made after completion of the following steps:

Solicitation – The initial step in the underwriting process that applies to one-to-one marketing channels (e-mails, phone calls, SMS messages and direct mail) is pre-screening of prospective customers. At this stage, the Group's loan officers check available information on prospective customers and remove potential non creditworthy customers, thereby reducing the cost of customer acquisition.

Validation – The purpose of this stage is to ensure the validity, completeness and quality of application data. The Group's system checks the integrity of the data and, if necessary, call centre staff call applicants to ask them to provide additional information or documentation.

Verification – At this stage, the Group's loan officers verify information provided by the applicant in their application form. This includes confirming the applicant's identity, for example through the telephone numbers from the credit bureau report; investigation of the applicant's financial situation during a phone interview; and verification of employment details (including verification that an applicant's employer is an officially registered legal entity, review of the employer's website to make sure that this entity exists and continues to operate, confirmation of the applicant's employment using telephone numbers of the legal entities from their registrars and, wherever possible, verification of the applicant's declared income with his or her employer). As part of the verification process, the Group's loan officers also gather as many phone numbers linked to the applicant as possible (land-line and mobile, personal and that of a friend and/or a relative) to facilitate future collection efforts.

Credit Bureaus – Subject to the prior consent of the applicants, the Group sends incoming applications to the largest credit bureaus in Russia including Equifax, Unified Credit Bureau (Sberbank, Experian, Interfax) and National Bureaus of Credit Histories, and requests applicants' credit histories. Typically, approximately 18 per cent. of applicants have no credit history in the credit bureaus but they are not automatically rejected and can be accepted on the basis of information provided in their application forms and other sources of information described below.

Scoring Model to Identify Fraud – At this stage, the Group investigates whether the applicant is currently in default according to credit bureaus reports, whether the applicant's passport is invalid according to the Federal Migration Service records, whether the applicant's name appears in any of the Group's proprietary databases or whether any application details (for example, telephone numbers or addresses) are identified as fraudulent in databases of other banks available through antifraud services provided by credit bureaus – Fraud Prevention Service (Equifax) and National Hunter (UCB).

Scoring Models for the Application – the Group has internally developed a set of acquisition channel-specific statistical models that rank all applicants according to their probability of default during the next 12 months. These models use, among other things, (i) demographic data from the application form (for example, age, gender, education and marital status), (ii) payment history, when available – both positive and negative – from the three largest credit bureaus in Russia, (iii) channel-specific marketing and behavioural information (for example, device used to fill in the application form, time between application and first call and the amount of time a web visitor spends on a website).

Application of the NPV Model and Final Decision – the Group has developed acquisition channel-specific models that, among other things, estimate a potential customer's net present value from one used credit card. The key components of every NPV model are the customer's probability of default, tendency to use a grace period, and other behaviour characteristics which are calculated using internal scoring models. For potential customers incoming from a particular acquisition channel, and taking into account such customers' estimated behaviour characteristics, initial credit limit and tariff plan, the models estimate the Group's future cash flows from each customer by modelling his or her behaviour in respect of, among others, credit limit utilisation levels, transactional activity, share of cash withdrawals in total card activity and repayment rates. The Group takes a NPV-positive approach to approval of all applications, which means that an application is approved only when the potential customer's net present value from the use of his or her credit card is positive. For all NPV calculations a discount rate of 30 per cent. is used.

The Group also maintains a flexible initial limit allocation system that allows it to reduce or increase the average initial limits in order to manage anticipated loan losses and liquidity.

Credit Line Management Procedures

Credit line management procedures for credit card products include the following:

Initial Credit Line Calculation

The customer's initial credit limit depends primarily on such customer's probability of default and his or her income. Lower probability of default and higher income have a positive impact on the initial credit limit. The initial limit cannot exceed three monthly salaries of the customer or RUB 120,000, whichever is lower.

Regular Update of Credit Line

Once the Group has received at least three minimum payments from a new customer and each six months thereafter, the Group reviews the customer's credit limit. As part of the process, the Group updates credit bureaus reports with respect to the customer and re-calculates such customer's probability of default with the help of internal behavioural scoring model. Based on the updated probability of default, the credit limit may be increased. For premium customers the credit limit may be increased further.

Loan Collection

The Group employs a multi stage collection process that seeks to achieve greater efficiency in the recovery of overdue credit card loans. Collections on loans that are overdue by 0 to 90 days are performed by the Group's internal Collections Department. After 90 days of delinquency, when it is clear that the early collection efforts are unlikely to be effective, customer's debt may be restructured into instalment loans (which is the option preferred by the Group), transferred to collections through courts or sold to its internal collection agency (Feniks) or external collection agencies.

The Group's collections methodology is based on customer behaviour and corresponding collection scores. Under this approach, at initial stage of collections (pre collections and early collections), delinquent customers are allocated to one of three groups depending on their risk profile (high risk of default, medium risk of default and low risk of default). This enables the Group to apply a variety of collections tools and collections treatments to different groups of delinquent customers.

All of the stages described below may be accelerated in cases where the Group has grounds to believe that the delinquent customer will not repay the debt voluntarily or that fraud has taken place. In such circumstances, the time periods between each collections stage are shortened or omitted (the respective loans are accelerated into collections used for non-performing loans) in order to increase the chances of recovery.

The Group's management uses monthly second payment default rate (percentage of accounts on which payment has not been received within 30 days of the first due date) as an important measure of asset quality that provides early indication of how non-performing loans levels and provisions might change in the future.

CONTINUED

ASSET, LIABILITY AND RISK MANAGEMENT

Pre Collections (Four Days Prior to Due Date). The Group sends to all customers a reminder about forthcoming payments and the amount due two to four days prior to the due date. The customer receives a SMS and/or an e-mail. High-risk customers also receive a call. Pre collections calling has proved to be an important way to combat delinquency.

Early Collections (0 – 30 Days). If payment is more than one day overdue, the customer receives reminders via SMS and email, as well as calls from the collections team. The level of contact is determined by behavioural scoring (their probability of default based on the customer's previous history with the Group and external credit bureaus scores) to ensure efficient use of collections resources.

"Soft" Collections (30 – 90 Days). Once a credit card loan becomes more than 30 days overdue (after the second payment default), the customer is switched to "soft" collections. On the 31st day of delinquency, the customer is sent a written notification of the missed payment and receives SMS and e-mail reminders at regular intervals, as well as follow up calls by members of the "soft" collections team. The Group's objective at the "soft" collection stage is to identify and assess the reasons why the customer has missed payments, to assist the customer in making payments, to collect payments and to identify early customers who should be transferred to collections used for non-performing loans. In rare circumstances, the Group provides temporary relief from credit card repayments for a period that usually does not exceed three months to borrowers with temporary financial difficulties but with a positive credit history. Monthly minimal payments are reduced to an amount that a borrower is able to repay during the relief period.

Non-Performing Loans Management. When loans are overdue by more than 90 days, the Group collection efforts consists of (i) the restructuring of credit card debt to personal instalment loans, which is the preferred option of the Group to handle such delinquency, or, if customers do not agree to such restructuring, then either (ii) collections through courts with the enforcement of judgments with the help of the Federal Service of Court Bailiffs of the Russian Federation or (iii) sales of non-performing loans to its internal collection agency (Feniks) or external collection agencies.

Conversion of Credit Card Debt to Personal Instalment Loans. Conversion of credit card debt to personal instalment loans was first introduced by the Group in 2010. This programme is based on regular instalments paid by delinquent customers. After consultations with the delinquent customer, the Group fixes the outstanding amount of the debt under the credit card loan and offers the customer an option to repay his or her debt in monthly instalments during a period limited to 36 months.

Recoveries through the Courts. The Group applies to courts through mailing standardised claims rather than appearing before a court to enforce overdue loans. The Group considers these generally straightforward and quick court proceedings as a preferred alternative to collection agency services in those locations in which court decisions can be obtained in approximately three months or faster. Most courts in Russia are able to resolve court cases initiated by the Group within this time framework.

Sales of Non-Performing Loans to Collection Agencies. Typically, loans delinquent for more than 150 days and not converted into instalment loans or being resolved through claims submitted to the courts, and loans with court orders with low collection rate are sold to in-house Feniks collection agency. In rare circumstances limited loan portfolios are sold to external collection agencies.

Fraud Prevention

The Group maintains a fraud prevention strategy which is based on the identification and fraud monitoring.

Access to customers' accounts is secured via smart identification system, which takes into account various customer profile parameters, including information on a device used and session data, and sets an identification level. Depending on such identification level, the customer needs to acknowledge the entry into the account by way of a login and password, four-digit access code, fingerprint, security question or a password sent to the customer's contact number. In securing access to customers' accounts a two-factor identification is used.

Customer support centres use a unified identification manager, which allows to request a customer's identification data and passwords without providing access to such data to the customer support service. In addition, a real-time voice authentication system is used to verify the identity of a caller. The system is based on the NICE Real-Time Voice Authentication System by Nice. The system is synchronised with the universal authentication manager processing customer calls to the centre. This technology enables customer voice identification during a regular phone call, reducing verification time from 40 seconds to 7 seconds. This dramatically improved customer experience by saving customer time and helped to reduce traffic costs and enhance security, given the prevalent risk of personal data in the age of social engineering.

Payment operations are generally secured via one-time SMS codes. Any operations with cash and movements on customer accounts are only carried out upon confirmation using a code sent via SMS and push notifications. IMSI system is used to check to authenticate a sim card.

Unauthorised operations are prevented by fraud monitoring system, which is based on IBM Safer Payments solution. The system allows to effectively prevent fraud at various stages of a payment process using a cross-channel monitoring. This secures online banking, emission, acquiring, deposit withdrawals, sms-banking, operations on accounts of legal entities.

The monitoring system may, inter alia, automatically reject or suspend a payment, block an account or send an alert report of a suspicious operation. Once a suspicious transaction is identified a customer may confirm such operation by phone, sms-bank or mobile application

When suspicious transactions are identified, the Bank gives the customer a choice - to confirm transactions by phone or for cases with the presence of a card through the sms-bank or mobile application. In more than 90 per cent. of cases, the customer does not have to contact the bank by phone, which is especially important for customers abroad.

Estimation of credit loss allowance for expected credit loss

Estimation of credit loss allowance for expected credit loss (ECL) is performed in accordance with IFRS 9 from 1 January 2018.

The Group assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at amortised cost (AC) and Fair value through other comprehensive income (FVOCI) and for the exposure arising from loan commitments and financial guarantee contracts.

The measurement of ECL reflects:

1) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
2) the time value of money; and
3) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Group applies a "three stage" model for impairment in accordance with IFRS 9, based on changes in credit quality since initial recognition:

1) A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 months ECL").
2) If the Group identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("lifetime ECL").
3) If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Group measures expected credit losses over the period that the Group is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. period extends beyond the maximum contractual period.

CONTINUED

ASSET, LIABILITY AND RISK MANAGEMENT

CBR requires banks to classify their loans into the following five risk categories and to create provisions in the corresponding amount at their discretion:

Loan classification	Status of loan and loss potential	Provisioning range (in %)
Category I	Standard loans, without credit risk	0
Category II	Non-standard loans, moderate credit risk	1-20
Category III	Doubtful loans, considerable credit risk	21-50
Category IV	Problem loans, high credit risk	51-100
Category V	Bad loans	100

Write Off Policy

The Management Board makes decisions on loans to be written off based on information provided by the Risk Management Department. Generally, loans recommended to be written off are those in respect of which further steps to enforce collection are regarded as not economically viable. Loans sold to external collection agencies are also written off from the Group's balance sheet.

Market Risk

The Group's exposure to market risk arises from open interest rate and foreign currency positions, which are exposed to general and specific market movements.

The Group is generally not engaged in trading operations. It has mismatches in its foreign currency positions that arise generally due to relatively short term lending in Roubles and relatively long term borrowings in U.S. dollars. The Group manages the positions through hedging, matching or controlled mismatching.

The CBR sets limits on the open currency position that may be accepted by the Group on a stand-alone level, which is monitored on a daily basis. These limits prevent the Group from having an open currency position in any currency exceeding five per cent. of the Group's equity.

Foreign Currency Exchange Risk

The Group suffered from the Rouble devaluation in November 2008 to February 2009 and has implemented a "low foreign exchange risk tolerance" policy aiming to minimise exposure to foreign currency exchange risks. The policy imposes neutral hedging that matches assets and liabilities by currency, foreign exchange hedging of funding received in foreign currency and prohibits foreign exchange trading for speculative purposes.

Non-monetary assets are not considered to give rise to any material currency risk.

Interest Rate Risk

The Group's exposure to interest rate risks arises due to the impact of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also decrease or create losses in the event that unexpected movements arise. The Group's management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Group has no significant risk associated with variable interest rates on loans and advances provided to customers or loans received.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from unused limits on issued credit cards, retail deposits from customers, current accounts and due to banks. The Group does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place and it can be predicted with a high level of certainty. Liquidity risk is managed by the Financial Committee of the Bank.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to institutional investors, corporate and retail customer deposits and debt securities. Debt securities in issue consist of Rouble-denominated domestic bonds with maturities of up to five years, in particular RUB 3 billion 11.7 per cent. domestic bonds due 2021 with 18 months put option and RUB 5 billion 9.65 per cent. domestic bonds due 2022 with a two year put option.

The Group keeps all available cash in diversified portfolios of liquid instruments, such as a correspondent account with the CBR and overnight placements in high rated commercial banks, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group believes that the available cash at all times is sufficient to cover (i) debt repayments due within a month and accrued interest for one month ahead and (ii) a deposit liquidity cushion calculated as at least 15 per cent. of total retail deposits (but in practice usually maintained at a level between 20 and 25 per cent.).

The Group believes that it has a proven ability to control loan portfolio cash flows to maintain levels of liquidity reflecting changing market realities.

The Group also believes that its loan portfolio is responsive to change in inputs (such as stopping the issuance of any new credit cards or other loans and any increases in credit card limits) and that the Group can go from being cash-negative to being cash positive in a short period of time (estimated to be two weeks), as it was able to do in November 2008 and in September 2011.

The Group's liquidity management requires (i) considering the level of liquid assets necessary to settle obligations as they fall due; (ii) maintaining access to a range of funding sources; (iii) maintaining funding contingency plans; and (iv) monitoring balance sheet liquidity ratios against applicable regulatory requirements.

Tinkoff Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR, based on stand-alone RAS information of Tinkoff Bank, which is substantially different from the Group's IFRS results. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand. The minimum statutory ratio permitted by the CBR is 15 per cent.
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The minimum statutory ratio permitted by the CBR is 50 per cent.
- Long term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The maximum statutory ratio permitted by the CBR is 120 per cent.

CONTINUED

ASSET, LIABILITY AND RISK MANAGEMENT

For purposes of managing the Group's liquidity risk, the CFO regularly receives extensive information about the liquidity profile of the financial assets and liabilities. Monitoring of the Group's liquidity position includes, among other things:

– Monthly credit card loan portfolio trends monitoring, which covers transaction and repayment levels, delinquency levels, first month utilisation levels and backlog utilisation levels. This information allows the Group management to exercise control over longer-term cash flows and portfolio size and to plan for debt repayments one to two years ahead;
– Daily monitoring of transactions, repayments and deposits with data for the day updated each evening;
– Close deposit monitoring through daily reports and periodic deposit portfolio/behavioural analysis;
– Daily monitoring of credit card, deposits and cash balances with a one-day lag for all balances;
– Daily monitoring of movements on CBR and Nostro correspondent accounts; and
– Daily monitoring of payments flows, which consists of tracking incoming and outgoing payments including all future payments for up to three days in advance.

All daily reports also include week-to-day and month-to-day comparisons.

On the basis of all these reports, the CFO then ensures the availability of an adequate portfolio of short term liquid assets, made up of an amount in the correspondent account with the CBR and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole.

The Group's assets and liabilities management and liquidity policy takes into account certain relatively stable characteristics of the credit card loan portfolio, such as, among others, (i) regular monthly repayments of a predictable % of outstanding receivables, (ii) average utilization of a predictable % of the total portfolio limit, (iii) average utilization of a predictable % of any added amount within three months after regular credit limit upgrades, (iv) positive NPV on a credit card after 12 to 18 months; (v) risk profile of the portfolio, with decreasing delinquency rates resulting in increases in both repayments and transactions and (vi) seasonality, with a spike in usage in December of each year and a slowdown in usage in January and August.

Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behaviour is reviewed by the CFO.

All the investment securities available for sale are classified within demand and less than one month as they are easy repoable in the CBR or on the open market securities and can provide immediate liquidity to the Group. All current accounts of individuals are classified within demand and less than one month.

The allocation of deposits of individuals considers the statistics of auto-prolongations and top-ups of longer deposits with the funds from shorter deposits after their expiration in case when the customers have more than one active deposit. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group.

It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Operational Risk

The Group is exposed to operational risk which is the risk of losses resulting from inadequate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, technical failures, settlement errors, natural disasters and misuse of the Group's property.

The Group has established internal control systems intended to comply with Basel guidelines and the CBR's requirements regarding operational risk. The Board of Directors adopts general risk management policy, assesses the efficiency of risk management, approves the Group's management structure, adopts measures designed to ensure continuous business activities of the Group including measures designed for extraordinary and emergency situations and supervises other executive bodies in respect of operational risk management. The Management Board generally oversees the implementation of risk management processes at the Group including relevant internal policies, adopts internal regulations on the Group's risk management, determines limits for monitoring operational risks and allocates duties among various bodies responsible for operational risk management.

Regular monitoring of activities is intended to detect in a timely manner and correct deficiencies in policies and procedures designed to manage operational risk, which can reduce the potential frequency and/or severity of a loss event. Dedicated the Group personnel track all problems the Group encounters in its operations and record all operation errors/issues and remedial measures taken on a special help-desk system. Reports on such errors or issues are sent to key managers and all such errors are issues are recorded in incident log. In order to minimise operational risk, the Group strives to regularly improve its business processes and its organisational structure as well as incentivise its staff.

the Group insures against operational risks through several insurance policies that cover, among other things, property risks in respect of the Group's offices, IT infrastructure and certain third-party liabilities.

The Group has not experienced any material operational failures in recent years. In order to minimise potential losses from such failures, ensure business continuity in case of disruption to IT systems and provide reliable and continuous access to business data and services, the Group's IT systems are located in two dedicated data centres each connected to separate and independent power supply sources. Critical IT systems are operated in the most accessible, primary data centre with primary Tier-III facilities, while secondary systems and back up facilities are located in a physically separate data centre. Both data centres provide 24 hours a day, seven day a week, year round power, cooling, connectivity and security capabilities to protect mission-critical operations and preserve business continuity for IT systems. Moreover, the Group keeps additional hardware on its premises for back-up purposes and has stand-by servers for each key system, including active stand-by for critical systems such as processing and transaction authorisation.

Data connections to the data centres are 100 per cent. reserved via separate physical lines.

COVID-19

The existence of COVID-19 was confirmed in early 2020 and has spread across China, to Russia and beyond, causing disruptions to businesses and economic activity. Governments in affected countries are imposing travel bans, quarantines and other emergency public safety and fiscal measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak.

The Group has put contingency plans in place both to protect the workforce and ensure that we mitigate the impact of COVID 19. For instance, currently, our employees are mainly working from home due to travel restrictions imposed by governments. The ultimate severity of the Covid-19 outbreak is uncertain at this time, and therefore the Group cannot reasonably estimate the impact it may have on future operations. However, our technology systems continue to operate to the high levels we demand and the Group has high levels of both liquidity and capital reserves. Therefore, the Directors have concluded that there is currently no material impact on the Group's operations and liquidity at the time of publication of this report as a result of COVID-19.

Anti-Money Laundering and Terrorist Financing Procedures

As a member country of the FATF, Russia adopted the Anti-Money Laundering Law. Subsequent to the adoption of the Anti-Money Laundering Law, the CBR promulgated a number of anti-money laundering regulations specifically for the banking sector.

The Group has adopted internal regulations on anti-money laundering that are based on, and are in full compliance with, the requirements of the Russian anti-money laundering regulations, related instructions of the CBR and international standards. The supervision of the Russian anti-money laundering regime is shared by the CBR and the FSFMT.

The Group has created a specialised unit and appointed an authorised officer who coordinates activities aimed at preventing money laundering and terrorism financing. The Group conducts identification and review of its customers, customer's representatives, beneficiaries and beneficiary owners, money laundering and terrorism financing risk management, personnel training as well as daily analysis of banking operations, verifies information on operations that are subject to monitoring and sends all required information to the relevant state authorities. Employees of the Group have to take mandatory training on the Group's policies and procedures for preventing money laundering and terrorism financing both as part of the initial training after being hired and as part of the subsequent training activities.

Mandatory internal control checks are conducted by the Group's Internal Control Service. External control is provided by the CBR and, within an annual audit, by a statutory auditor.

The Group cooperates with the FSFMT by timely addressing their requests regarding certain entities or operations.

CORPORATE SOCIAL RESPONSIBILITY

TCS Group contributes to the achievement of the 17 Sustainable Development Goals adopted by the United Nations. We also strive to be an environmentally friendly company and in 2019 launched several environmental initiatives for our employees. The Company's DNA is particularly closely aligned to the following goals:

- GOOD HEALTH AND WELL-BEING;
- HIGH QUALITY EDUCATION;
- HEALTHY WORK ENVIRONMENT AND ECONOMIC GROWTH;
- INDUSTRY, INNOVATION AND INFRASTRUCTURE.

Tinkoff Moscow open 2019

GOOD HEALTH AND WELL-BEING

In 2019, we launched T-life, a comprehensive programme that covers 5 key elements of well-being (physical health, emotional comfort, professional development,personal finances and social life). The initiative is aimed at developing employees and increasing involvement in corporate programmes.

Support for sports initiatives

In 2019, Tinkoff continued to actively support sporting events and promote action sports in Russia.

The three largest and most important events supported by the Company have been gaining in popularity every year:

1 **Tinkoff Rosafest alpine ski festival**
Tinkoff Rosafest 2019 key results:

- more than 12,000 attendees;
- of whom more than 2,000 took part in The Game quest;
- more than 10,000 prizes;
- more than 1,600,000 online viewings of the night freestyle show.

2 **Quiksilver NewStarCamp snow festival**
More than 5,000 participants

Tinkoff sponsored the construction of Russia's largest snow park for athletes and snowboarding enthusiasts featuring kicker lines of two levels of difficulty, a very large big-air course, two downhill tracks and 30 various surfaces for jibs. The professional freestyle competitions which were a part of Quiksilver New Star Invitational Powered by Tinkoff were traditionally held on the 20-metre springboard.

3 **Tinkoff Moscow Open Basketball Tournament in Gorky Park:**

- 20,000 fans;
- Professional tournament featuring 16 men's and 6 women's teams;
- Amateur tournament featuring 407 teams (1,628 people);
- About 200,000 viewings.

In order to maintain the Company's path towards well-being, Tinkoff organises and supports various environmental initiatives

1) In all Tinkoff offices, we have been collecting plastic caps for the second year in a row as part of the Dobrye Krishechki charity project. The project was organised by the"Otkazniki. Volunteers to Help Orphans" Charitable Foundation. The caps are handed over to a plastics processing plant, and wheelchairs and supplies for foster children with disabilities are purchased with the proceeds. In 2019, we collected more than 500 kg of plastic caps. The fund directed the proceeds to purchase a wheelchair for a child from a foster family.
2) At all Tinkoff offices, we have been collecting used batteries. In 2019, we were able to collect and hand over for recycling more than 200 kg of batteries.
3) Charity Garage Sale for the Second Wind Charitable Foundation and Charity Shop(Vtoroe Dihanie). The foundation implements an environmental programme for the processing of non-waste clothing.

We welcome the personal responsibility and initiatives of employees and do our best to facilitate them. Tinkoff sometimes helps by providing additional funds or allowing the use of its premises, as well as coordination and organizational support.

The following is just a snapshot of the many such events, right across Russia. For two weeks, Tinkoff employees brought books, electronics, and various other items which they no longer needed, and set the expected value for these items. After the items were sold, donations from Tinkoff's employees were reflected on participants' personal cards. After the sale, Tinkoff recommended donating at least 50% of the amount which had been received. Each employee independently decides what percentage of the proceeds to donate.

Together we managed not only to have a good time, but also to find new owners for various items and gadgets that were brought in, as well as to sign New Year's greeting cards for elderly people with no relatives.

The event was attended by more than 150 employees who collected and donated more than 100 kg of clothes, shoes, gadgets and books for low-income families in the regions, and also collected 116,500 rubles of donations for charities.

One Tinkoff employee, who is also a volunteer environmental consultant, held a public environmental talk on personal responsibility for the environment, sustainable consumption and the cyclical economy.

"Good bottlecaps" ("Dobrye Krishechki") project at Tinkoff Group offices

4) More than 300 employees took part in fundraising efforts ahead of the New Year. Employees took part in the Be Useful in 2020 campaign (S polzoy v 2020), during which they raised over 346,000 rubles in favor of four charitable foundations.
Children supported by the Find a Family charity foundation (Naydi Semiu), orphans from foster care received much-needed medicines, medical examinations, special spectacles frames, therapeutic massage, as well as classes with a phlebologist and neuropsychologist.

Children with mental illnesses supported by the Masters and Margarita social workshop received essential materials for the workshop: utensils and everything for baking, tools for modeling and drawing.

Children with Down syndrome and mental illnesses supported by the Centre for Clinical Education (Tzentr Lechebnoy Pedagogiki) received the necessary materials for classes: developmental and educational books, albums, paint sets and felt-tip pens for drawing.

CONTINUED

CORPORATE SOCIAL RESPONSIBILITY

Fintech school and internship graduation ceremony

5) About 40 employees went to a home near Moscow for seniors with no relatives and disabled people to wish them a Happy New Year. The employees together with their children organised a concert, sang, danced, and recited poems. Then they all played board games together and exchanged warm wishes.

For the Old Age in Joy Foundation (Starost v radost), New Year's gifts were purchased for 67 seniors. For those bedridden, the organisations purchased much needed hygiene and medical supplies. All gifts were bought with donations from our employees.

6) Colleagues from the regions organise local social events. For example, employees from Yekaterinburg went to a home for seniors wih no relatives and people with disabilities together with Old Age in Joy Foundation (Starost v radost).

Employees from St. Petersburg organised a fundraiser to purchase equipment for the Lisa Alert search-and-rescue volunteer organisation.

In addition, employees raised funds to buy hygiene products for the Ad-Vita fund that helps cancer patients.

7) For the first time, in December 2019, a Charity New Year Fair was held in all of Tinkoff's Moscow offices.

More than 500 employees took part in the event. 11 charitable foundations brought their New Year's souvenirs and gifts. The foundations managed to collect donations of over 350,000 rubles. In this way, we helped foundations helping orphans, seniors with no relatives, children with mental illnesses, hospices for adults and children, social workshops for disabled people and single mothers.

8) Tinkoff shares the importance of consumer awareness and environmental responsibility. In the Company's offices, the amount of paper workflow is minimised. In October 2019, we changed the manufacturer of office paper. The paper now used is certified according to two environmental standards, FSC and EU Ecolabel.

HIGH QUALITY EDUCATION

Tinkoff educational programmes for schoolchildren and students

2019 was the fourth year of the successful implementation of Tinkoff educational programs for schoolchildren and students. The main goal of educational programmes is to show best industry practices to the most talented and motivated schoolchildren, university students and graduates from all over the Russian Federation. All programmes are free. Tinkoff Education has had a government license for educational activities since July 2019.

1) **Tinkoff Fintech** – blended learning IT and analytics courses for students. In 2019, we organised 40 courses for students and graduates in 8 cities (Moscow, Saint Petersburg, Izhevsk, Ekaterinburg, Nizhniy Novgorod, Novosibirsk, Rostov-on-Don, Ryazan) with more than 1,000 participants. 526 students successfully completed the courses, and 116 were hired by Tinkoff. We offered 18 unique courses such as Front-end development, iOS & Android, Python, Kotlin, Scala, Java to Scala, QA Automation, Site Reliability Engineering (SRE), Product Design and Project Management in Fintech and Product Analysis, and others.

First MIPT-Tinkoff Masters program graduating class

2) **Tinkoff Generation** – blended learning informatics and mathematics classes for schoolchildren. We have 4 streams for schoolchildren: Mathematics for Olympiads, Algorithms and data structures, Machine learning and Deep learning in 7 cities (Moscow, Saint Petersburg, Izhevsk, Ekaterinburg, Nizhniy Novgorod, Rostov-on-Don, Ryazan). We worked with 549 schoolchildren 82 of whom became participants of the All-Russian Student Olympiad in mathematics, informatics, economics, physics and even astronomy. The All-Russian Student Olympiad is the most prominent and well-known competition for schoolchildren in Russia. Last year 39 school students we work with participated in the All-Russian Student Olympiad, 5 of them won gold medals and 12 won silver medals in informatics, one student also won the silver medal in mathematics. Tinkoff Generation today is the biggest community of gifted and motivated schoolchildren under the patronage of a private business company.

3) Partnership with Educational Centre Sirius. Sirius is the top government-initiatiated project for supporting talended children. Tinkoff is a partner at the Big Challenges Programme which is the largest scale programme for schoolchildren in Russia aimed at innovation in priority scientific and technological areas. In July 2019, a group of schoolchildren under the mentorship of our employees produced a prototype of an optimisational algorithm and an app for scheduling meetings between Tinkoff's representatives and clients. This prototype was implemented and successfully tested in two small towns: Tula and Saransk.

4) Additionally, Tinkoff has two annual programs for students. In 2019, these programs included Project management and Analytics in Fintech and a two-week educational module held in April and November.

5) **Tinkoff Academy** – educational programs for Universities. We have a master's degree programme in partnership with the Moscow Institute of Physics and Technology. There are three majors:: Machine Learning, Analytics and Scala Development. We also introduced two new courses at the Department of Mechanics and Mathematics at Moscow State University: Applied data analytics and Industrial data science.

6) We also support Summer computer school and other summer and winter schools for schoolchildren in different regions of Russia. We share both financial aid and organisational support and expertise with different locals Olympiads in informatics and mathematics.

Finopolis youth program hackathon

CONTINUED

CORPORATE SOCIAL RESPONSIBILITY

HEALTHY WORK ENVIRONMENT AND ECONOMIC GROWTH

We create jobs for many thousands of throughout all parts of Russia

In addition, we gave 1,050 New Year's gifts for our partners made by regional social enterprises united by the Buy Social team. The honey that we ordered for the gifts gave work to seniors in the village of Maly Turysh in the Urals. Chocolate with honey that we purchased for the gifts was produced by people with disabilities in the village of Gagarinskaya new settlement near the city of Pereslavl. Christmas toy lanterns were made by people with mental illnesses in the Artel of the blessed workshop. Tinkoff spent nearly 900,000 rubles on this project , which provided work for these people.

In early February of 2020, 30 work computers and computer parts were donated to a charity in Ryazan. Tinkoff's Ryazan office helped the social services center in Ryazan and the Ryazan region. The center is supervised by the charity foundation Starost v radost (Old Age in Joy) and provides assistance to seniors with no relatives in their region.

INDUSTRY, INNOVATION AND INFRASTRUCTURE

1) We continue to promote various charitable foundations among our customers. In 2019, the number of charitable non-profit organisations customers may provide donations for increased from 168 to 294. Customers can make a donation through Tinkoff.ru or our mobile application, both in the form of regular payments throughout the year and/or a one-time fixed contribution. In 2019, the number of money transfers to charitable foundations by our customers increased from 34,000 to 72,000. Tinkoff Bank does not charge a commission on these payments.
2) Through our projects, we help a large number of people recognise and participate in solving social problems. From 5 April to 30 December 2019, Tinkoff was involved in a joint project with the Gift to Angel Charitable Foundation "The most important thing is to dream!" is a project aimed at socialising and motivating children with developmental disabilities.

Charity New Year Fair for employees

The main objective of the project is to draw people's attention to the problems of children with special developmental needs. As a result people become more socially responsible, open to charity work, and accepting of these children. The project aims at making charity work popular, at changing people's attitude towards children with special needs, as well as actively involving and motivating children with developmental disabilities.

Gift to Angel is a charitable foundation engaged in systemic assistance to single-parent and low-income families with children with cerebral palsy and other musculoskeletal disorders.

3) As part of a marketing campaign held on the children's channel Carousel, Tinkoff organised work with children with cerebral palsy. With the help of Tinkoff, which donated 1,380,000 rubles, the foundation was able to start producing commercials with the children supported by the foundation who were featured in a programme sponsored by the Company. This cooperation was aimed at raising awareness of the foundation's work and attracting further donations. The weekly broadcasts reached 4 million people and featured a link to the foundation's website where people could make a donation.
4) The Tinkoff team and the World Wildlife Fund (WWF), in partnership with whom we created in 2018 the Tinkoff - WWF credit card, share common views on creating resources for nature conservation and animal welfare, as well as values associated with a socially responsible, healthy lifestyle.

   Tinkoff is very selective in choosing brand partners for joint banking products. It is important for us that the partner not only offers customers the highest level of service and impeccable quality of products and services, but also that they share the values of the Tinkoff ecosystem.

   Tinkoff-WWF cardholders are socially responsible people who are concerned about the future of the planet. Most of them make regular donations to organisations to protect nature from climate change, participate in volunteer projects and seek to contribute to nature preservation, including through purchases with the Tinkoff WWF card, since a portion (1% of total customer purchases) goes to fund support programmes for rare species of animals and their habitats.

   We also launched a special promotion: when cardholders donate 900 rubles or more, Tinkoff will reimburse part of the charitable contribution back to the card (900 rubles for credit card holders and 200 rubles for debit card holders).

   The Tinkoff-WWF Eco-Card is made from renewable, environmentally friendly materials, is easy to process and does not pollute the environment.

   In 2019 alone, Tinkoff-WWF cardholders donated more than 2,000,000 rubles through their purchases.

   Every year the fund reports on the work it has accomplished, and our main result is that Tinkoff clients made great contributions to the processes of development and conservation of Russia's biological and forest diversity, the principles of a green economy and climate change prevention.
5) In 2019, Tinkoff continued to provide crucial support to 5 non-profit organisations. Altogether, 7,100,000 rubles were donated. These funds helped various socially vulnerable groups and their supporting organisations find systematic solutions to the challenges they face regularly:

– The Conjointment Charitable Foundation (So-Edinenie) helps adult deaf and blind disabled community;
– The Center for Clinical Pedagogy (Tsentr Lechebnoy Pedagogiki) is engaged in the training and rehabilitation of children with developmental disabilities (Down syndrome, autism, etc.);
– Charity Medical Center (Meditsinsky Tsentr Miloserdie) provides palliative care for dying children;
– The Old Age in Joy Charity Foundation (Starost v radost) supports lonely elderly people and people with disabilities living in public institutions;
– Zhuravlik Charitable Foundation is engaged in inclusive education for children and anti-bullying programmes in Russian schools.

EMPLOYEES AND CORPORATE SOCIAL RESPONSIBILITY

Tinkoff Team

Throughout 2019, we continued to hire the best professionals on the market to support our new and existing business lines. By the end of 2019, the Group's headcount totalled more than 24,700 people, with 12,300 being permanent office-based employees and 12,400 employees working remotely. Mathematicians and IT specialists account for 70% of the total headcount at Tinkoff headquarters. TCS Group average employment term is more than three years, with 12% of employees having worked at the Company for over five years. The share of vacancies filled internally is 15%, and the average period of reviewing new candidate applications ranges from three to five days. According to a study by Banki.ru, Russia's leading financial portal, 62% of the Company's employees post positive employee feedback. Our team is still among the youngest on the market: the average age of employees Group-wide stands at 28 years.

Human resources: key principles

TCS Group has adopted an unconventional recruitment approach. Lack of finance or banking background is often viewed as an advantage. We hire people with no stereotypes who are eager to reshape the financial services landscape. People with an analytical mind and the ability to handle huge amounts of data are our first choice.

The Group's recruitment policy focuses on:

- bringing together smart people with analytical experience;
- a transparent structure with zero tolerance of bureaucracy or hierarchy;
- a smart working environment;
- an effective learning environment;
- encouraging initiative and taking on responsibility;
- creativity and open dialogue between employees;
- promotion of team spirit and entrepreneurial culture;
- broad employee capabilities and delegation of responsibility;
- an environment where employees can experiment, make mistakes and learn lessons;
- promotion of the Test and Learn framework.
- In line with our Test and Learn approach, we test many concepts and implement the most successful. Our employees are not afraid of making mistakes and failures: in our quest for the most successful models we support any experiments and promote open communication between colleagues. We welcome innovative ideas to solve challenges in many different ways, and we believe in creating an environment that grants talented people with far-reaching authority. Greater rights and opportunities for our team is a crucial element of our success.

To deliver on the Group's objectives, we use various channels to facilitate communication between employees, including email, online chats, meetings and other forms. Any employee can address anyone in the Company regardless of their position.

Recruitment

We seek to recruit the best talent on the market using various tools to motivate and retain team members. Tinkoff recruits via advertising and job sites, student forums, social networks and other online channels. We actively look for the best students at the top national and global universities, including winners of competitions in mathematics, physics and programming. We offer career growth and training opportunities for professionals at every level.

We focus on attracting the best talent from leading tech companies, and strive to increase the share of specialists from the Russian regions among our new hires. Our recruitment team is actively expanding the hiring of technical specialists throughout the Russian Federation. In 2019, we hired 361 people across our regional units, bringingthe number of developers and testers in the regions to parity with the number of the same experts in HQ.

As we aim to make Tinkoff a top employer of choice, we are already seeing fruits. The Career.habr.com platform, which offers vacancies in the IT industry, ranks Tinkoff ahead of Mail.ru, Yandex and Sberbank.

Departure of volunteer employees to an old people's home on New Year's Eve.

Tinkoff Training Center

Tinkoff Training Center achieved the following results in 2019:

1) We organised and held 2,854 educational events, including 1,337 offline and 1,517 online;
2) 13,007 people were trained, including 1,043 managers and 12,034 specialists;
3) Average rating of events by participants was 4.7 out of 5;
4) We have carried out 125 electronic courses on soft and hard skills;
5) Career coaching for high-potential employees reached 42 people, with 10 meetings organised for each, while our NPS was 9 out of 10;
6) Life coaching sessions were attended by 61 team members. NPS was 9 out of 10;
7) Mentors within the company were selected for more than 100 people;

395 employees attended external trainings.

Tinkoff Training Center specialists conduct training for employees

All programme participants are the Group's permanent employees based in Russia. As the Group continues to grow and diversify, the aim of the expanded long-term management incentive plan is to better align the interests of the management with those of the shareholders in order to increase the Group's value.

Tinkoff took 4th place in the Forbes Woman ranking of the 25 Best Companies in Russia for Female Professionals, published in February 2020. Among IT companies and banks, Tinkoff has the highest ranking. The metrics considered included gender composition, remuneration, career opportunities and corporate programmes.

Compensation and incentives

TCS Group offers its employees a unique working environment and a transparent system of career growth. We provide fixed-rate salaries and bonuses, regularly assess employees performance against KPIs, determine the amount of compensation and give feedback for future career development. TCS Group has a market-based salary structure, with KPI-related pay rises and bonuses.

In January 2019, the Board of Directors approved an expansion of the Group's long-term management incentive plan. In particular, the number of participating employees was increased from 83 to 91 people (starting 31 January 2019) with relevant awards granted to newly added participants. The target equity pool for the programme participants amounts to 5.1% of the Group's issued share capital. Each MLTIP wave is awarded over six years and is subject to meeting annual KPIs.

Diversity and inclusion

Tinkoff Bank's flexible business model, based on a high-tech contactless platform, allows individuals with disabilities to join our team. This helps us expand and diversify the Group's recruiting pool and recruit people based on professional skills and merits. In 2019, we continued developing our home call centre where people can work for the Company at any hours and locations convenient for them. This working format is suitable for those residing in remote areas with limited access to transportation as well as for those who can only work remotely (for example, for women on maternity leave). 12,400 people throughout the country worked at our home call centre as at the end of 2019. They also include individuals with disabilities who are able to choose work hours and locations that suit their circumstances. These employees are trained online, and all the necessary corporate tools and materials are stored on a special cloud platform.

Health and safety

TCS Group creates a safe and comfortable work environment for its employees in full compliance with Russia's labour laws. We offer annual medical check-ups, vaccinations, voluntary health insurance, free membership in our in-house fitness gym located at Tinkoff Bank's headquarters, and other healthcare benefits. TCS Group encourages a healthy lifestyle and regularly holds corporate competitions in football, volleyball, basketball, alpine skiing and chess.

In 2019, we launched T-life, a comprehensive solution that covers 5 key elements of well-being (physical health, emotional comfort, professional development, personal finances and social life). The programme is aimed at developing an employee and increasing involvement in corporate programmes.

BOARD OF DIRECTORS

Constantinos Economides (44)

Chairman of the Board of Directors

Constantinos Economides has been a director of TCS Group Holding PLC since November 2008 and Chairman since June 2015.

Mr. Economides is also the Managing Director of Royal Pine & Associates Ltd since January 2016. He was previously the Managing Director of Orangefield Cyprus from October 2006 to December 2015. Prior to 2006, he worked with Deloitte Ltd in Cyprus from 2003 to 2006 and Ernst & Young in the United Kingdom from 1999 to 2002.

Mr. Economides is a Fellow Member of the Institute of Chartered Accountants in England & Wales (ICAEW) and holds an MSc in Management Sciences from Warwick Business School, United Kingdom. In addition, he is a Licensed Insolvency Practitioner of the Institute of Certified Public Accountants of Cyprus (ICPAC) since October 2015.

Alexios Ioannides (43)

Member of the Board of Directors

Alexios Ioannides has been a director of TCS Group Holding PLC since November 2008. Mr. Ioannides previously worked for Deloitte from 2001 to 2008 where he trained and qualified as a Chartered Accountant in 2004. Mr. Ioannides is also a member of the Board of Directors of The Copperlink Partners Limited (since 2015).

Mr. Ioannides is a fellow member of the Institute of Chartered Accountants in England & Wales (ICAEW) and a member of the Institute of Certified Public Accountants of Cyprus (ICPAC) and holds a BSc. in Business Administration from the University of Alabama, USA.

Martin Cocker (60)

Member of the Board of Directors
Independent Non-Executive Director
Chairman of the Audit Committee
Member of the Remuneration Committee

Martin Cocker has been a non-executive director since October 2013.

Mr Cocker also serves on the boards of Etalon Group plc, Beverley Building Society, Nostrum Oil and Gas PLC and Headhunter Group plc. Mr. Cocker previously held positions at Ernst & Young, Amerada Hess, Deloitte & Touche and KPMG in the United Kingdom, Russia and Kazakhstan.

Mr. Cocker is a member of the ICAEW and holds a bachelor of science (joint honours) degree in mathematics and economics from the University of Keele, United Kingdom.

* Philippe Delpal served last year as a non-executive Director and member of the Audit and Remuneration Committees (from 1 January to 16 August 2019).

Directors of the Company with the external auditors at the Company's offices in Limassol.
Left to right: Martin Cocker (Director), Jacques Der Megreditchian (Director), George Kazamias and Tommys Stavrou (PwC), Constantinos Economides (Chairman of the Board), Alexios Ioannides (Director) and Mary Trimithiotou (Director)

Jacques Der Megreditchian (60)

Member of the Board of Directors
Independent Non-Executive Director
Chairman of the Remuneration Committee
Member of the Audit Committee

Jacques Der Megreditchian has been a non-executive director since October 2013.

Mr. Der Megreditchian previously served as Chairman of the Exchange Council of the Moscow Exchange. Mr. Der Megreditchian has over 30 years of experience in finance from CCF, Societe Generale and Troika Dialog where he held the position of Chief Business Officer.

Mr. Der Megreditchian holds a degree in business administration from the European Business Institute, France and in financial analysis from the French Center for Financial Analysis, France.

Maria Trimithiotou (42)

Member of the Board of Directors

Maria (Mary) Trimithiotou has been a director since May 2012.

Mrs. Trimithiotou previously worked for Deloitte Ltd holding the position of audit manager from October 2001 to February 2009 and, subsequently, moved to Orangefield Fidelico Ltd where she held the position of Director from 2012 until 2015. Currently, Mrs. Trimithiotou is a member of the Board of Directors of Royal Pine & Associates Ltd since 2016.

Mrs. Trimithiotou is a Fellow Chartered Certified Accountant and a Member of the Association of Chartered Certified Accountants, as well as Member of the Institute of Certified Public Accountants of Cyprus (ICPAC). Mrs. Trimithiotou is also a Licensed Insolvency Practitioner (from October 2015).

TINKOFF GROUP: DECISION MAKING BODIES AT A GLANCE

Decision making body	Members (2/4/2020)	Relationship to other key governing bodies	Key powers	Number of meetings in 2019
TCS Group Holding PLC (Cyprus) Board of Directors	Constantinos Economides (Chairman) Mary Trimithiotou Alexios Ioannides Martin Cocker (INED) Jacques Der Megreditchian (INED)	Appoints members of the Tinkoff Bank Board of Directors. The Company is sole shareholder of Tinkoff Bank and determines all the matters reserved to shareholders.	-Provides leadership and oversight to the Group within a framework of prudent and effective controls which enable risk to be assessed and managed; -Sets the Group's strategic objectives and ensures the necessary financial and human resources are in place for the Group to meet its objectives; -Appoints the Group's external auditors; -Sets the Group's values and standards and ensures its obligations to shareholders/investors and other stakeholders are understood and met; -Reviews management performance; -Decides the Group's remuneration policy; -Approves the Group's credit policies: -Makes the Group's dividend policy and decides the level of dividends. A more detailed description can be found on pages 50-53.	10
Tinkoff Bank Board of Directors	Stanislav Bliznyuk (Chairman) Oliver Hughes Sergey Pirogov Vadim Stasovsky Svetlana Ustilovskaya (Independent)	Appoints and oversees the Tinkoff Bank Management Board	-Determines the strategic priorities of the Bank; -Approves capital markets operations of the Bank, major and related party transactions, risk and capital management strategy, procedures for managing conflicts of interest, HR policies, employee and management compensation and bonus policies; -convenes annual and extraordinary meetings of shareholders, decides on the agenda and the record date for meetings; -Recommends dividends;	24
Tinkoff Bank Management Board	Oliver Hughes (Chairman) Valeriya Pavlyukova Anatoliy Makeshin Evgeniy Ivashkevich Ilya Pisemsky Natalia Izyumova	Reports to the Tinkoff Bank Board of Directors	-Determines the Bank's asset, liability and risk management operations, policies and procedures; -The Chairman appoints the members of the Finance, Credit, Technology and Business Development Committees. The decisions of these Committees frame most of the day to day operations of Tinkoff Bank. A more detailed description can be found on page 28.	44

CORPORATE GOVERNANCE

Overview

Global Depositary Receipts (GDRs) of TCS Group Holding PLC (a Cyprus incorporated company), with each GDR issued under a deposit agreement dated on or about 24th October 2013 with JPMorganChase Bank N.A. as depositary representing one Class A share, are listed on London Stock Exchange. The Company's GDRs are also listed on the Moscow Exchange. No shares of TCS Group Holding PLC are listed on any exchange.

The Company is required to comply with the UK corporate governance regime to the extent it applies to foreign issuers of GDRs listed on London Stock Exchange. The Company has not adopted corporate governance measures of the same standard in all respects as those adopted by UK incorporated companies or companies with a premium listing on the London Stock Exchange.

As the Class A shares themselves are not listed on the Cyprus Stock Exchange (or elsewhere), the Cypriot corporate governance regime, which only relates to companies that are listed on the Cyprus Stock Exchange, does not apply to the Company and accordingly the Company does not monitor its compliance with that regime.

The Company's Home State is Cyprus.

A description of the terms and conditions of the GDRs can be found at 'Terms and Conditions of the Global Depositary Receipts', 'Summary of the Provisions relating to the GDRs whilst still in Master Form' and 'Description of Arrangements to Safeguard the Rights of the Holders of the GDRs' in the Prospectus issued by the Company dated 22 October 2013 and on the website at www.tinkoff.ru/eng.

Copies of the Articles of Association of the Company adopted on 21 October 2013, the terms of reference of the Committees, and other corporate governance related as well as investor relations related materials can also be found on the website www.tinkoff.ru/eng, at the Company's main website www.tcsgh.com.cy, on the Company's page on the London Stock Exchange website (www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary) and at the official site of the Department of Registrar of Companies, Cyprus (http://www.mcit.gov.cy/).

The Board of directors

The role of the Board is to provide entrepreneurial leadership to the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management's performance. The Board also sets the Group's values and standards and ensures that its obligations towards the shareholders and other stakeholders are understood and met.

The Board operates under a formal schedule of matters reserved to the Board for its decision, approved by shareholders in 2013.

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The current five strong Board of directors is comprised of three executive directors including the chairman, and two non-executive directors both of whom are independent. Other than the retirement of Mr Philippe Delpal on 16 August 2019, there was no change in the composition of the Board or status of the directors in 2019. The Board of directors currently contains no Directors B.

The longest serving director Mr Constantinos Economides took over the role of Chairman of the Board of directors in June 2015. The names of the people who served on the Board during 2019 are listed at on the next page.

The Group has established two Committees of the Board. Specific responsibilities have been delegated to those committees as described below.

The Board is required to undertake a formal and rigorous review annually of its own performance, that of its committees and of its individual directors. That review was recently carried out, in-house, in relation to 2019, looking at overall performance. All directors completed detailed questionnaires on the Board's, the committees' and individual director's performance. Analysis of the resultant feedback, which was discussed at a meeting of the Board of Directors in early 2020 did not show up any deficiencies in the performance of the Board, its committees or individual directors of a nature that required changes to be made.

The Board has not appointed a senior independent director. There are only two independent directors of whom at least one will retire each year. The role of appraising the Chairman of the Board for FY2019 was performed by the Chairman of the Audit Committee.

THE ROLE OF THE BOARD IS TO PROVIDE LEADERSHIP TO THE GROUP WITHIN A FRAMEWORK OF PRUDENT AND EFFECTIVE CONTROLS WHICH ENABLES RISK TO BE ASSESSED AND MANAGED.

Number of directors

Unless and until otherwise determined by the Company in general meeting, the number of directors shall be no less than four, of whom two must be non-executive, and shall not exceed seven, so long as Class B Shares are in issue. Thereafter there shall be no maximum number of directors.

The Articles of Association of the Company provide for the retirement by rotation of certain directors at each Annual General Meeting. At the AGM 2019 the two directors who retired by rotation were Mr Martin Cocker and Mr Philippe Delpal. Mr Philippe Delpal did not put himself forward for consideration for re-appointment at the AGM and consequently retired as a director, on 16 August 2019. Mr Martin Cocker was duly reappointed by vote of the shareholders.

Director's powers

The business of the Company is managed by the directors, who are empowered to exercise all such powers of the Company as are not, by the Cyprus Companies Law or by the Articles of Association, required to be exercised by the shareholders in general meeting, subject nevertheless to any provisions of the Articles of Association, of the Cyprus Companies Law and of any directions given by the general meeting by ordinary resolution; but no alteration of the Articles of Association and no direction made by the Company in general meeting shall invalidate any prior act of the directors which would have been valid had that alteration or direction not been made or given.

Proceedings of the Board of Directors

The quorum necessary for the transaction of the business of the directors shall be at least four directors.

Questions arising at any meeting of the Board of directors shall be decided by a majority of votes. In the case of equality of votes, the chairman shall have a second or casting vote. A director may, and the secretary on the requisition of a director shall, at any time, summon a meeting of the directors. A resolution in writing signed or approved by letter, telex, facsimile or telegram by all directors or their alternates or in relation to a committee by all its directors, shall be as valid and effectual as if it had been passed at a meeting of the Board of directors or (as the case may be) at a committee meeting duly convened and held. Any such resolution in writing signed may consist of several documents each signed by one or more of the persons described.

Any notice shall include an agenda identifying in reasonable detail the matters to be discussed at the meeting together with copies of any relevant documents.

The directors may delegate any of their powers to a committee or committees consisting of one or more members of their body as they think fit; any committee so formed shall, in the exercise of the powers so delegated to it, comply with the rules which may have been imposed on it by the directors, in respect of its powers, composition, proceedings, quorum or any other matter

ATTENDANCE TABLE FOR BOARD OF DIRECTOR AND COMMITTEE MEETINGS FY2019

Director	Board Attendance FY2019	AC Attendance FY2019	RC attendance FY2019
Constantinos Economides (Chairman)	10/10	n/a	n/a
Maria Trimithiotou	10/10	n/a	n/a
Alexios Ioannides	10/10	n/a	n/a
Martin Cocker	9/10	5/5	5/5
Philippe Delpal (retired 16 August 2019)	0/9	0/4	1/4
Jacques Der Megreditchian	10/10	5/5	5/5

Dear stakeholders

I am happy to report very strong results for FY2019. This follows outstanding financial performance in 2016, 2017 and 2018.

This accompanied substantial growth in our customer base and net loan portfolio, as we continued to deliver record high quarterly and full year profits and secured important technological milestones. Tinkoff has delivered another truly excellent year, the result of our dedication to product, interface and customer service.

A key focus of 2019 has been further building out the Ecosystem and expanding our non-credit business lines, making the business more sustainable. I would like to bring to your attention here, if you want to get a fuller understanding of Tinkoff and our 2019, the illuminating reviews found elsewhere in the Report, from Group CEO Oliver Hughes and Group CFO Ilya Pisemsky.

We have had a run of great years; but the competition are not asleep, Big Tech players are entering the financial arena and the Russian and international environments become ever more demanding. We have not forgotten though the recession of 2014/15, remember more difficult years when the good news was harder to find. In my report I would like to offer my particular praise and thanks to the Tinkoff Management team, who have stuck together and delivered outstanding financial performance in the business for a decade or more, in good times and not so good. This is no 'fair weather' team, but a team for all seasons. As 2020 is shaping up to be a more turbulent, volatile and challenging year, I can't think of a better qualified or more able and committed group of managers to steer the Group through to calmer waters. I believe though the Management team will do more, much more than that-that very turbulence and volatility I mentioned will tend to disrupt the current order of things, allowing the nimblest and best placed players like Tinkoff to play to our strengths. Such periods are not just a time of cleansing the market, but a time when we can come up with new solutions, new ideas for growth. History shows that Tinkoff has been through two very severe crises and emerged stronger each time. That management team has been broadened and deepened recently with some exceptional lateral hires and internal promotions so is even better placed to deliver for our stakeholders. So I am convinced we will do so again.

Inside the Group the work of the Board of Directors carries on as ever, though the Group is a much larger and more diverse business than when I became Chairman in 2015. Still the same fundamental corporate governance principles apply. Whilst the legal obligations for example on transparency and disclosure increase year on year, it has always been our approach to go beyond the minimum. This year as part of the process of identifying and interviewing candidates to join the Board, we have picked up some pointers on how others operate; this together with greater investor feedback generally not only on aspects of the way we do business as a responsible lender but on the way our decision-making bodies interact has led us to reformulate some of the disclosures in this Report, in our latest Non-Financial Information and Diversity Statement due for release by June and on our website, to make them more reader-friendly. We expect to announce further corporate governance enhancements in the coming months. We welcome feedback from all our stakeholders at any time, whether via our dedicated address stakeholderengagement@tcsgh.com.cy, or through our IR and PR teams, or direct to senior management –please let us have your views. Be assured all feedback is considered at the very highest levels of management.

In this first quarter the Board as it always has, conducted its annual self-appraisal process, covering the Board as a whole, its Committees and individual directors. No significant deficiencies were identified. This time many of the ideas focused on streamlining internal corporate governance mechanisms and compliance processes reflecting the rapid expansion of the Group which although important have less external visibility; a programme for their phasing-in is being actively worked on.

Lastly my thanks to all those who have made a contribution to the Tinkoff success story-our Founder Oleg Tinkov, our great Management team, our partners, investors and other stakeholders as well as our expanding base of customers. I am confident 2020 will bring further great achievements.

I wish you all a safe 2020.

Constantinos Economides

Chairman of the Board of Directors

TINKOFF

CONTINUED

CORPORATE GOVERNANCE

Committees of the Board of directors

The Company has established two Committees of the Board of directors: the Audit Committee and the Remuneration Committee. Their terms of reference are summarized below. Both Committees were formed in October 2013. The Board reserves the right to amend their terms of reference and arranges a periodic review of each Committee's role and activities and considers the appropriateness of additional committees.

Committees-current composition

The Audit Committee is chaired by an independent non executive director Mr Martin Cocker, and had until 16 August 2019 two other members both non executive directors, one of whom was independent. From 16 August 2019 the Audit Committee was comprised of its chairman Mr Martin Cocker and one independent non executive director.

The Remuneration Committee is also chaired by an independent non executive director Mr Jacques Der Megreditchian, and had until 16 August 2019 two other members both non executive directors, one of whom was independent. Details of the non executive and independent non executive directors are set out under Board of Directors on page 47. From 16 August 2019 the Remuneration Committee was comprised of its chairman Mr Jacques Der Megreditchian and one independent non executive director.

The current terms of reference of both Committees are available to the public and can be found on the Group's website. A short summary of both is set out below.

Role of the Audit Committee

The Audit Committee's primary purpose and responsibility is to assist the Board in its oversight responsibilities. In executing this role the Audit Committee monitors the integrity of the financial statements of the Group prepared under IFRS and any formal announcements relating to the Group's and the Company's financial performance, reviewing significant financial reporting judgments contained in them, oversees the financial reporting controls and procedures implemented by the Group and monitors and assesses the effectiveness of the Company's internal financial controls, risk management systems, internal audit function, the independence and qualifications of the independent auditor and the effectiveness of the external audit process. The Audit Committee is required to meet at appropriate times in the reporting and audit cycle but in practice meets more often as required.

Under its terms of reference the Audit Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Audit Committee met this obligation through members participating in the main Board review described above. After consideration of the review, no changes were proposed to the committee's terms of reference. The Audit Committee operates a structured framework around the extensive work it does on non-FS matters holding at least two additional meetings annually, at least one of which would be held at the Bank's head office in Moscow, to consider specific, non-financial statement related areas within its terms of reference. One such meeting was held in 2019 with a further two planned for 2020.

The Audit Committee has developed a risk matrix which constantly evolves to reflect new risks, the perceived impact of, and the Group's appetite for, any given risk and the measures taken to mitigate those risks. This matrix is run in conjunction with the internal audit function.

A new post of chief information security officer was created in late 2017 and filled, with additional personnel expert in cyber-security recruited, in a very competitive market, through 2018 and 2019 to support the Group's ever-increasing efforts to stay ahead of trends and threats in this sphere. The Group has further broadened its top management team with a new chief investment officer and new chief operating officer appointed in 2019 and now in place.

Role of the Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing among other things the framework of remuneration of the executive directors, senior management and its overall cost and the Group's remuneration policies. The objective is to ensure that the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are in a fair and responsible manner rewarded for their individual contributions to the success of the Group. The Remuneration Committee's Terms of Reference include reviewing the design and determining targets for any performance related pay schemes and reviewing the design of all share incentive plans for approval by the Board. The Remuneration Committee is required to meet at least twice a year but in practice meets far more often.

The Remuneration Committee continued with its work into 2019 on an ongoing review of the operation of the Group's equity based incentive and retention plan for key, senior and middle management (MLTIP) which launched in 2016 and in considering additional awards to both existing and new participants for this and subsequent years. The Remuneration Committee recommended 10 members of management be invited to join MLTIP in Q12019, but made no such recommendations in Q12020.

The Committee has also been working on plans for an incentive and compensation plan to supplement MLTIP for when, in the period 2022 to 2024, existing awards made to MLTIP joiners in 2016-2017 start to go into run off.

Under its terms of reference the Remuneration Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Remuneration Committee met this obligation through members participating in the main Board review (described above) under which detailed questionnaires were completed by all directors assessing the operation of the Board and both committees as well as individual directors. Although earlier reviews had resulted in certain minor changes to the Remuneration Committee's terms of reference, no further changes were felt required based on the most recent review.

The Committee continues to meet as required. In 2019 it convened 5 times.

Appointment, retirement, rotation and removal of directors

The directors of the Company are appointed by the general meeting of shareholders with the sanction of an ordinary resolution. Such an appointment may be made to fill a vacancy or as an additional director. But no director may be appointed unless nominated by the Board of directors or a committee duly authorized by the Board of directors or by a shareholder or shareholders together holding or representing shares which in aggregate constitute or represent at least 5% in number of votes carried or conferred by the shares giving a right to vote at a general meeting.

Notwithstanding that, one or more Directors B (a special category of director) may be appointed only by Class B shareholders, together holding or representing Class B shares which constitute or represent in aggregate over 50% in nominal capital paid up on the Class B shares upon serving notice to the Company. As at 31 December 2019, Class B shares in aggregate represented under 50% of nominal capital.

The Board of directors may at any time appoint any person to the office of director either to fill a vacancy or as an additional director and every such director shall hold office only until the next following annual general meeting and shall not be taken into account in determining the directors who are to retire by rotation.

One third of the directors (or if their number is not a multiple of three, the number nearest to three but not exceeding one-third) shall retire by rotation at every annual general meeting. Directors holding an executive office and Directors B are excluded from retirement by rotation.

Directors including Directors B may be removed from office by the shareholders at a general meeting with the sanction of an ordinary resolution, subject to giving 28 days' notice to that director in accordance with the Articles of Association. Directors B may at any time be removed from office by Class B shareholders together holding or representing Class B shares which constitute or represent over 50% in nominal capital paid up on the Class B Shares upon giving notice to the Company.

The office of director shall be vacated if the director:

- becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- becomes prohibited from being a director by reason of any court order made under Section 180 (disqualification from holding the position of director on the basis of fraudulent or other conduct) of the Cyprus Companies Law; or
- becomes, or may be, of unsound mind; or
- resigns his office by notice in writing to the Company left at the registered office; or
- is absent from meetings of the board for six consecutive months without permission of the Board of directors and his alternative director (if any) does not attend in his place and the Board of directors resolves that his office be vacated.

At any time when Class B Shares cease to exist by virtue of conversion into Class A Shares, each Director B shall thereby become (undesignated) a director and shall remain in office until the next annual general meeting and such director will not be taken into account in determining the directors who are to retire by rotation at such meeting.

CONTINUED

CORPORATE GOVERNANCE

Share capital

As at 31 December 2019, the Company's issued share capital is US$7,972,219.68 divided in to 199,305, 492 shares, each of nominal value of US$0.04 per share and fully paid. Of these 119, 291, 268 are Class A Shares and 80, 014, 224 Class B Shares, each with a nominal value of US$0.04 per share and fully paid. As of 31 December 2019, the Company's authorized share capital was USD8,401,385.92 (with in addition to the stated Class A and Class B shares, 10,729,156 undesignated shares of nominal value US$0.04 each).

All of the Class B shares are held directly or indirectly by Mr Oleg Tinkov, the controlling shareholder.

Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or any of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

Certain rights of pre-emption are conferred, by the Cyprus Companies Law and the Articles of Association of the Company, on existing shareholders for issue of new shares to the Company in cash. Please refer to the section below on pre-emption rights for further information.

Articles of Association

In this section Cyprus Companies Law means the Companies Law, Cap. 113 of Cyprus and any successor statute or as the same may from time to time be amended.

The Company's current Articles of Association were adopted on 21 October 2013 and, except as to share capital, have not changed since. The following is a brief summary of certain material provisions of the Articles of Association, in force as at 31 December 2018. Holders of GDRs are not direct shareholders in the Company but instead derive their rights through holding a GDR. A description of the terms and conditions of the GDRs can be found at 'Terms and Conditions of the Global Depositary Receipts', 'Summary of the Provisions relating to the GDRs whilst still in Master Form' and 'Description of Arrangements to Safeguard the Rights of the Holders of the GDRs' in the Prospectus issued by the Company dated 22 October 2013 and on the website at www.tinkoff.ru/eng.

Rights of shareholders

Except for the additional voting rights attached to Class B Shares, the right to requisition a general meeting of the shareholders and the right to appoint a Director B, none of the shareholders of the Company has any rights different from any other holder of shares of the Company. A summary of the rights attached to the shares of the Company is set out below.

Meeting of shareholders

The Company is required to hold an annual general meeting each year on such date and at such place as the directors may determine provided that not more than 15 months should elapse between annual general meetings.

The board of directors or any director may convene general meetings. The board of directors will also convene:

(a) extraordinary general meetings of the Company on the requisition of:

(i) a shareholder or shareholders together, holding or representing in aggregate, shares (being shares of either of the Class A Shares and Class B Shares) which constitute or represent at least five per cent. of the total number of votes carried or conferred by the Class A Shares and Class B Shares; or

(ii) a Class B shareholder;

(b) a separate meeting of the Class A shareholders on the requisition of a Class A shareholder or Class A shareholders together, holding or representing Class A Shares which in aggregate constitute or represent at least five per cent. in nominal capital paid up on the Class A Shares; and

(c) a separate meeting of the Class B shareholders on the requisition of any Class B shareholder,

and any shareholder or shareholders as aforesaid may add items to the agenda of a meeting which they are entitled to attend.

An annual general meeting and a meeting called at which a special resolution will be proposed shall be called by at least twenty-one days' prior written notice. All other general meetings may be convened by the board by issuing at least 14 days' prior written notice. General meetings of the Company may be called by shorter notice and shall be deemed to have been duly called if it is so agreed:

- in the case of a meeting called as the annual general meeting, by all the shareholders entitled to attend and vote; and
- in the case of any other meeting, by a majority in number of the shareholders having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving the right to attend and vote at the meeting.

Shareholders' rights at meetings

All shareholders are entitled to attend the general meeting or be represented by a proxy authorised in writing. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands, every member present (if a natural person) in person or by proxy or, (if a corporation) is present by a representative not himself being a member, shall have one vote for each Class A Share of which he is a holder and shall have 10 votes for each Class B Share of which he is a holder, and on a poll, every member shall have one vote for each Class A Share of which he is a holder and shall have 10 votes for each Class B Share for which he is a holder.

The quorum for a general meeting will consist of such number of shareholders holding in aggregate more than 50 per cent. of the issued capital. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the same day in the following week, at the same time and place or to such other day and at such other time and place as the chairman of the general meeting may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the shareholders present shall be a quorum.

The above quorum does not apply to every separate meeting of the shareholders of any class, in that any shareholder (present in person or by proxy) holding or representing shares of the class which in aggregate constitute or represent at least one-third in nominal capital paid up on the shares of the class, shall constitute a quorum and a meeting.

A resolution in writing which has been signed by or on behalf of shareholders conferring in aggregate at least 75 per cent. of the votes exercisable on such resolution at general meeting of the Company is valid and effectual as if the resolution were sanctioned by the general meeting, provided that a notice of the intention to propose the resolution together with a copy of the resolution, are given to all the shareholders conferring the right to vote on the resolution, at least 30 days prior to the date of the resolution. Such a resolution in writing may consist of several documents in the like form each signed by, or on behalf of, one or more shareholders.

Pre-emption rights

Under the Cyprus Companies Law, each existing shareholder has a right of pre-emption to subscribe for any new shares to be issued by the Company in cash, in proportion to the aggregate number of such shares of the shareholder. There are no pre-emption rights with respect to shares issued for non-cash consideration.

Specifically, all new shares and/or other securities giving rights to purchase shares in the Company, or which are convertible into shares in the Company that are to be issued for cash, shall be offered to the existing shareholders on a pro-rata basis to the participation of each shareholder in the capital of the Company, on a specific date fixed by the directors. Any such offer shall be made upon written notice to all the shareholders specifying the number of the shares and/or other securities giving rights to purchase shares in the Company, or which are convertible into shares in the Company, which the shareholder is entitled to acquire and the time periods (which shall not be less than 14 days date of notification of the offer (or)/from the date of the dispatch of the written notice), within which the offer, if not accepted, shall be deemed to have been rejected. If, until the expiry of the said time period, no notification is received from the person to whom the offer is addressed or to whom the rights have been assigned that such person accepts all or part of the offered shares or other securities giving rights to purchase shares in the Company, or which are convertible into shares of the Company, the directors may dispose of them in any manner that they deem fit.

These pre-emption rights may be disapplied by a resolution of the general meeting which is passed by a specified majority, being a majority in favour of over one half of all the votes cast if the attendance represents not less than half the issued share capital and a majority in favour of not less than two-thirds of the votes cast in all other cases ("Special Majority Resolution"). In connection with such a waiver, the directors have an obligation to present to the relevant general meeting a written report which explains the reasons for the proposed disapplication of the pre-emption rights and justifies the proposed issue price of the shares.

CONTINUED

CORPORATE GOVERNANCE

Voting rights

Subject to any special rights or restrictions as to voting attached to shares, every holder of shares who is present (if a natural person) in person or by proxy or, (if a corporation) is present by a representative, shall have one vote for each Class A Share of which he is a holder and shall have 10 votes for each Class B Share of which he is a holder.

The Class A Shares carry the right to one vote per Class A Share and confer on the Class A shareholders the right:

- on a Hands Vote, to one vote per Class A shareholder; and
- on a Poll Vote, to one vote per Class A Share held by each Class A shareholder,

but no Class A Share carries or confers any right to vote, on a resolution or proposed resolution for the removal from office of a Director B.

"Director B" means a director appointed or deemed to have been appointed by Class B shareholders in accordance with the Articles of Association.

The Class B Shares carry the right to 10 votes per Class B Share and confer on the Class B shareholders the right:

- (a) on a Hands Vote, to 10 votes per Class B shareholder; and
- (b) on a Poll Vote, to 10 votes per Class B Share held by each Class B shareholder.

Every resolution put to the vote of a general meeting shall be decided on a Hands Vote unless a Poll Vote is demanded in accordance with the Articles of Association.

No shareholder shall be entitled to vote (either in person or by proxy) at any general meeting unless all calls or other sums presently owed by him in respect of those shares have been paid or the Board of Directors otherwise determine.

Conversion rights and weighted voting

Class A Shares are generally not convertible into Class B Shares.

Each Class B Share confers on its holder the right to convert each Class B Share into one Class A Share at any time at the absolute discretion of a relevant Class B shareholder by serving a written notice to the Company setting out the number of Class B Shares the relevant holder is willing to convert. The conversion referred to above shall take place automatically at the expiration of one Business Day from the date that the relevant notice is received by the Company. Once Class B Shares are converted into Class A Shares, the Class A Shares that result from such conversion shall rank pari passu in all respects with the existing Class A Shares in issue.

Without prejudice to the rights of the holders of Class B Shares for the conversion of their shares into Class A Shares, Class B Shares shall be automatically converted into Class A Shares, on a one-to-one basis, in the following circumstances:

(a) in the event that any Class B Share has been transferred to, or is held by, a person other than a Qualified Person (defined below) or otherwise who has ceased to be a Qualified Person, and such person (the "Disqualified Holder") does not become or is not re-instated as, a Qualified Person within 45 days of the service on the Disqualified Holder of a notice from the Company to that effect (the "Conversion Event"), each Class B Share held by the Disqualified Holder shall, with effect of the Conversion Event, automatically be re-classified and re-designated as a "Class A Share" ranking pari passu in all respects and for all purposes with all and each of the pre-existing (outstanding) Class A Shares:

provided that:

(i) If a Class B shareholder has no knowledge that such holder has become a Disqualified Holder and it is unreasonable to expect the Disqualified Holder to have such knowledge, such shareholder shall be deemed not to have become a Disqualified Holder or otherwise ceased to be a Qualified Person, unless or until such shareholder shall be made aware of this by notice in writing from the Company.

(ii) The Company may at any time require any Class B shareholder to furnish the Company with any information, supported (if the Company so requires) by statutory declaration which the Company may consider necessary for the purpose of determining whether or not such shareholder is a Qualified Person.

(b) Notwithstanding Paragraph (a), in the event that the Class B Shares constitute or represent in aggregate less than 10 per cent. in nominal capital paid up only on the Class A Shares and Class B Shares (the "Total Conversion Event"), each existing (issued) Class B Share shall, with effect of the Total Conversion Event, automatically be re-classified and re-designated as a "Class A Share" ranking pari passu in all respects and for all purposes with all and each of the pre-existing (outstanding) Class A Shares.

(Qualified Person, for the purpose of these paragraphs means a Class B shareholder or a person connected with such Class B shareholder or a person, or persons jointly, as the trustee or trustees of any trust or settlement (whether or not conferring the trustees discretionary powers) for the benefit of such Class B shareholder or a relative, or relatives, of such Class B shareholder.)

Martin Cocker

Independent Non-Executive Director, Chairman of the Audit Committee, Member of the Remuneration Committee.

Jacques Der Megreditchian

Independent Non-Executive Director, Chairman of the Remuneration Committee, Member of the Audit Committee.

Dividend and distribution rights

The Class A Shares and Class B Shares have the right to an equal share in any dividend or other distribution paid by the Company, and any dividend or other distribution may only be declared and paid by the Company to the holders of the Class A Shares and Class B Shares together.

Variation of rights

The special rights carried or conferred by the shares of any class, may, without prejudice to the rights of the shareholders under section 70 of the Cyprus Companies Law, be varied or abrogated with the consent:

(a) in writing of the sole shareholder of, or the shareholders holding in aggregate at least two thirds in nominal capital value of, the Shares of that class; or

(b) of the general meeting of the shareholders of the Shares of that class with the sanction of a majority resolution, being a resolution sanctioned:

(i) by a majority of over one-half of the votes cast by the shareholders present in person or by proxy and entitled to vote, in the case where all the shareholders present in person or by proxy and entitled to vote, hold or represent in aggregate not less than 50 per cent. in nominal capital value of the entire issued share capital of the Company; or

(ii) by a majority of not less than two-thirds of the votes cast by the shareholders present in person or by proxy and entitled to vote in all other cases,

at a general meeting of which not less than 14 days' notice specifying the intention to propose the resolution as a "majority resolution" has been given.

Shareholders voting against the variation of that class who between them hold or represent not less than 15 per cent. of the issued shares of that class may apply to the courts of Cyprus to have the variation set aside.

MANAGEMENT TEAM

Oliver Hughes (49)

CEO, Chairman of the Management Board of Tinkoff Bank

Oliver oversees the strategic direction of Tinkoff Bank.

He joined Tinkoff as CEO in 2007 and has been at the helm every step of the way, helping Tinkoff grow into the world's largest independent digital bank by customer base. Before joining Tinkoff, Oliver worked for Visa International for a decade, including as Head of Visa in Russia from 2005 until 2007. Prior to Visa, he held various positions including at Reebok, Shell UK and the British Library.

Oliver holds a Master of Arts degree in International Politics from Leeds University and a Master's degree in Information Management and Technology from City University in London. He also has a Bachelor's (First Class) degree in Russian and French from the University of Sussex.

Ilya Pisemsky (44)

Chief Financial Officer, Deputy Chairman of the Management Board of Tinkoff Bank

Ilya is responsible for financial management, corporate strategy and planning. He has been Chief Financial Officer at Tinkoff since July 2008 and Deputy Chairman of the Management Board since April 2010. Prior to joining Tinkoff, he was Deputy Chief Financial Officer at Bank Soyuz and held a managerial position at Ernst & Young CIS.

Ilya graduated from the Finance Academy under the Government of the Russian Federation in Moscow and holds an MBA from the F.W. Olin Graduate School of Business at Babson College in Wellesley, Massachusetts.

Sergei Pirogov (49)

Head of Corporate Finance, Member of the Board of Directors of Tinkoff Bank

Sergey has been responsible for capital raising and debt portfolio management at Tinkoff as Head of Corporate Finance since January 2010. Since July 2016, he has served on Tinkoff Bank's Board of Directors. Previously Sergey worked at Citigroup, where he was Director of Corporate Finance for Russia and the CIS from 2002 to 2008. Prior to that, he was Programme Coordinator and Head of Investment Projects at IBS Intertraining.

Sergey graduated from the Moscow State Institute for International Relations. He also holds an MBA from the Darden Graduate School of Business at the University of Virginia, USA.

Artem Yamanov (38)

SVP, Business Development Director

Artem is in charge of business development at Tinkoff. He has been with the company every step of the way, starting his career as head of products at Tinkoff and growing with the company into his current role of senior vice president. Before joining Tinkoff, he held various positions at Russian Standard Bank and Raiffeisen Bank, including overseeing credit card operations in Russia.

Artem holds a Master's degree in Applied Physics and Mathematics from the Moscow Institute of Physics and Technology.

Stanislav Bliznyuk (39)

Chief Operating Officer, Deputy Chairman of the Management Board of Tinkoff Bank

Stanislav oversees operations at Tinkoff. Before being appointed Chief Operating Officer in June 2012, he was Head of Technologies at the Bank from 2006. Prior to this, Stanislav worked in the banking sector, including as Process & Project Director at Raiffeisen Bank Russia.

Stanislav graduated from Moscow State University with a Master's degree in Mathematics and Economics.

Valeria Pavlyukova (36)

Chief Legal Officer, Deputy Chairman of the Management Board of Tinkoff Bank

Valeria has overseen all legal matters at Tinkoff as Chief Legal Officer and Deputy Chairman of the Board since January 2017. Before joining the Bank, she was Head of Legal for Sberbank's international division and a Legal Director for InBev for/in Russia.

Valeria graduated from the International University in Moscow and studied finance at Hult International Business School.

Management team positions shown as of 31 December 2019.

CONTINUED

MANAGEMENT TEAM

George Chesakov (47)

Head of Tinkoff Mobile

George Chesakov is responsible for Tinkoff's mobile virtual network operator (MVNO Tinkoff Mobile) and has been in this role since January 2017. He also served as Chief Operating Officer and Chairman of the Management Board from 2006 until 2011. Prior to his returning to Tinkoff in February 2016, George was President of OTP Bank and co-founder of Revo Technology.

Prior to Tinkoff, George worked at McKinsey & Company, Russian Standard Bank and launched a consumer finance business at Investsberbank (now OTP Bank).

George holds a Master's degree in Computer Science from Princeton University and a Master's degree with honors in Mathematics from Moscow State University.

Nadezhda Serova (44)

Human Resources Director

As Head of Tinkoff's HR department, Nadezhda oversees employee engagement, talent management, development of motivational programs and the overall well-being of employees and all processes related to it.

Nadezhda has been working in HR for more than 15 years, including more than 10 years in senior positions. Before joining the Tinkoff team, she was Head of HR for Yandex Market.

Nadezhda graduated from Novgorod State University. She also holds a bachelor's degree in business administration from the Russian-Norwegian School.

Evgeny Ivashkevich (49)

Risk Director, Deputy Chairman of the Management Board of Tinkoff Bank

Evgeny is in charge of risk management at Tinkoff. He has been in his current role since 2007, having also joined Tinkoff Bank's Management Board as Deputy Chairman in 2011. Before joining Tinkoff, he was a portfolio manager at Renaissance Capital Bank and Head of Product Development at Russian Standard Bank.

Evgeny graduated from the Moscow Institute of Physics and Technology and obtained a PhD in Theoretical Physics from the Joint Institute for Nuclear Research.

Anatoly Makeshin (47)

Head of Payment Systems, Deputy Chairman of the Management Board of Tinkoff Bank

Anatoly has been responsible for Tinkoff's payments systems since 2006. He has also been a member of Tinkoff's Management Board since September 2012.

Anatoly graduated from Moscow Power Engineering Institute and holds a PhD in Technical Science from the Russian Academy of State Service.

Natalia Izyumova (57)

Chief Accountant, Member of the Management Board of Tinkoff Bank

Natalia oversees Tinkoff's accounting. She stepped into her current role and became a member of Tinkoff Bank's Management Board when she joined the Bank in February 2011. Natalia has also been a member of the Financial Committee of Tinkoff Bank since November 2011. Prior to joining Tinkoff, Natalia held a number of senior-level positions, including that of CFO and Deputy Chairwoman of Dvizheniye Bank's Management Committee.

Natalia graduated from Moscow State University with a degree in Economics and holds a PhD in Economics from the Research Institute of Economy.

Viacheslav Tsyganov (44)

Chief Information Officer

Viacheslav has been with Tinkoff Bank from the beginning of its story. He is in charge of information technology and computer systems at Tinkoff. Viacheslav has been Chief Information Officer since 2009 after transitioning from his role as Head of IT Architecture and Development at the Bank.

Viacheslav holds a Master's degree in Computer Science from Southwest State University.

CONTINUED

MANAGEMENT TEAM

Darya Ermolina (32)

Communications Director

As head of communications for Tinkoff, Darya oversees strategic communications and media relations for the Tinkoff group of companies. Before joining the Tinkoff team in January 2014, Darya worked as a senior manager for international media relations for Rosneft Oil Company. Prior to Rosneft Darya worked as a media analyst for PBN Hill+Knowlton Strategies (part of WPP).

Darya graduated from the Moscow State University of International Relations (MGIMO) with a bachelor and a masters degree in international relations.

Neri Tollardo (28)

Head of International Investor Relations and Partnerships

Neri Tollardo joined Tinkoff in 2019 and is responsible for building and developing relationships with international investors and partners. Prior to joining Tinkoff, he was a top-ranked sell-side research analyst at Morgan Stanley for seven years, during which he covered a number of different emerging markets and sectors.

Neri holds a MSc in Finance and Private Equity from the London School of Economics and a BSc in International Economics and Management from Bocconi University.

Anna Mikhina (32)

Head of Lifestyle Banking

As Head of Lifestyle Banking for Tinkoff, Anna oversees strategic development of partner and non-financial services for the Tinkoff group of companies. Prior to joining the Tinkoff team in November 2012, Anna worked as a mobile product manager for Yandex, Rambler and Mail.ru.

Anna graduated from the Humanitarian Institute of Television and Radio Broadcasting with a degree in journalism.

Larisa Chernysheva (44)

Head of Investor Relations and transaction execution

Larisa oversees two functions in Tinkoff: she leads the IR strategy which covers all aspects of investor communication and interaction as well as she is responsible for supervising the fixed income and equity related transactions. Before joining the Tinkoff team in August 2012, Larisa worked as a relationship manager for financial institutions for Citigroup Corporate Bank Moscow.

Prior to Citigroup Larisa worked as a legal assistant for Freshfields Bruckhaus Deringer Moscow office. Larisa holds masters degree in management and media communications from the Moscow State University of Culture and is certified by the College of Ministry of Foreign Affairs of the Russian Federation in business administration.

31 DECEMBER 2019

TCS Group Holding PLC

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

Contents

Board of Directors and other officers

Board of Directors

Constantinos Economides, Chairman
Alexios Ioannides
Mary Trimithiotou
Jacques Der Megreditchian
Martin Robert Cocker

The above all served throughout 2019 and through to the date of these consolidated financial statements. Philippe Delpal retired from the Board on 16 August 2019.

The Company's Articles of Association include regulations for the retirement by rotation of Directors at each annual general meeting. These regulations will operate in 2020 on the basis of the composition of the Board at the relevant date.

Company Secretary
Caelion Secretarial Limited

25 Spyrou Araouzou
Berengaria 25, 5th floor,
3036, Limassol, Cyprus

Registered office

25 Spyrou Araouzou
Berengaria 25, 5th floor,
3036, Limassol, Cyprus

31 DECEMBER 2019

Consolidated Management Report

The Board of Directors presents its report together with the audited consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2019.

Principal activities and nature of operations of the Group

1. The Group's principal activities are all undertaken within the Russian Federation and consist on-line retail banking operations, through its subsidiary JSC "Tinkoff Bank" (the "Bank"), and other operations through its subsidiaries, such us insurance operations through JSC "Tinkoff Insurance" (the "Insurance Company"), mobile services through LLC "Tinkoff Mobile" and asset management through LLC "Tinkoff Capital" (Note 1).
2. The Bank specialises in retail banking for individuals, individual entrepreneurs ("IE"), small and medium enterprises ("SME") and brokerage services. The Bank which is fully licensed by the Central Bank of Russia, launched its operations in the Summer of 2007 and is a member of the Russian Deposit Insurance System. The Insurance Company specialises in providing non-life insurance coverage such as accident, property, travel, credit protection and auto insurance. The founder and controlling shareholder of the Company is Oleg Tinkov.

Changes in group structure

3. During 2019 the Group acquired an additional 40% shareholding in LLC "CloudPayments", a developer of online payment solutions in Russia, and increased its stake to 95%.
4. During 2019 the Bank founded an asset management company LLC "Tinkoff Capital" to manage investment mutual funds and non-state pension funds.

Review of developments, position and performance of the Group's business

5. The Bank operates a flexible business model. Its virtual network enables it to quickly and easily increase business or slow down customer acquisition depending on the availability of funding and market conditions. The Bank's primary customer acquisition channels are Internet and Mobile, but it also uses Direct Sales Agents and partnerships (co-brands) to acquire new customers. These customer acquisition models, combined with the Bank's virtual network, afford it a geographic reach across all of Russia's regions resulting in a highly diversified portfolio.
6. During 2019 the Group completed a secondary public offering ("SPO") of its "class A" shares in the form of Global Depositary Receipts (GDRs) and raised its capital by USD 300 million. This provided the necessary capital to take advantage of the current profitable growth opportunities whilst maintaining sufficient capital buffers in the future (Note 1 and 20).
7. During 2019 the Company actively continued the development its call-center and software development services in Cyprus.
8. The key offerings of JSC "Tinkoff Insurance" are personal accident insurance, collective insurance against accidents and illnesses, travel insurance, motor vehicle insurance and property insurance, compulsory third party liability insurance (CTP) and voluntary third party liability insurance (VTP) (Note 24). The Insurance Company focuses on online sales.
9. In terms of financial performance the profit of the Group for the year ended 31 December 2019 was RR 36,123 million (2018: RR 27,122 million). This result is driven by two major continuing trends: the ongoing growth of the Group's consumer finance business and a growing contribution from the non-credit fees-and-commission business lines. Thus the Group continues to demonstrate an active growth of income from acquiring services. Net margin increased by 44.6% to RR 86,769 million (2018: increased by 30.2% to RR 59,992 million) on the back of credit and investment portfolio growth. The growth of the credit portfolio was driven not only by the credit cards loans but also by other types of loans, such as secured, cash and POS loans. The quality of loans continues to improve. The Group aims to diversify its credit portfolio by the extention of collateralised credit products which represents a business line with lower credit risks. The 90 days plus overdue loans ratio ("NPL") reduced to 9.1% as at 31 December 2019 (2018: 9.4%). The NPL coverage ratio reduced to 156% as at 31 December 2019 (2018: reduced to 164%). The Investment in debt securities portfolio increased by 35% and amounted to RR 135,178 million (2018: increased by 39.7% to RR 100,140 million). This growth has been fuelled by the continued development of the debit cards and SME business lines. The Group continues to maintain a good quality and diversified securities portfolio. During the year the Bank developed the Tinkoff Investments product by increasing of the customer base and providing of new trading instruments to its clients. The Group's Insurance business continues to develop at a good pace. This year insurance premiums earned increased by 111.4% to RR 14,110 million (2018: increase by 144.0% to RR 6,674 million). The growth was as a result of a continuous development of auto (including CTP and VTP) and travel insurance, as well as the growth of personal accident insurance along with the credit portfolio and providing a wider coverage of insured risks.

Environmental matters

10. As the Group is an online-only financial institution, the management of the Group believe none of the Group's business relationships, products or services are likely to have any significant actual or potential significant environmental impacts and do not believe its operations are exposed to any material environmental risks. Management, in reaching this view, have taken into account the risk of adverse impacts that may stem from the Company's own activities as well as its business relationships including its supply and subcontracting chains. This belief is based on continuous scrutiny of the business. The Group is continuously reviewing its processes to identify opportunities to reduce their environmental impact.

Human resources

11. Empowerment is an important ingredient in the success of our organization. To achive this, decision making is delegated to the levels deep below the management team, discussion, idea generation and exchange and transparency is actively promoted and encouraged and an open leadership style ensures that information can move freely. The Group utilizes all types of forums to promote continual dialogue – such as email, online chat rooms, flash meetings, as well as formalized meeting structures. The Group offers a clear far-reaching career path for its employees, a unique work environment and a fair and transparent compensation.
12. Clear performance evaluation processes and fair compensation are essential. Compensation is a combination of fixed rate salary and supplemental bonuses and is based on employee performance. Employees are evaluated on a regular basis in order to monitor their achievement against their Key Performance Indicators to provide feedback which can be used for their career development and to determine incentive compensation.
13. Prior to its IPO in 2013, the Group set up share-based management long term incentive plans ('MLTIP') as retention and motivational tools for key and senior managers. In March 2016, the Group announced a consolidated long-term management incentive and retention plan, covering around 50 key, senior and middle managers. In 2017, 2018 and 2019 the Group announced the expansion of the plan. The number of participants increased to over 80. Total target size of the MLTIP pool is 5.4% of the Group's share capital as at 31 December 2018 before the SPO (Note 20). The plan is designed to align more closely managers' interests with those of shareholders to grow the Group's value. The plan is awarded over four years with each such annual award vesting over the subsequent three years. The Group believes that participation in its share capital is an effective motivation and retention tool. The new management incentive and retention plan now embraces more managers, for two main reasons: firstly, internal promotions as some employees were promoted to key managerial positions; and, secondly, as part of its expansion and transformation into a financial marketplace, the Group has hired a significant number of new managers to develop and manage new business lines and to strengthen internal controls, including cyber security.

Non-Financial Information and Diversity Statement

14. The Group's policies and other information that provide an understanding of the development, performance, position and impact of the Group's activities in the areas of environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters can be found in the Group's most recently published Non-Financial Information and Diversity Statement. The Group will publish its Non-Financial Information and Diversity Statement for the year ended 2019, on the Company's website, www.tcsgh.com.cy (and www.tinkoff.ru/eng) no later than 30 June 2020.

Principal risks and uncertainties

15. The Group's business and financial results are impacted by uncertainties and volatilities in the Russian economic environment.
16. The Group is subject to a number of principal risks which might adversely impact its performance. The principal activities of the Group are banking and insurance operations and so it is within this area that the principal risks occur. Management considers that those principal risks are financial risks, operational risks and legal risks. Financial risk comprises market risks (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.
17. The Board has put in place arrangements to identify, evaluate and manage principal risks and uncertainties faced by the Group. The Group has an established risk management program that focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. This is overseen by a dedicated Risk Management function, which works with senior management of the operating companies in Russia as well as the Board of Directors in this area. The primary objectives of the financial risk management function are to establish acceptable risk limits, and then ensure that the exposures remain within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures that minimize oper-

31 DECEMBER 2019

Consolidated Management Report (Continued)

ational and legal risks. The risk management strategy is established so as to identify, assess, monitor and manage the risks arising from Group's activities. These risks as well as other risks and uncertainties, which affect the Group and how these are managed, are presented in Notes 31 and 33 of the consolidated financial statements.

Contingencies

18. The Group's contingencies are disclosed in Note 33 to the consolidated financial statements.

Future developments

19. The Group's strategic objective is to be a full service, online financial and lifestyle ecosystem with a broad range of financial, insurance and quasi-financial products, serving customers through a high-tech online and mobile platform that offers premium quality service and convenience, while maintaining high growth rates, profitability and effective data-driven risk management.

Results

20. The Group's results for the year are set out on page 2 of the consolidated financial statements. Information on distribution of profits is presented in Note 28.

Any important events for the Group that have occurred after the end of the financial year

21. Important events for the Group that have occurred after the end of the financial year are presented in Note 41.

Share capital

22. In June 2019 the Company's shareholders approved a resolution to increase the authorised share capital to USD 8,401,385.92 by the creation of 18,263,882 new undesignated ordinary shares of nominal value USD 0.04 each. At 31 December 2019 the total number of authorised shares is 210,034,648 shares (31 December 2018: 191,770,766 shares) with a par value of USD 0.04 per share (31 December 2018: USD 0.04 per share).
23. On 2 July 2019 the Group announced the successful completion of the offering of 16,666,667 GDRs representing interests in its "class A" share on London Stock Exchange plc. raising aggregate gross proceeds of USD 300 million (RR 18,916 million) which would ensure the necessary capital to seize the current profitable growth opportunities whilst maintaining ample capital buffers in the future.
24. As at 31 December 2019 the number of issued "class A" shares is 119,291,268 and issued "class B" shares is 80,014,224 (31 December 2018: the number of issued "class A" shares is 96,239,291 and issued "class B" shares is 86,399,534).

Research and development activities

25. During the year ended 31 December 2019 the Group has undertaken research and development activities related to software including greater use of biometrics, voice assistant, social networking, machine learning and intelligence.

Treasury shares

26. At 31 December 2019 the Group held 4,185,166 (2018: 6,604,353) of its own GDRs, equivalent to approximately RR 3,164 million (2018: RR 3,670 million) and which represent 2.1% (2018: 3.6%) of the issued share capital.
27. Treasury shares are GDRs of TCS Group Holding Plc that are held by a special purpose trust which has been specifically created for the long-term incentive programme for the MLTIP (see Note 40 for further information).
28. The Group repurchased no GDRs in 2019 (2018: 2,094,126 GDRs at market price for RR 2,455 million representing 1.1% of the issued share capital).
29. During 2019 the Group transferred 2,419,187 GDRs (2018: 1,804,894 GDRs), representing 1.21% (2018: 1.0%) of the issued share capital, upon vesting under the MLTIP. This resulted in a transfer of RR 506 million (2018: RR 372 million) out of treasury shares to retained earnings.

Board of Directors

30. The members of the Board of Directors as of 31 December 2019 and at the date of this report are presented above. All served throughout the year ended 2019 and through to the date of these consolidated financial statements, except for Philippe Delpal, who retired from 16 August 2019.
31. There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Branches

32. The Group did not operate through any branches during the year.

Independent auditor

33. The Independent Auditor, PricewaterhouseCoopers Limited, has expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

Going concern

34. The Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2020, including cash flows and funding facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Corporate Governance Statement

GDRs of TCS Group Holding PLC (a Cyprus incorporated company), with each GDR issued under a deposit agreement dated on or about 24th October 2013 with JPMorganChase Bank N.A. as depositary representing one Class A share, are listed on London Stock Exchange. The Company's GDRs are also listed on the Moscow Exchange. No shares of TCS Group Holding PLC are listed on any exchange.

The Company is required to comply with the UK corporate governance regime to the extent it applies to foreign issuers of GDRs listed on London Stock Exchange. The Company has not adopted corporate governance measures of the same standard in all respects as those adopted by UK incorporated companies or companies with a premium listing on the London Stock Exchange.

As the Class A shares themselves are not listed on the Cyprus Stock Exchange (or elsewhere), the Cypriot corporate governance regime, which only relates to companies that are listed on the Cyprus Stock Exchange, does not apply to the Company and accordingly the Company does not monitor its compliance with that regime.

The Company's Home State is Cyprus.

A description of the terms and conditions of the GDRs can be found at 'Terms and Conditions of the Global Depositary Receipts', 'Summary of the Provisions relating to the GDRs whilst still in Master Form' and 'Description of Arrangements to Safeguard the Rights of the Holders of the GDRs' in the Prospectus issued by the Company dated 22 October 2013 and on the website at www.tinkoff.ru/eng.

Copies of the Articles of Association of the Company adopted on 21 October 2013, the terms of reference of the Committees, and other corporate governance related as well as investor relations related materials can also be found on the website www.tinkoff.ru/eng, at the Company's main website www.tcsgh.com.cy, on the Company's page on the London Stock Exchange website (www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary) and at the official site of the Department of Registrar of Companies, Cyprus (http://www.mcit.gov.cy/).

31 DECEMBER 2019

Consolidated Management Report (Continued)

Board of Directors

The role of the Board is to provide entrepreneurial leadership to the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management's performance. The Board also sets the Group's values and standards and ensures that its obligations towards the shareholders and other stakeholders are understood and met.

The Board operates under a formal schedule of matters reserved to the Board for its decision, approved by shareholders in 2013.

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The current five strong Board of directors is comprised of three executive directors including the chairman, and two non-executive directors both of whom are independent. Other than the retirement of Mr Philippe Delpal on 16 August 2019, there was no change in the composition of the Board or status of the directors in 2019. The Board of directors currently contains no Directors B.

The longest serving director Mr Constantinos Economides took over the role of Chairman of the Board of directors in June 2015. The names of the people who served on the Board during 2019 are listed at Board of Directors and other officers.

The Group has established two Committees of the Board. Specific responsibilities have been delegated to those committees as described below.

The Board is required to undertake a formal and rigorous review annually of its own performance, that of its committees and of its individual directors. That review was recently carried out, in-house, in relation to 2019, looking at overall performance. All directors completed detailed questionnaires on the Board's, the committees' and individual director's performance. Analysis of the resultant feedback will be discussed at a meeting of the Board of Directors on 10 March 2020 and no changes are expected to be made in the performance of the Board, its committees or individual directors.

The Board has not appointed a senior independent director. There are only two independent directors of whom at least one will retire each year. The role of appraising the Chairman of the Board for FY2019 was performed by the Chairman of the Audit Committee.

Committees of the Board of directors

The Company has established two Committees of the Board of directors: the Audit Committee and the Remuneration Committee. Their terms of reference are summarized below. Both Committees were formed in October 2013. The Board reserves the right to amend their terms of reference and arranges a periodic review of each Committee's role and activities and considers the appropriateness of additional committees.

Committees-current composition

The Audit Committee is chaired by an independent non executive director Mr Martin Cocker, and had, until 16 August 2019, two other members both non executive directors, one of whom was independent. From 16 August 2019 the Audit Committee has comprised of its chairman Mr Martin Cocker and one independent non executive director.

The Remuneration Committee is also chaired by an independent non-executive director, Mr Jacques Der Megreditchian, and had until 16 August 2019 two other members both non executive directors, one of whom was independent. From 16 August 2019 the Remuneration Committee has comprised of its chairman Mr Jacques Der Megreditchian and one independent non-executive director.

The current terms of reference of both Committees are available to the public and can be found on the Group's website. A short summary of both is set out below.

Role of the Audit Committee

The Audit Committee's primary purpose and responsibility is to assist the Board in its oversight responsibilities. In executing this role the Audit Committee monitors the integrity of the financial statements of the Group prepared under International Financial Reporting Standards ("IFRS") and any formal announcements relating to the Group's and the Company's financial performance, reviewing significant financial reporting judgments contained in them, oversees the financial reporting controls and procedures implemented by the Group and monitors and assesses the effectiveness of the Company's internal financial controls, risk management systems, internal audit function, the independence and qualifications of the independent auditor and the effectiveness of the external audit process. The Audit Committee is required to meet at appropriate times in the reporting and audit cycle but in practice meets more often as required.

Under its terms of reference, the Audit Committee is required, at least once each year, to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval.
The Audit Committee met this obligation through members participating in the main Board review described above. After consideration of the review, no changes were proposed to the committee's terms of reference. The Audit Committee operates a structured framework around the extensive work it does on non-financial statement matters holding at least two additional meetings annually, at least one of which would be held at the Bank's head office in Moscow, to consider specific, non-financial statement related areas within its terms of reference. One such meeting was held in 2019 with a further two are planned for 2020.

The Audit Committee has developed a risk matrix which constantly evolves to reflect new risks, the perceived impact of, and the Group's appetite for, any given risk and the measures taken to mitigate those risks. This matrix is run in conjunction with the internal audit function.

A new post of chief information security officer was created in late 2017 and filled, with additional personnel expert in cyber-security recruited, in a very competitive market, through 2018 and 2019 to support the Group's ever-increasing efforts to stay ahead of trends and threats in this sphere. The Group has further broadened its top management team with a new chief investment officer and new chief operating officer appointed in 2020 and now in place.

Role of the Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing among other things the framework of remuneration of the executive directors, senior management and its overall cost and the Group's remuneration policies. The objective is to ensure that the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are in a fair and responsible manner rewarded for their individual contributions to the success of the Group. The Remuneration Committee's Terms of Reference include reviewing the design and determining targets for any performance related pay schemes and reviewing the design of all share incentive plans for approval by the Board. The Remuneration Committee is required to meet at least twice a year but in practice meets far more often.

The Remuneration Committee continued with its work into 2019 on an ongoing review of the operation of the Group's MLTIP which launched in 2016 and in considering additional awards to both existing and new participants for this and subsequent years. The Remuneration Committee recommended 10 members of management be invited to join MLTIP in Q1 2019, but made no such recommendations in Q1 2020.

The Committee has also been working on plans for an incentive and compensation plan to supplement MLTIP for when, in the period 2022 to 2024, existing awards made to MLTIP joiners in 2016-2017 start to enter into run off.

Under its terms of reference the Remuneration Committee is required at least once each year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval.
The Remuneration Committee met this obligation through members participating in the main Board review (described above) under which detailed questionnaires were completed by all directors assessing the operation of the Board and both committees as well as individual directors. Although earlier reviews had resulted in certain minor changes to the Remuneration Committee's terms of reference, no further changes were felt required based on the most recent review.
The Committee continues to meet as required. In 2019 it convened 5 times.

Appointment, retirement, rotation and removal of directors

The directors of the Company are appointed by the general meeting of shareholders with the sanction of an ordinary resolution. Such an appointment may be made to fill a vacancy or as an additional director. But no director may be appointed unless nominated by the Board of directors or a committee duly authorized by the Board of directors or by a shareholder or shareholders together holding or representing shares which in aggregate constitute or represent at least 5% in number of votes carried or conferred by the shares giving a right to vote at a general meeting.

Notwithstanding that, one or more Directors B (a special category of director) may be appointed only by Class B shareholders, together holding or representing Class B shares which constitute or represent in aggregate over 50% in nominal capital paid up on the Class B shares upon serving notice to the Company. As at 31 December 2019, Class B shares in aggregate represented under 50% of nominal capital.

The Board of directors may at any time appoint any person to the office of director either to fill a vacancy or as an additional director and every such director shall hold office only until the next following annual general meeting and shall not be taken into account in determining the directors who are to retire by rotation.

One third of the directors (or if their number is not a multiple of three, the number nearest to three but not exceeding one-

31 DECEMBER 2019

Consolidated Management Report (Continued)

third) shall retire by rotation at every annual general meeting. Directors holding an executive office and Directors B are excluded from retirement by rotation.

Directors including Directors B may be removed from office by the shareholders at a general meeting with the sanction of an ordinary resolution, subject to giving 28 days' notice to that director in accordance with the Articles of Association. Directors B may at any time be removed from office by Class B shareholders together holding or representing Class B shares which constitute or represent over 50% in nominal capital paid up on the Class B Shares upon giving notice to the Company.

The office of director shall be vacated if the director:

- becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- becomes prohibited from being a director by reason of any court order made under Section 180 (disqualification from holding the position of director on the basis of fraudulent or other conduct) of the Cyprus Companies Law; or
- becomes, or may be, of unsound mind; or
- resigns his office by notice in writing to the Company left at the registered office; or
- is absent from meetings of the board for six consecutive months without permission of the Board of directors and his alternative director (if any) does not attend in his place and the Board of directors resolves that his office be vacated.

At any time when Class B Shares cease to exist by virtue of conversion into Class A Shares, each Director B shall thereby become (undesignated) a director and shall remain in office until the next annual general meeting and such director will not be taken into account in determining the directors who are to retire by rotation at such meeting.

Significant direct/indirect holdings

For the significant direct and indirect shareholdings held in the share capital of the Company, please refer to Note 1 of the consolidated financial statements.

Internal control and risk management systems in relation to the financial reporting process

Policies, procedures and controls exist around financial reporting. Management is responsible for executing and assessing the effectiveness of these controls.

Financial reporting process

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board has delegated to the Audit Committee the responsibility for reviewing the consolidated financial statements to ensure that they are in compliance with the applicable framework and legislation and for recommending these to the Board for approval. The Audit Committee is responsible for overseeing the Group's financial reporting process.

Internal Controls and Risk Management

Management is responsible for setting the principles in relation to risk management. The risk management organisation is divided between Policy Making Bodies and Policy Implementation Bodies. Policy Making Bodies are responsible for establishing risk management policies and procedures, including the establishment of limits. The main Policy Making Bodies are the Board of Directors, the Management Board, the Finance Committee, the Credit Committee and the Business Development Committee.

In addition the Group has implemented an online analytical processing management system based on a common SAS data warehouse that is updated on a daily basis. The set of daily reports includes but is not limited to sales reports, application processing reports, reports on the risk characteristics of the card portfolios, vintage reports, transition matrix (roll rates) reports, reports on the pre-, early and late collections activities, reports on compliance with CBR requirements, capital adequacy and liquidity reports, operational liquidity forecast reports and information on intra-day cash flows.

Diversity policy

The Group is committed to offering equal opportunity to all current and prospective employees, such that no applicant or employee is discriminated in favour of or against on the grounds of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation in recruitment, training, promotion or any other aspect of employment.

Recruitment, training and promotion are exclusively based on merit. All the Group employees involved in the recruitment and management of staff are responsible for ensuring the policy is fairly applied within their areas of responsibility. The Group applies this approach throughout, at all levels. This includes its administrative, management and supervisory bodies, including the Board of Directors of the Company.

The composition and diversity information of the Board of Directors of the Group for the year ended and as at 31 December 2019 is set out below:

Name	Age	Male/Female	Educational/professional background
Constantinos Economides	44	Male	ICAEW, MSc in Management Sciences, experience in 'Big Four' professional services firms
Alexios Ioannides	43	Male	ICAEW, ICPAC, BSc in Business Administration, experience in 'Big Four' professional services firms
Mary Trimithiotou	42	Female	ICPAC, FCCA, Licensed insolvency practitioner, experience in 'Big Four' professional services firms
Martin Robert Cocker	60	Male	ICAEW, BSc in Mathematics and Economics, experience in 'Big Four' professional services firms
Philippe Delpal (resigned on 16 August 2019)	46	Male	BSc in IT, Telecoms and Economics, senior executive experience in banking industry
Jacques Der Megreditchian	60	Male	BSc in Business Administration and in Financial Analysis, banking and finance experience

Further details of the corporate governance regime of the Company can be found on the website: https://www.tinkoff.ru/eng/investor-relations/corporate-governance/.

By Order of the Board

Constantinos Economides

Chairman of the Board
Limassol

10 March 2020

Independent Auditor's Report

To the Members of TCS Group Holding PLC

Report on the Audit of the Consolidated Financial Statements

Our opinion

In our opinion, the accompanying consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (together the "Group") give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the consolidated financial statements which are presented in pages 1 to 108 and comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

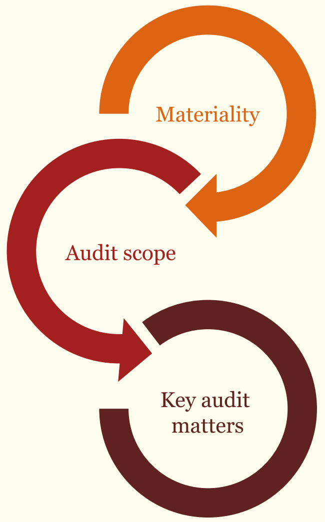
We remained independent of the Group throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

PricewaterhouseCoopers Ltd, PwC Central, 43 Demostheni Severi Avenue, CY-1080 Nicosia
P O Box 21612, CY-1591 Nicosia, Cyprus
T: +357 - 22 555 000, F:+357 - 22 555 001, www.pwc.com.cy

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.



- Overall group materiality: Russian Roubles ("RR") 2 275 million, which represents approximately 5% of profit before tax

- We planned and conducted our audit to cover the two largest business components of the Group being the Banking and Insurance operations for which we performed an audit of their complete financial information.
- For the other components, we performed substantive audit procedures where necessary.

We have identified the following key audit matters:

- Credit loss allowance for loans and advances to customers, using the expected credit loss model in line with the requirements of IFRS 9 "Financial Instruments";
- Recognition of interest income calculated using the effective interest rate method on loans and advances to customers.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	RR 2 275 million
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by the users of the consolidated financial statements, and it is a generally accepted benchmark. We chose 5%, which in our experience is an acceptable quantitative threshold for this materiality benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RR 115 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our group audit scope

TCS Group Holding PLC is the parent of a group of companies. The financial information of this Group of companies is included in the consolidated financial statements of TCS Group Holding PLC.

Considering our ultimate responsibility for the opinion on the Group's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we tailored the scope of our audit and determined the nature and extent of the audit procedures for the components of the Group to ensure that we performed sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the significance and/or risk profile of the group entities or activities, the accounting processes and controls, and the industry in which the Group operates.

The Group has two primary business components being Banking (which includes retail business for individuals and small and medium-sized entities business) and Insurance operations, both of which operate primarily in the Russian Federation. The Banking business comprises a number of reporting units being JSC Tinkoff Bank, LLC Microfinance company T-Finans, LLC Phoenix and LLC Tinkoff Capital. The Insurance business comprises solely JSC Tinkoff Insurance. Full scope audit procedures were performed in respect of the Banking and Insurance operations.

Other Group business reporting components, including TCS Group Holding PLC, TCS Finance D.A.C., LLC TCS, Tinkoff Software DC, LLC Tinkoff Mobile, LLC CloudPayments, ANO Tinkoff Education and Tinkoff Long-Term Incentive Plan Employee Benefit Trust, are not considered to be primary business components for audit purposes. Where necessary, additional substantive audit procedures were carried out across these non-primary components at the financial statement item level in order to achieve the desired level of audit evidence. The consolidated financial statements are a consolidation of all of the above business reporting components.

We determined the level of involvement we needed to have in the audit work at the business reporting components to be able to conclude whether sufficient appropriate audit evidence was obtained as a basis for our opinion on the consolidated financial statements as a whole. We worked with other PwC network firms in relation to the activity of the Group in the Russian Federation. Overall, we have obtained sufficient and appropriate audit evidence regarding the consolidated financial information of the Group as a whole to provide a basis for our audit opinion on the consolidated financial statements.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Credit loss allowance for loans and advances to customers, using the expected credit loss model in line with the requirements of IFRS 9 "Financial Instruments"	
This is a complex accounting standard for which models have been developed by the Group to calculate expected credit losses ("ECL"). These calculations involve the application of significant management judgement and estimates. Therefore we applied focus to the "expected credit loss" models used by the Management for the purpose of compliance with IFRS 9. The detailed description of these models is disclosed in Note 3 "Significant Accounting Policies" and Note 31 "Financial and Insurance Risk Management" to the consolidated financial statements. An assessment of the credit loss allowance for loans and advances to customers is performed on a portfolio basis, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting (which is impacted by the definitions of "significant increase in credit risk" and "default"), the estimated recoveries from defaulted loans and the lifetime period for revolving credit facilities. Statistical models are used for the assessment of the probability of default, recovery rate and the lifetime period for revolving credit facilities. In addition, calculation of the expected credit loss allowance incorporates forward-looking information, taking into consideration different macro-economic scenarios and adjusting the probability of default. Note 3 "Significant Accounting Policies", Note 4 "Critical Accounting Estimates and Judgements in Applying Accounting Policies", Note 9 "Loans and Advances to Customers" and Note 31 "Financial and Insurance Risk Management" to the consolidated financial statements provide detailed information on the credit loss allowance for loans and advances to customers.	In relation to the ECL models for measuring credit loss allowance, we assessed the appropriateness of the key assumptions used in the methodologies and models of the Group and their compliance with the requirements of IFRS 9. For a sample of loans we recalculated their probabilities of default and compared the results with the models' outputs. Additionally, we reviewed the Group's backtesting of probabilities of default estimated on the basis of the models by comparing them to the actual default rates evidenced in the loan portfolios. With regard to the controls relating to the credit loss allowance, we assessed and tested on a sample basis the design and operating effectiveness of the key controls over credit loss data and calculations. These key controls included those over classification of certain loans by loan portfolios, allocation of cash received from customers to respective loans and advances to customers, identification of the overdue loans and the data transfer from source systems to the credit loss allowance models. We determined that we could place reliance upon these key controls for the purposes of our audit. In addition, we performed testing, on a sample basis, of the statistical models used to calculate the credit loss allowance and we also tested, on a sample basis, the completeness of restructured credit-impaired loans. This testing of the models varied by portfolio including testing of the coding used, re-performance of the calculation including calculation of the effect of forward-looking information on credit loss allowance and testing the system generated data used in the models. We tested a sample of post model accounting adjustments where applicable, including considering the basis for the adjustment, the logic applied, the source data used, and the key assumptions adopted.

Key Audit Matter	How our audit addressed the Key Audit Matter
	We assessed the disclosures made against the relevant accounting standards for their completeness and accuracy. Based on the evidence obtained we found the models used to be appropriate and the outputs from the models to be reasonable.
Recognition of interest income calculated using the effective interest rate method on loans and advances to customers	
We focused on this area mainly because management's calculation of interest income applying the effective interest rate method uses, in addition to relevant nominal interest rates, a number of different fees and costs. Significant management judgement and estimates are involved in determining expected lives of loans and which fees and costs are included in interest income instead of net commission income. The Group has over ten years of history of lending in different economic conditions and has a significant amount of information from which to assess trends in payment, redemption and product transfers. This detailed information is used to obtain estimates of its customers' behaviour and performance, including the assumptions around expected lives of loans which is then used in the effective interest rate calculation. Note 3 "Significant Accounting Policies", Note 4 "Critical Accounting Estimates and Judgements in Applying Accounting Policies", Note 21 "Net margin" and Note 31 "Financial and Insurance Risk Management" included in the consolidated financial statements provide detailed information on the interest income calculated using the effective interest rate method and effective interest rates of loans and advances to customers.	Our audit procedures in relation to the effective interest rates of loans originated by the Group included testing on a sample basis of the key controls in relation to the nominal interest income and the fee income and costs incurred which contribute to interest income calculated using the effective interest rate method. These controls included those over calculation and accrual of the nominal interest income and fee income and costs incurred, parts of interest income calculated using the effective interest rate method and the data transfer from the source system to the accounting system. We determined that we could place reliance upon these key controls for the purposes of our audit. We analysed the appropriateness and consistency of the methodology and its application across each of the loan portfolios and loans' credit quality stages within these portfolios and assessed the reasonableness of the key assumptions used in the methodology calculations, including the fee income and costs components of the effective interest income rate and expected repayment periods of the loans by considering historic information. We also assessed the mathematical accuracy of the calculations through re-performance of a sample of them. In addition, we performed substantive analytical procedures to assess the reasonableness of the interest income calculated using the effective interest rate method recognised by the Group. Our testing did not identify any material errors in management's application of the effective interest rate method for interest income from loans and advances to customers.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report including the Corporate Governance Statement, which we obtained prior to the date of this auditor's report, and the Group's complete Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

When we read the Group's complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and if not corrected, we will bring the matter to the attention of the members of the Company at the Company's Annual General Meeting and we will take such other action as may be required.

Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group in 2008 by the members of the Company for the audit of the consolidated financial statements for the year ended 31 December 2007. Our appointment has been renewed annually, since then, by shareholder resolution. In December 2008 the Company listed Euro denominated bonds on the Swedish Stock Exchange (NASDAQ OMX Stockholm) and accordingly the first financial year after the Company qualified as an EU PIE was the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 11 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 10 March 2020 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is George C. Kazamias.

George C. Kazamias
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
PwC Central, 43 Demostheni Severi Avenue,
CY-1080 Nicosia, Cyprus

10 March 2020

31 DECEMBER 2019

Consolidated Statement of Financial Position

In millions of RR	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	7	57,796	33,802
Mandatory cash balances with the CBRF		3,448	2,435
Due from other banks	8	2,084	776
Loans and advances to customers	9	329,175	198,489
Financial derivatives	37	390	1,710
Investments in securities	10	135,178	100,140
Repurchase receivables		-	1,182
Guarantee deposits with payment systems	11	8,877	4,603
Current income tax assets		815	1,104
Deferred income tax assets	27	1,517	-
Tangible fixed assets and right-of-use assets	12	10,560	8,369
Intangible assets	12	5,435	4,223
Other financial assets	13	21,673	15,642
Other non-financial assets	13	2,510	3,024
TOTAL ASSETS		**579,458**	**375,499**
LIABILITIES			
Due to banks	14	663	2,708
Customer accounts	15	411,614	280,916
Debt securities in issue	16	26,078	9,605
Financial derivatives	37	590	3
Current income tax liabilities		-	51
Deferred income tax liabilities	27	142	1,821
Subordinated debt	17	18,487	20,644
Insurance provisions	18	6,280	2,859
Other financial liabilities	19	14,648	11,201
Other non-financial liabilities	19	4,874	3,441
TOTAL LIABILITIES		**483,376**	**333,249**
EQUITY			
Share capital	20	230	188
Share premium	20	26,998	8,623
Treasury shares	20	(3,164)	(3,670)
Share-based payment reserve	20,40	1,039	1,232
Retained earnings		66,880	36,785
Revaluation reserve for investments in debt securities		3,996	(1,144)
Equity attributable to shareholders of the Company		**95,979**	**42,014**
Non-controlling interest	36	103	236
TOTAL EQUITY		**96,082**	**42,250**
TOTAL LIABILITIES AND EQUITY		**579,458**	**375,499**

Approved for issue and signed on behalf of the Board of Directors on 10 March 2020.

Constantinos Economides
Director

Mary Trimithiotou
Director

The notes № 1-41 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In millions of RR	Note	2019	2018
Interest income calculated using the effective interest rate method	21	109,972	76,269
Other similar income	21	118	456
Interest expense calculated using the effective interest rate method	21	(21,317)	(15,559)
Other similar expense	21	(134)	-
Expenses on deposit insurance	21	(1,870)	(1,174)
Net margin	**21**	**86,769**	**59,992**
Credit loss allowance for loans and advances to customers and credit related commitments	9,19	(27,244)	(11,607)
Credit loss allowance for debt securities at FVOCI	10	139	(192)
Total credit loss allowance for debt financial instruments		**(27,105)**	**(11,799)**
Net margin after credit loss allowance		**59,664**	**48,193**
Fee and commission income	22	36,042	27,423
Fee and commission expense	22	(17,448)	(11,770)
Customer acquisition expense	23	(18,177)	(14,222)
Net (losses)/gains from derivatives revaluation		(2,563)	1,784
Net gains/(losses) from foreign exchange translation		2,216	(2,155)
Net (losses)/gains from operations with foreign currencies		(968)	381
Net gains from disposals of debt securities at FVOCI		301	378
Net gains/(losses) from debt instruments at FVTPL		389	(808)
Insurance premiums earned	24	14,110	6,674
Insurance claims incurred	24	(4,891)	(2,126)
Administrative and other operating expenses	25	(27,852)	(21,499)
Other operating income	26	4,713	2,971
Profit before tax		**45,536**	**35,224**
Income tax expense	27	(9,413)	(8,102)
Profit for the year		**36,123**	**27,122**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Debt securities at FVOCI and Repurchase receivables:			
- Net gains/(losses) arising during the period, net of tax		5,381	(2,608)
- Net gains reclassified to profit or loss upon disposal, net of tax		(241)	(303)
Other comprehensive income/(loss) for the year, net of tax		**5,140**	**(2,911)**
Total comprehensive income for the year		**41,263**	**24,211**
Profit is attributable to:			
- Shareholders of the Company		36,122	27,088
- Non-controlling interest		1	34
Total comprehensive income is attributable to:			
- Shareholders of the Company		41,262	24,177
- Non-controlling interest		1	34
Earnings per share for profit attributable to the Shareholders of the Company, basic (expressed in RR per share)	**20**	**193.62**	**153.54**
Earnings per share for profit attributable to the Shareholders of the Company, diluted (expressed in RR per share)	**20**	**190.05**	**148.78**

The notes № 1-41 are an integral part of these Consolidated Financial Statements.

31 DECEMBER 2019

Consolidated Statement of Changes in Equity

In millions of RR	Note	Share capital	Share premium	Share-based payment reserve	Revaluation reserve for investments in debt securities	Treasury shares	Retained earnings	Total	Non-control-ling interest	Total equity
		Attributable to shareholders of the Company								
Balance at 31 December 2017		**188**	**8,623**	**1,286**	**1,436**	**(1,587)**	**31,797**	**41,743**	**202**	**41,945**
Effect of initial application of IFRS 9 – ECL remeasurement, net of tax		-	-	-	292	-	(10,108)	(9,816)	-	(9,816)
Effect of initial application of IFRS 9 – other, net of tax		-	-	-	39	-	(39)	-	-	-
Restated balance at 1 January 2018		**188**	**8,623**	**1,286**	**1,767**	**(1,587)**	**21,650**	**31,927**	**202**	**32,129**
Profit for the year		-	-	-	-	-	27,088	27,088	34	27,122
Other comprehensive loss:										
Investments in debt securities at FVOCI and Repurchase receivables		-	-	-	(2,911)	-	-	(2,911)	-	(2,911)
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**(2,911)**	**-**	**27,088**	**24,177**	**34**	**24,211**
GDRs buy-back	20	-	-	-	-	(2,455)	-	(2,455)	-	(2,455)
Share-based payment reserve	20,40	-	-	(54)	-	372	312	630	-	630
Dividends declared	28	-	-	-	-	-	(12,265)	(12,265)	-	(12,265)
Balance at 31 December 2018		**188**	**8,623**	**1,232**	**(1,144)**	**(3,670)**	**36,785**	**42,014**	**236**	**42,250**
Profit for the year		-	-	-	-	-	36,122	36,122	1	36,123
Other comprehensive income:										
Investments in debt securities at FVOCI and Repurchase receivables		-	-	-	5,140	-	-	5,140	-	5,140
Total comprehensive income for the year		**-**	**-**	**-**	**5,140**	**-**	**36,122**	**41,262**	**1**	**41,263**
Shares issued	20	42	18,874	-	-	-	-	18,916	-	18,916
Secondary public offering costs	20	-	(499)	-	-	-	-	(499)	-	(499)
Acquisition of non-controlling interest in subsidiaries		-	-	-	-	-	(327)	(327)	(134)	(461)
Share-based payment reserve	20,40	-	-	(193)	-	506	156	469	-	469
Dividends declared	28	-	-	-	-	-	(5,856)	(5,856)	-	(5,856)
Balance at 31 December 2019		**230**	**26,998**	**1,039**	**3,996**	**(3,164)**	**66,880**	**95,979**	**103**	**96,082**

The notes № 1-41 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In millions of RR	Note	2019	2018
Cash flows from operating activities			
Interest income received calculated using the effective interest rate method		106,975	73,397
Other similar income received		175	300
Interest expense paid calculated using the effective interest rate method		(21,334)	(14,693)
Recoveries from written-off loans	9	3,420	4,083
Expenses on deposits insurance paid		(1,673)	(1,001)
Fees and commissions received		35,986	27,143
Fees and commissions paid		(17,492)	(11,588)
Customer acquisition expense paid		(19,272)	(15,541)
Cash (paid)/received from operations with foreign currencies		(968)	381
Cash (paid)/received from operations with derivatives		(647)	2,581
Premiums received from insurance operations		16,254	7,044
Claims paid from insurance operations		(4,337)	(2,050)
Other operating income received		4,024	1,597
Administrative and other operating expenses paid		(26,119)	(20,927)
Income tax paid		(13,606)	(5,416)
Cash flows from operating activities before changes in operating assets and liabilities		**61,386**	**45,310**
Changes in operating assets and liabilities			
Net increase in CBRF mandatory reserves		(1,013)	(760)
Net (increase)/decrease in due from banks		(1,308)	1
Net increase in loans and advances to customers		(151,771)	(78,453)
Net decrease in debt securities measured at FVTPL		5,879	469
Net increase in guarantee deposits with payment systems		(4,848)	(132)
Net increase in other financial assets		(4,046)	(2,512)
Net decrease/(increase) in other non-financial assets		19	(436)
Net (decrease)/increase in due to banks		(2,045)	2,113
Net increase in customer accounts		135,633	97,263
Net increase in other financial liabilities		1,387	177
Net decrease in non-financial liabilities		(524)	(141)
Net cash from operating activities		**38,749**	**62,899**
Cash flows from/(used in) investing activities			
Acquisition of tangible fixed assets		(1,783)	(2,835)
Acquisition of intangible assets		(2,539)	(1,859)
Acquisition of investments in securities, repurchase receivables and other investments		(108,246)	(102,204)
Proceeds from sale and redemption of investments in securities		71,000	74,401
Net cash used in investing activities		**(41,568)**	**(32,497)**
Cash flows from/(used in) financing activities			
Proceeds from secondary public offering	20	18,916	-
Secondary public offering costs paid	20	(499)	-
Proceeds from debt securities in issue	29	23,254	3,622
Proceeds of perpetual loan participation notes	29	46	-
Dividends paid	28	(5,601)	(11,946)
Repayment of principal of lease liabilities	29	(1,087)	-
Repayment of debt securities in issue	29	(6,583)	(5,425)
Other financing activities cash flows		(461)	-
Repayment of subordinated loan	29	-	(5,209)
Repayment of perpetual loan participation notes	29	-	(49)
GDR's buy-back	20	-	(2,455)
Net cash from/(used in) financing activities		**27,985**	**(21,462)**
Effect of exchange rate changes on cash and cash equivalents		(1,172)	1,012
Net increase in cash and cash equivalents		**23,994**	**9,952**
Cash and cash equivalents at the beginning of the year	7	**33,802**	**23,850**
Cash and cash equivalents at the end of the year	7	**57,796**	**33,802**

The notes № 1-41 are an integral part of these Consolidated Financial Statements.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") for the year ended 31 December 2019 for TCS Group Holding PLC (the "Company") and its subsidiaries (together referred to as the "Group"), and in accordance with the requirements of the Cyprus Companies Law, Cap.113.

The Company was incorporated, and is domiciled, in Cyprus in accordance with the provisions of the Companies Law, Cap.113.

The Board of Directors of the Company at the date of authorisation of these consolidated financial statements consists of: Constantinos Economides, Alexios Ioannides, Mary Trimithiotou, Jacques Der Megreditchian and Martin Robert Cocker.

The Company Secretary is Caelion Secretarial Limited, 25 Spyrou Araouzou, 25 Berengaria, 5th floor, Limassol 3036, Cyprus.

At 31 December 2019 and 2018 the share capital of the Group is comprised of "class A" shares and "class B" shares. A "class A" share is an ordinary share with a nominal value of USD 0.04 per share and carrying one vote. A "class B" share is an ordinary share with a nominal value of USD 0.04 per share and carrying 10 votes. As at 31 December 2019 the number of issued "class A" shares is 119,291,268 and issued "class B" shares is 80,014,224 (31 December 2018: the number of issued "class A" shares is 96,239,291 and issued "class B" shares is 86,399,534). Refer to Note 20 for the information about main changes in number of "class A" and "class B" shares. On 25 October 2013 the Group completed an initial public offering of its "Class A" ordinary shares in the form of global depository receipts (GDRs) listed on the London Stock Exchange plc. On 2 July 2019 the Group completed a secondary public offering (SPO) of its "class A" shares in the form of GDRs. Refer to Note 20 for the information about SPO. On 28 October 2019 the Group's GDRs started trading also on the Moscow Exchange.

As at 31 December 2019 and 2018 the entities and the individuals holding either Class A or Class B shares of the Company were:

	Class of shares	31 December 2019	31 December 2018	Country of Incorporation
Guaranty Nominees Limited (JP Morgan Chase Bank NA)	Class A	59.85%	52.70%	United Kingdom
Altoville Holdings Limited	Class B	18.47%	23.65%	Cyprus
Nemorenti Limited	Class B	21.68%	23.65%	Cyprus
Ioanna Georgiou	Class A	0.00%	0.00%	Cyprus
Panagiota Charalambous	Class A	0.00%	0.00%	Cyprus
Maria Vyra	Class A	0.00%	0.00%	Cyprus
Marios Panayides	Class A	0.00%	0.00%	Cyprus
Chloi Panagiotou	Class A	0.00%	0.00%	Cyprus
Leonora Chagianni	Class A	0.00%	0.00%	Cyprus
Total		**100.00%**	**100.00%**	

Guaranty Nominees Limited is a company holding class A shares of the Company for which global depositary receipts are issued under a deposit agreement made between the Company and JP Morgan Chase Bank NA signed in October 2013.

As at 31 December 2019 and 2018 the beneficial owner of Altoville Holdings Limited and Nemorenti Limited was Russian entrepreneur Mr. Oleg Tinkov. The six individuals listed above each hold one share. The individuals hold them as nominees of Altoville Holdings Limited.

As at 31 December 2019 and 2018 the ultimate controlling party of the Company is Mr. Oleg Tinkov. Mr. Oleg Tinkov controls approximately 87.03% of the aggregated voting rights attaching to the Class A and B shares as at 31 December 2019 (31 December 2018: 89.98%) excluding voting rights attaching to TCS Group Holding PLC GDRs he holds, if any.

The subsidiaries of the Group are set out below. Except where stated the Group owns 100% of shares and has 100% of voting rights of each of these subsidiaries as at 31 December 2019 and 2018.

JSC "Tinkoff Bank" (the "Bank") provides on-line retail banking services in Russia. The Bank specialises in issuing credit cards and other credit products.

JSC "Tinkoff Insurance" (the "Insurance Company") provides insurance services such as accident, property, travellers', financial risks and auto insurance.

LLC "Microfinance company "T-Finans" provides micro-finance services.

TCS Finance D.A.C. is a structured entity which issued debt securities including subordinated perpetual bonds for the Group. The Group neither owns shares nor has voting rights in this company. However, this entity was consolidated as it was specifically set up for the purposes of the Group, and the Group has exposure to substantially all risks and rewards through outstanding guarantees of the entity's obligations.

LLC "TCS" provides printing, distribution and other services to the Group.

Goward Group Ltd is an investment holding company which managed part of the Group's assets. Since February 2018 Goward Group Ltd was in liquidation process, and on 16 April 2019 the company was liquidated.

LLC "Phoenix" is a debt collection agency.

LLC "Tinkoff Software DC" and LLC "Fintech DC" provide software development services.

LLC "Tinkoff Mobile" is a mobile virtual network operator set up in 2017 to provide mobile services.

LLC "CloudPayments" is a developer of online payment solutions whose core business is online merchant acquiring in Russia. During 2019 the Group acquired an additional 40% shareholding in LLC "CloudPayments" and increased its stake to 95%.

ANO "Tinkoff Education" is a non-commercial organization set up by the Bank as the sole founder.

LLC "Tinkoff Capital" is an asset management company established in June 2019 to manage investment funds, mutual funds and non-state pension funds.

EBT is a special purpose trust which has been specifically created for the long-term incentive programme for Management of the Group (MLTIP). The Group neither owns shares nor has voting rights in EBT.

Principal activity. The Group's principal business activities are retail banking to private individuals, individual entrepreneurs' ("IE") and small and medium enterprises' ("SME") accounts and banking services, brokerage services and insurance operations within the Russian Federation through the Bank and the Insurance Company. The Bank operates under general banking license No. 2673 issued by the Central Bank of the Russian Federation ("CBRF") on 8 December 2006. The Insurance Company operates under an insurance license issued by the CBRF.

The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No. 177-FZ "Deposits insurance in banks of the Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of insurance compensation up to RR 1.4 million per individual, individual entrepreneur and small enterprise deposits in case of the withdrawal of a license of a bank or a CBRF-imposed moratorium on payments.

Registered address and place of business. The Company's registered address is 25 Spyrou Araouzou, Berengaria 25, 5th floor, Limassol, Cyprus, and place of business is Office 403, Lophitis Business Centre I, Corner of 28th October/Emiliou Chourmouziou Streets, Limassol 3035 Cyprus. The Bank's registered address is 1-st Volokolamsky proezd, 10, building 1, 123060, Moscow, Russian Federation. The Insurance Company's registered address is 2-nd Khutorskaya Street, building 38A, 127287, Moscow, Russian Federation. The Group's principal place of business is the Russian Federation.

Presentation currency. These consolidated financial statements are presented in millions of Russian Rubles (RR).

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 33).

In recent years, the Russian economy has been negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management regularly takes necessary measures to maximize the stability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

With respect to Rouble interest rates, CBRF "key rate" amounted to 6.25% per annum as at 31 December 2019 (31 December 2018: 7.75%).

Since the year end the Russian Rouble has declined by nearly 16% to around USD 1 = RR 72.02 as at 11 March 2020 including an approximately 7% decline during the period from 7 March to 11 March 2020 after global oil prices were significantly reduced.

The Group actively monitors the situation in the Russian banking sector and the activity of CBRF in response to current and newly developed requirements, or any sanctions against the participants who breach them. In particular in 2019 CBRF introduced certain macroprudential adjustments (for example borrowers' debt burden limit) to manage macroeconomic risks related to primarily unsecured lending. Management of the Group believes it is highly important to participate in the discussion of legislation development in the banking sphere and supports the intention of the CBRF to make the finance market more transparent and disciplined.

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). At the end of 2019 a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these consolidated financial statements, to date there has been no discernible impact on the Group's business, however the future effects cannot be predicted. As the situation is rapidly evolving, we do not consider it is practicable at present to determine a quantitative estimate of the potential impact of this outbreak on the Group. Management will continue to monitor the potential impact and will take steps to mitigate any effects where possible.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 31 provides more information of how the Group incorporates forward-looking information in the ECL models.

3 Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law Cap.113.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5. Management prepared these consolidated financial statements on a going concern basis.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee.

In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

When the Group acquires a dormant company with no business operations holding an asset and this asset is the main reason of acquisition of the company such transaction is treated as an asset acquisition. No goodwill is recognized as a result of such acquisition.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated credit losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Otherwise the Group continue to recognise further losses if it has commitments to fund the associate's operations.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group applies the impairment requirements in IFRS 9 to long-term loans and similar long-term interest that in substance form part of the investment in associate before reducing the carrying value of the investment by a share of a loss of the investee that exceeds the amount of the Group's interest in the ordinary shares.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

The price within the bid-ask spread which management considers to be the most representative of fair value for quoted financial assets and liabilities is the last bid price of the business day. A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (an asset) for a particular risk exposure or paid to transfer a net short position (a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 38.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or secured that are integral to the effective interest rate such as origination fees.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs that are incremental and directly attributable to the acquisition or the issue of the financial asset or financial liability. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset.

The Group uses discounted cash flow valuation techniques to determine the fair value of currency swaps, foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on:

- the Group's business model for managing the related assets portfolio and
- the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is:

- solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"); or
- to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell");
- if neither of i) and ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Based on the analysis performed the Group included the following financial instruments in the business model "hold to collect contractual cash flows" since the Group manages these financial instruments solely to collect contractual cash flows: cash and cash equivalents, mandatory cash balances with the CBRF, due from other banks, loans and advances to customers, guarantee deposits with payment systems and other financial assets. The Group included debt securities at FVOCI in the business model "hold to collect contractual cash flows and sell" since the Group manages these financial instruments to collect both the contractual cash flows and the cash flows arising from the sale of assets. The Group included debt securities measured at FVTPL and financial derivatives in the business model "other".

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest (the SPPI test). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature.

In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. However, if the contractual terms of the asset are modified, the Group considers if the contractual cash flows continue to be consistent with a basic lending arrangement in assessing whether the modification is substantial. See below for "Financial assets – modification".

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets – impairment – credit loss allowance for ECL. The Group assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at AC and FVOCI and for the exposure arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date.

The measurement of ECL reflects:

1) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
2) the time value of money; and
3) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL.

For loan commitments (where those components can be separated from the loan) and financial guarantees, a separate provision for ECL is recognised as a financial liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a "three stage" model for impairment in accordance with IFRS 9, based on changes in credit quality since initial recognition:

1) A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 months ECL").
2) If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("lifetime ECL"). Refer to Note 31 for a description of how the Group determines when a SICR has occurred.
3) If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL. Refer to Note 31 for a description of how the Group defines credit-impaired assets and default.

For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured at a lifetime ECL. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Group measures expected credit losses over the period that the Group is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period. Refer to Note 4 for critical judgements applied by the Group in determining the period for measuring ECL.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Financial assets – write-off. Uncollectible assets are partly written-off against the related credit loss allowance usually after one year since they become overdue. The amount of uncollectible part of loan is estimated on a loan portfolio basis taking into account defaulted loans recovery statistics. The Group writes-off financial assets that are mostly still subject to enforcement activity, however, there is no reasonable expectation of recovery. If credit-impaired loans are sold to third parties, the Group remeasures the amount of ECL prior to sale taking into consideration the expected sales proceeds so that there are no gains or losses on derecognition upon sale.

Repayments of written-off loans. Recovery of amounts previously written-off as uncollectible is credited directly to the credit loss allowance line in the consolidated statement of profit or loss and other comprehensive income. Cash flows related to repayments of written-off loans are separately presented within recoveries from written-off loan in the consolidated statement of cash flows.

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset, significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset, or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred.

The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets) and recognises a modification gain or loss in profit or loss. Usually modifications of stage 3 loans do not result in derecognition since they do not change the expected cash flows substantially and represent the way of collection of past due balances. If the terms of the modified asset are not substantially different, the modification does not result in derecognition.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities).

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost as: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

The payments or receipts presented in the consolidated statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost as: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Certain bank deposits are subject to the "bail-in" legislation that permits or requires a national resolving authority to impose losses on holders in particular circumstances. Where the bail-in clauses are included in the contractual terms of the instrument and would apply even if legislation subsequently changes, the SPPI test is not met and such instruments are mandatorily measured at FVTPL. The Group did not identify such balances due from other banks. Where such clauses in the contract merely acknowledge the existence of the legislation and do not create any additional rights or obligation for the Group, the SPPI criterion is met and the respective instruments are carried at AC.

Investments in debt securities. Based on the business model and the contractual cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL.

Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI except for foreign exchange translation gains/(losses) and interest income calculated using the effective interest rate method. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer.

Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories:

1) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL;

2) FVTPL: loans that do not meet the criteria for AC or FVOCI are measured at FVTPL (mandatory FVTPL).

Impairment allowances of the loans measured at AC are determined based on the forward-looking ECL model. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Credit related commitments. The Group issues commitments to provide loans. Commitments to provide loans are initially recognised at their fair value, which is normally evidenced by the amount of fees received. Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the amount of the loss allowance determined based on the expected credit loss model. For loan commitments (where those components can be separated from the loan), a separate provision for ECL is recognised as a liability in the consolidated statement of financial position.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of reverse repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the consolidated statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately.

Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Based on classification of securities sold under the sale and repurchase agreements, the Group classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, FVTPL.

Guarantee deposits with payment systems. Amounts of guarantee deposits with payment systems are recorded when the Group advances money to payment systems with no intention of trading the resulting unquoted non-derivative receivable. Amounts of guarantee deposits with payment systems are carried at amortised cost.

Tangible fixed assets. Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of tangible fixed assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Depreciation of each item of tangible fixed assets is calculated using the straight-line method to allocate its cost to its residual value over its estimated useful life as follows:

	Useful lives in years
Building	99
Equipment	3 to 10
Vehicles	5
Leasehold improvements	Shorter of their useful economic life and the term of the underlying lease

The residual value of an asset is an estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Group's intangible assets other than insurance license have definite useful life and include capitalised acquired computer software and internally developed software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Computer software licenses acquired are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 1 to 10 years.

At each reporting date management assesses whether there is any indication of impairment of intangible assets with an indefinite useful life. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Intangible assets including goodwill with indefinite useful life are tested annually for impairment.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Accounting for leases by the Group as a lessee from 1 January 2019. From 1 January 2019, leases, where the Group is the lessee, are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable under cancellable and non-cancellable operating leases;
- variable lease payments that are based on an index or a rate and that are initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease term includes any non-cancellable and optional extension periods which have been assessed as reasonably certain to be exercised. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- dismantling and restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis. Short-term leases are leases with a lease term of 12 months or less, and the lease does not provide for the possibility of repurchase of the asset at the end of the contract. Low value assets are assets with a value of RR 300,000 or less at the date of conclusion of the contract.

Right-of-use assets are included in tangible fixed assets, lease liabilities are included in other non-financial liabilities in the consolidated statement of financial position. Depreciation of right-of-use assets are recognised in administrative and other operating expenses in the consolidated statement of profit or loss and other comprehensive income. Finance cost is recognised within other similar expense line of the consolidated statement of profit or loss and other comprehensive income. Repayment of principal of lease liabilities is disclosed within cash flows from financing activities of the consolidated statement of cash flows.

Accounting for operating leases by the Group as a lessee prior to 1 January 2019. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense within administrative and other operating expenses) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to banks are recorded when money or other assets are advanced to the Group by counterparty banks. Non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to corporate entities and individuals and are carried at amortised cost.

Debt securities in issue. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in a separate line of consolidated statement of profit or loss and other comprehensive income as gains/losses from repurchase of debt securities in issue.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

Financial derivatives. Financial derivatives represented by forwards and foreign currency swaps are carried at their fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of financial derivatives are recorded in profit or loss within Net (losses)/gains from derivatives revaluation. The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation and Cyprus legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are assessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of reporting period and any known court or other rulings on such issues.

Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Other liabilities. Other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds and debited against share premium.

Share premium. Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. The share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Company until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity. The value of GDRs transferred out of treasury shares for the purposes of the long-term incentive programme for management of the Group are determined based on the weighted average cost.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the Note "Events after the End of the Reporting Period". The accounting reports of the Group entities are the basis for profit distribution and other appropriations. The separate financial statements of the Company prepared in accordance with IFRS as adopted by the EU and in accordance with Cyprus Companies Law is the basis of available reserves for distribution. Dividend distribution to the Company's shareholders is recognised as a liability in the Company's consolidated financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Company's shareholders.

Interest income and expense recognition. Interest income and expense calculated using effective interest method are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees (e.g. interchange fee on credit card loans) received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability.

Commitment fees (e.g. annual fee on credit card loans) received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

i) financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC (net of the ECL provision); and

ii) financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Customer acquisition expense recognition. Customer acquisition expenses are represented by the costs incurred by the Group on services related to attraction of the credit card borrowers, mailing of advertising materials, processing of responses etc. Those costs, which can be directly attributed to the acquisition of a particular client, are included in the effective interest rate of the originated financial instruments; the remaining costs are expensed on the basis of the actual services provided.

Other income and expense recognition. All other income is generally recorded on an accrual basis by reference to completion of the specific performance obligation assessed on the basis of measurement of the Group's progress towards complete satisfaction of that performance obligation.

All other expenses are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Other similar income. Other similar income represents interest income recorded for debt instruments measured at fair value through profit or loss ("FVTPL") and is recognised on an accrual basis using nominal interest rate.

Other similar expense. Other similar expense represents finance cost related to the discounted lease payments using the incremental borrowing rate.

Fee and commission income and expense. Fee and commission income is recognised over time as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes SMS fee and part of SME current accounts commission which represents fixed monthly payments. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for selling credit protection, merchant acquiring commission, part of SME current accounts commission which represents payments for each transaction, interchange fee, cash withdrawal fee, foreign currency exchange transactions fee, card to card commission, mortgage agency fee and other.

All fee and commission expenses are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Customer loyalty program. The group operates loyalty programs where retail clients accumulate points, which entitle them to reimbursement of purchases made with credit and debit cards.

A financial liability is recognised for the amount of fair value of points expected to be redeemed until they are actually redeemed or expire with the corresponding entries to interest income calculated using the effective interest rate method or commission expenses depending on whether the points were accumulated by credit card clients or debit card clients respectively.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Insurance contracts. Insurance contracts are those contracts that transfer significant insurance risk. Insurance risk exists when the Group has uncertainty in respect of at least one of the following matters at inception of the contract: occurrence of insurance event, date of occurrence of the insurance event, and the claim value in respect of the occurred insurance event. Such contracts may also transfer financial risk.

Non-life insurance (short-term insurance). The below items from the consolidated statement of financial position of the Group are accounted within Other financial assets and Other financial liabilities lines, the below items from the consolidated statement of profit or loss and other comprehensive income of these consolidated financial statements are accounted within Income from insurance operations and Insurance claims incurred lines.

- ***Premiums written.*** Premiums (hereafter – "premiums" or "insurance premiums") under insurance contracts are recorded as written upon inception of a contract and are earned on a pro-rata basis over the term of the related contract coverage. Reduction of premium written in subsequent periods (under amendments to the signed original contacts, for example) is accounted by debiting of premiums written in current period.
- ***Claims.*** Claims are charged to the consolidated statement of profit or loss and other comprehensive income as compensation is paid to policyholders (beneficiaries) or third parties.
- ***Claims handling expenses.*** Claims handling expenses are recognised in profit or loss for the period as incurred and include direct expenses related to negotiations and subsequent claims handling, as well as indirect expenses, including expenses of claims handling department and administrative expenses directly related to activities of this department.
- ***Reinsurance.*** The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to the policyholders under insurance contract. Amounts due from reinsurers are measured consistently with the amounts associated with the direct insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets arising from outward reinsurance contracts include reinsurers share in paid claims, including claims handling expenses. Liabilities under outward reinsurance operations are obligations of the Group for payment of premiums to reinsurers. Reinsurance assets include premiums ceded to the Group under inward reinsurance contracts. The Group's liabilities under inward reinsurance contracts are obligations to compensate the Group's share in paid claims, including claims handling expenses to reinsurers. The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the consolidated statement of profit or loss and other comprehensive income. The Group gathers the evidence that a reinsurance asset is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is also calculated following the same method used for the financial assets carried at amortised cost.
- ***Subrogation income.*** The Group has a right to pursue third parties responsible for loss for payment of some or all costs related to the claims settlement process of the Group (subrogation). Reimbursements are recognised as income only if the Group is confident in receipt of these amounts from these third parties. Under inward reinsurance contracts, amounts of reimbursement due to the Group as a result of settlement of reinsurer's subrogation claims are treated as the Group's income as at the date of acceptance of the invoice received from the reinsurer and including calculation of the Group's share in the subrogation claim.
- ***Deferred acquisition costs.*** Deferred acquisition costs ("DAC") are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include remuneration to agents for concluding agreements with corporate clients and individuals and brokerage fees for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortised over the period in which the related written premiums are earned.
  They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates. For the insurance contracts with duration of less than one month and with automatic prolongation condition amortisation of one-off acquisition costs occurs over the period determined based on statistical assessment of duration of the insurance contract taking into account all of the expected future prolongations.

Insurance provisions

- ***Provision for unearned premiums.*** Provision for unearned premiums ("UEPR") represents the proportion of premiums written that relate to the unexpired term of policies in force as at the reporting date, calculated on a time apportionment basis. UEPR is recognised within liabilities on a gross basis.
- ***Loss provisions.*** Loss provisions represent the accumulation of estimates for ultimate losses and include outstanding claims provision ("OCP") and provision for losses incurred but not yet reported ("IBNR"). Loss provisions are recognised within liabilities on a gross basis. Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during settlement of the insured event, including information received after the reporting date. IBNR is determined by the Group by line of business using actuarial methods, and includes assumptions based on prior years' claims and claims handling experience. IBNR is calculated for each occurrence period as the difference between the projected maximum amount of future payments resulting from the events that occurred during the period and the amount of future payments resulting from the event already reported but not settled at the reporting date within the same period. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss and other comprehensive income as they arise. Loss provisions are estimated on an undiscounted basis due to relatively quick pattern of claims notification and payment.
- ***Unexpired risk provision.*** Unexpired risk provision ("URP") is recorded when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. To estimate the unexpired risk provision the Group uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the reporting date. For the purposes of final presentation of consolidated financial statements unexpired risk provision is written off against deferred acquisition costs.
- ***Liability adequacy testing.*** As at each reporting date the adequacy of the insurance reserves is tested. Testing of insurance reserves for non-life insurance is performed to ensure adequacy of contract liabilities. In performing these tests, current estimates of future contractual cash flows, claims handling and administration expenses are used. As a result of liability adequacy testing for non-life insurance, the Group sets up its URP.

Foreign currency translation and operations. The functional currency of the Company and each of the Group's consolidated entities is the Russian Rouble ("RR"), which is the currency of the primary economic environment in which each entity operates. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period.

Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss for the year as Net gains/(losses) from foreign exchange translation.

Foreign exchange gains and losses resulting from the settlement of transactions with foreign currencies are recognised in profit or loss for the year as net (losses)/gains from operations with foreign currencies (except for clients' foreign currency exchange transactions fee, which is recognised in profit or loss as fee and commission income).

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

At 31 December 2019 the rate of exchange used for translating foreign currency balances was USD 1 = RR 61.9057 (31 December 2018: USD 1 = RR 69.4706), and the average rate of exchange was USD 1 = RR 64.7362 (2018: USD 1 = RR 62.7078).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year, excluding treasury shares. For the purpose of diluted earnings per share calculation the Group considers dilutive effects of shares granted under employee share option plans.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Equity-settled share-based payment. The expense is recognized over the vesting period and is measured at the fair value of the award determined at the grant date, which is amortized over the service (vesting) period. The fair value of the equity award is estimated only once at the grant date and is trued up to the estimated number of instruments that are expected to vest. Dividends declared during the vesting period accrue and are paid to the employee together with the sale proceeds of the vested shares upon a liquidity event. Expected dividends (including those expected during the vesting period) are therefore included in the determination of fair value of the share-based payment.

Amendments of the consolidated financial statements after issue. The Board of Directors of the Company has the power to amend the consolidated financial statements after issue.

Effective interest rate. During 2019 as a result of futher development of its data and IT systems the Group identified the part of customer acquisition expenses which can be directly linked to the particular borrower, and which are incremental in nature, such as partnership call-centre expenses, internet acquisition expenses and related VAT expenses as well as changed the pattern of recognition of certain types of expenses which were included into the effective interest rate, such as partnership expenses (external partner channels of customers' acquisition) and cards issuing expenses. Having obtained sufficient and representative statistical information the management of the Group changed the accounting policy in relation to these expenses and allocated them directly to the originated financial instruments and included them in the effective interest rate. The effect of this change in accounting policy for prior periods was credited to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019. Prior periods were not amended due to the change not resulting in a material impact for any individual prior period.

Changes in presentation. During 2019 the Group identified the part of customer acquisition expenses, which can be directly linked to the debit product customers and which are incremental in nature, such as partnerships, internet acquisition and cards issuing expenses, and allocated them directly to the originated financial instruments and included them in the interest expenses.

In 2019 the management of the Group refined its approach to the presentation of expenses related to the direct settlement of losses in compulsory third party liability insurance in the consolidated condensed interim statement of profit or loss and other comprehensive income. The management concluded it was appropriate to reclassify these expenses from Administrative and other operating expenses to Insurance claims incurred because these expenses in substance represent part of claims incurred on compulsory third party liability insurance.

In 2019 the management of the Group made a detailed review of the VAT expenses recognised in administrative and other operating expenses and using improved technical reports identified the part of VAT expenses which is related to customer acquisition expenses. The management concluded it was appropriate to reclassify these expenses from Administrative and other operating expenses to Customer acquisition expense because such reclassification makes presentation of VAT expenses more relevant and precise.

In 2019 the management of the Group made a detailed review of the components that make up interest income and identified one type of fee (payment channels fee) which now has more characteristics of being a service fee than being part of the effective interest income of the loans. The management considers that the reclassification of this fee to Fee and commission expense will result in a more reliable and relevant presentation of the financial information and is more consistent with the market practice of many other banks. The reclassification does not result in any change to the amount recognised in respect of these fees in any one period. Prior periods were not amended due to the change not resulting in a material impact for any individual prior period.

In 2019 the management of the Group made a detailed review of the components that make up fee and commission expense and identified partnership expenses (external partner channels of customers' acquisition) which have more characteristics of being customer acquisition expenses than being of fee and commission expenses. The management considers that the reclassification of these expenses to Customer acquisition expenses will result in a more reliable and relevant presentation of the financial information. The reclassification does not result in any change to the amount of income recognised in respect of these expenses in any one period.

In these consolidated financial statements the management of the Group improved the presentation of the results of operations with foreign currencies, derivatives revaluation and foreign exchange translation and disclosed separately in the consolidated statement of profit or loss and other comprehensive income the following line items: Net (losses)/gains from operations with foreign currencies, Net (losses)/gains from derivatives revaluation, Net gains/(losses) from foreign exchange translation.

In these consolidated financial statements the management of the Group improved the presentation of the cash flows from the insurance operations and disclosed separately in the consolidated statement of cash flows the following line items: Premiums received from insurance operations and Claims paid from insurance operations The management considers that such improved and more detailed disclosure provides users of these consolidated financial statements with more relevant information.

The effect of changes described above on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 is as follows:

In millions of RR	As originally presented	Reclassification	As reclassified
Interest income calculated using the effective interest rate method	75,041	1,228	76,269
Interest expense calculated using the effective interest rate method	(15,106)	(453)	(15,559)
Customer acquisition expense	(13,100)	(1,122)	(14,222)
Insurance claims incurred	(1,968)	(158)	(2,126)
Administrative and other operating expenses	(23,023)	1,524	(21,499)
Fee and commission expense	(10,751)	(1,019)	(11,770)
Net (losses)/gains from operations with foreign currencies	10	371	381
Net (losses)/gains from derivatives revaluation	-	1,784	1,784
Net gains/(losses) from foreign exchange translation	-	(2,155)	(2,155)

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

The effect of changes described above on the consolidated statement of cash flows for the year ended 31 December 2018 is as follows:

In millions of RR	As originally presented	Reclassification	As reclassified
Interest income received calculated using the effective interest rate method	72,169	1,228	73,397
Interest expense paid calculated using the effective interest rate method	(14,240)	(453)	(14,693)
Customer acquisition expense paid	(14,419)	(1,122)	(15,541)
Administrative and other operating expenses paid	(22,451)	1,524	(20,927)
Fees and commissions paid	(10,569)	(1,019)	(11,588)
Cash (paid)/received from operations with foreign currencies	2,962	(2,581)	381
Cash (paid)/received from operations with derivatives	-	2,581	2,581
Premiums received from insurance operations	-	7,044	7,044
Claims paid from insurance operations	-	(2,050)	(2,050)
Cash received from insurance operations	5,152	(5,152)	-

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement. Calculation and measurement of ECLs is an area of significant judgement and involves methodology, models and data inputs. The following components of ECL calculation have a major impact on credit loss allowance: probability of default ("PD") (impacted by definition of default, SICR, forward-looking scenarios and theirs weights) and loss given default ("LGD"). Refer to Note 31 for explanation of terms. The Group regularly reviews and validates models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Refer to Note 31 for further information on ECL measurement.

If a 100% weight is applied to the optimistic macroeconomic forward-looking scenario the ECL will be RR 2,797 million lower (2018: RR 821 million lower). If a 100% weight is applied to the pessimistic macroeconomic forward-looking scenario the ECL will be RR 3,000 million higher (2018: RR 1,328 million higher).

An increase or decrease in PDs by 1% compared to PDs used in the ECL estimates calculated at 31 December 2019 would result in an increase or decrease in credit loss allowances of RR 2,092 million (2018: RR 1,598 million).

An increase or decrease in LGDs by 1% compared to LGDs used in the ECL estimates calculated at 31 December 2019 would result in an increase or decrease in credit loss allowances of RR 462 million (2018: RR 372 million).

During 2019 as a result of the accumulation of further statistics on the recoveries of the defaulted loans in courts the Group increased the period over which the recoveries are analysed for the purposes of LGD calculation for loans in courts. The Group recorded this change in 2019 as a decrease in the amount of credit loss allowances of RR 47 million.

During 2019 the Group made changes to the methodology of estimation of the PD of new originated credit cards loans and introduced application PD model instead of default rate model. The Group recorded this change in 2019 as a decrease in the amount of credit loss allowances of RR 212 million for credit card loans and of RR 163 million for credit related commitments.

During 2019 the Group improved the way how forward-looking information is incorporated in the ECL models by including an additional economic variable. The Group recorded this change in 2019 as a decrease in the amount of credit loss allowances of RR 201 million.

During 2018 as a result of the accumulation of reliable statistics of the recoveries of the defaulted credit card loans, cash loans, POS loans the Group increased the period over which the recoveries are analysed for the purposes of LGD calculation for these loans. The Group recorded these changes in 2018 as a decrease in the amount of credit loss allowances of RR 261 million.

Credit exposure on revolving credit facilities. For credit card loans, the Group's exposure to credit losses extends beyond the maximum contractual period of the facility. For such facilities the Group measures ECLs over the period that the Group is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this approach requires judgement: determining a period for measuring ECLs — the Group considers historical information and experience about: (a) the length of time for related defaults to occur on similar financial instruments following a SICR and (b) the credit risk management actions that the Group expects to take once the credit risk has increased (e.g. the reduction or removal of undrawn limits).

For details of the period over which the Group is exposed to credit risk on revolving facilities and which is used as an approximation of lifetime period for ECL calculation for stage 2 and stage 3 loans and advances to customers, refer to Note 31.

Perpetual subordinated bonds. A perpetual subordinated bond issue in June 2017 was initially recognised in the amount of USD 295.8 million (RR 16.9 billion) represented by the funds received from investors less issuance costs. Subsequent measurement of this instrument is consistent with the accounting policy for debt securities in issue. Interest expense on the instrument is calculated using the effective interest rate method and recognised in profit or loss for the year.

In the event the accrued interest is paid, the payment decreases the balance of the liability. A cancellation of accrued interest for a given period results in its conversion, at the Group's option, into equity and therefore the respective amount of the liability is reclassified to equity. Foreign exchange translation gains and losses on the bond are recognised in profit or loss for the period. Application of this approach requires judgement: the Group has taken into consideration that there are genuine contingent settlement provisions that could arise and as such has classified the perpetual subordinated bond instrument in its entirety as a liability, rather than equity, on the basis of terms of issue which stipulate the possible redemption of the instrument in several cases other than liquidation of the issuer. If the Group had recognized this instrument as equity, then interest expense would only have been recognized when it was paid and treated as a distribution from equity rather than an expense in profit or loss.

The Group also from time to time invests in perpetual subordinated bonds issued by third parties. The Group has taken into consideration that there are genuine contingent settlement provisions that could arise and as such has classified the investments in perpetual subordinated bonds as investments in debt securities on the basis of terms of issue which stipulate the possible redemption of the instrument in several cases other than liquidation of the issuer.

The investments in these instruments are classified as debt investment securities measured at FVTPL since the analysis of the contractual cash flow characteristics resulted in acquired perpetual bonds not passing SPPI test. If the Group had recognized this instrument as equity instrument, then it could have been measured at FVTPL or FVOCI as the Group does not hold it for trading purposes.

Interest income recognition. The effective interest method incorporates significant assumptions around expected loan lives as well as judgements of type of fees and costs that are included in interest income. Refer to Note 3.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies(Continued)

Unbundling of loans and insurance products. Certain loans issued by the Group are forgivable upon events such as the borrower's death, or the borrower becoming unemployed because the Insurance Company's products cover repayments of the related loan products issued by the Bank in such cases. The Group is able to measure the loans separately and, as well as being able to take a loan without insurance at the time of issuance, the borrowers can cancel the insurance products at any time, separately from the loan. Accordingly, the Group unbundled the loans from the overall arrangement.

The portion of the fee attributable to the insurance component is recognised within Insurance premiums earned line (refer to Note 24). The remaining portion of the fee approximates a fee that would have been earned on market terms for selling third party insurance products and it is recognised as fee for selling credit protection within Fee and commission income line (refer to Note 22).

Tax legislation. Russian and Cypriot tax, currency and customs legislation are subject to varying interpretations. Refer to Note 33.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The Group has adopted IFRS 16 with a date of transition of 1 January 2019 and applied the standard using the modified retrospective method, without restatement of comparatives (Note 3). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

The Group recognised a right of use asset of RR 1,671 million against a corresponding lease liability on 1 January 2019. Right-of-use assets are mainly represented by leases of office premises. A reconciliation of the operating lease commitments to this liability is as follows:

In millions of RR	**1 January 2019**
Legally non-cancellable minimum operating lease commitments	829
Additional lease commitments which relate to the inforceable period of lease	1,288
Lease payments under operating lease (based on requirements of IFRS 16)*	**2,117**
Recognition exemption: the underlying asset is of low value	(216)
Future lease payments under IFRS 16	**1,901**
Effect of discounting (the weighted average incremental borrowing rate used 7.6%)	(236)
Lease liabilities under IFRS 16	**1,665**
Amount of prepayments and irrevocable security payments on agreements	6
Right-of-use assets under IFRS 16	**1,671**

* The amount of lease payments under operating lease as at 1 January 2019 presented above differs from the amount of operating lease commitments disclosed in the Note 36 to the consolidated financial statements of the Group for the year ended 31 December 2018 because the amount of operating lease commitments disclosed in the Note 36 to the consolidated financial statements of the Group for the year ended 31 December 2018 included only legally non-cancellable minimum operating lease commitments (based on termination notice in lease contracts), while the above table includes those lease commitments which relate to the enforceable period of lease based on the requirements of IFRS 16 and the IFRIC Agenda decision about the lease term.

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

6 New Accounting Pronouncements

Certain new amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2020:

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)*. IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of IFRS 17 on the insurance contracts issued by the Insurance Company as well as the impact for credit cards and similar loan products which may include insurance component.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

(a) Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

(b) Amendments to IFRS 3: Definition of a business (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)*.

(c) Amendments to IAS 1 and IAS 8: Definition of materiality (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

(d) Amendments to IAS 1: Classification of liabilities as current or non-current (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022)*.

(e) Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an Investor and its associate or joint venture (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)*.

The Group is currently assessing the impact of the above standards on its consolidated financial statements.

* Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

7 Cash and Cash Equivalents

In millions of RR	31 December 2019	31 December 2018
Cash on hand	11,118	5,839
Cash balances with the CBRF (other than mandatory reserve deposits)	16,599	11,158
Placements with other banks with original maturities of less than three months:		
- AA- to AA+ rated	2,302	1,130
- A- to A+ rated	599	761
- BBB- to BBB+ rated	1,430	1,317
- BB- to BB+ rated	503	360
- B- to B+ rated	67	114
- CCC+ rated	2	-
Non-bank credit organizations:		
- BBB- to BBB+ rated	21,096	12,137
- Unrated	4,080	986
Total Cash and Cash Equivalents	**57,796**	**33,802**

Cash on hand includes cash balances in ATMs and cash balances in transit. Placements with other banks and organizations with original maturities of less than three months include placements under reverse sale and repurchase agreements in the amount of RR 20,681 million as at 31 December 2019 (31 December 2018: RR 11,147 million). The Group has a right to sell or repledge securities received under reverse sale and repurchase agreements.

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019:

In millions of RR	Cash balances with the CBRF	Placements with other banks and non-bank credit organizations	Total
Excellent	-	2,901	2,901
Good	16,599	23,031	39,630
Monitor	-	4,145	4,145
Doubtful	-	2	2
Total cash and cash equivalents, excluding cash on hand	**16,599**	**30,079**	**46,678**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018:

In millions of RR	Cash balances with the CBRF	Placements with other banks and non-bank credit organizations	Total
Excellent	-	1,891	1,891
Good	11,158	13,789	24,947
Monitor	-	1,018	1,018
Sub-standard	-	107	107
Total cash and cash equivalents, excluding cash on hand	**11,158**	**16,805**	**27,963**

The carrying amount of cash and cash equivalents at 31 December 2019 and 2018 also represents the Group's maximum exposure to credit risk on these assets. Refer to Note 31 for the description of the Group's credit risk grading system.

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an immaterial amount, therefore the Group did not recognise any credit loss allowance for cash and cash equivalents. Except for reverse sale and repurchase agreements, amounts of cash and cash equivalents are not collateralised. As at 31 December 2019 the fair value of collateral under reverse sale and repurchase agreements was RR 22,369 million (31 December 2018: RR 12,389 million). There is no material impact of collateral on credit loss allowance for cash and cash equivalents. Refer to Note 38 for the disclosure of the fair value of cash and cash equivalents. ECL measurement approach, interest rate, maturity and geographical risk concentration analysis of cash and cash equivalents are disclosed in Note 31.

8 Due from Other Banks

In millions of RR	31 December 2019	31 December 2018
Placements with other banks with original maturities of more than three months		
- BBB- rated	204	210
- BB- to BB+ rated	1,419	128
- B- to B+ rated	461	438
Total due from other banks	**2,084**	**776**

The table below discloses the credit quality of due from banks balances based on credit risk grades:

In millions of RR	31 December 2019	31 December 2018
Good	1,577	338
Monitor	507	438
Total due from other banks	**2,084**	**776**

The carrying amount of due from other banks at 31 December 2019 and 2018 also represents the Group's maximum exposure to credit risk on these assets. Refer to Note 31 for the description of credit risk grading system used by the Group. For the purpose of ECL measurement due from other banks balances are included in Stage 1.

The ECL for these balances represents an immaterial amount, therefore the Group did not create any credit loss allowance for due from other banks. Refer to Note 31 for the ECL measurement approach. Refer to Note 38 for the disclosure of the fair value of due from other banks. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 31.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

9 Loans and Advances to Customers

In millions of RR	31 December 2019 Gross carrying amount	31 December 2019 Credit loss allowance	31 December 2019 Carrying amount	31 December 2018 Gross carrying amount	31 December 2018 Credit loss allowance	31 December 2018 Carrying amount
Credit card loans	244,937	(44,129)	200,808	177,990	(33,296)	144,694
Cash loans	62,265	(8,029)	54,236	35,495	(2,331)	33,164
Secured loans	29,601	(496)	29,105	2,644	(16)	2,628
POS loans	25,940	(1,057)	24,883	15,380	(460)	14,920
Car loans	20,156	(913)	19,243	2,838	(85)	2,753
Loans to IE and SME	1,013	(113)	900	363	(33)	330
Total loans and advances to customers at AC	**383,912**	**(54,737)**	**329,175**	**234,710**	**(36,221)**	**198,489**

Credit cards are issued to customers for cash withdrawals or payment for goods or services, within the range of limits established by the Bank. These limits may be increased or decreased from time-to-time based on management decision. Credit card loans are not collateralized.

Cash loans represent a product for the borrowers who have a positive credit history and who do not have overdue loans in other banks. Cash loans are loans provided to customers via the Bank's debit cards. These loans are available for withdrawal without commission.

POS ("Point of sale") loans represent POS lending through the Bank's programme "POS loans". This programme funds online and offline purchases through internet and offline shops for individual borrowers.

Secured loans represent loans secured with a car or real estate.

Car loans represent loans for the purchase of a vehicle which is used as collateral under the loan.

Loans to IE and SME represent loans provided by the Bank to individual entrepreneurs and small and medium businesses for the purpose of working capital management.

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors. The main movements in the tables presented below are described as follows:

- new originated or purchased category represents the gross carrying amounts and the related ECL of purchased loans and loans issued during the reporting period (and withdrawals of limits of new credit card borrowers) as at the end of the reporting period or as at the date of transfer of loan out of stage 1 (whichever date is earlier);
- transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL. Transfers present the amount of credit loss allowance charged or recovered at the moment of transfer of a loan among the respective stages;
- changes to ECL measurement model assumptions and estimates represent movements due to changes in PDs, EADs and LGDs models during the period;
- movements other than transfers and new originated or purchased loans category represent all other movements of ECL in particular related to changes in gross carrying amounts (including drawdowns, repayments, and accrued interest), as well as changes in ECL model assumptions including those arising from update of inputs to ECL model in the period;
- write-offs of allowances are related to assets that were written-off during the period;
- unwinding of discount (for Stage 3) category represents adjustment to credit loss allowance and gross carrying amount for Stage 3 loans to increase it to discounted amount of the expected cash shortfalls to the reporting date using the effective interest rate.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers between the beginning and the end of the reporting and comparative periods:

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Credit loss allowance Stage 2 (lifetime ECL for SICR)	Credit loss allowance Stage 3 (lifetime ECL for credit impaired)	Credit loss allowance Total	Gross carrying amount Stage 1 (12-months ECL)	Gross carrying amount Stage 2 (lifetime ECL for SICR)	Gross carrying amount Stage 3 (lifetime ECL for credit impaired)	Gross carrying amount Purchased/ originated credit impaired	Gross carrying amount Total
Credit card loans									
At 31 December 2018	**9,266**	**4,708**	**19,322**	**33,296**	**145,732**	**6,654**	**25,497**	**107**	**177,990**
Movements with impact on credit loss allowance charge for the year:									
New originated or purchased	5,356	-	-	5,356	63,177	-	-	241	63,418
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(2,478)	6,097	-	3,619	(11,142)	11,142	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(4,644)	(4,111)	21,348	12,593	(21,206)	(5,322)	26,528	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	233	(756)	(21)	(544)	1,101	(1,077)	(24)	-	-
Changes to ECL measurement model assumptions and estimates	(387)	-	(26)	(413)	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	4,358	915	(4,267)	1,006	20,134	35	(5,771)	(12)	14,386
Total movements with impact on credit loss allowance charge for the year	**2,438**	**2,145**	**17,034**	**21,617**	**52,064**	**4,778**	**20,733**	**229**	**77,804**
Movements without impact on credit loss allowance charge the year									
Unwinding of discount (for Stage 3)	-	-	3,133	3,133	-	-	3,133	-	3,133
Write-offs	-	-	(10,999)	(10,999)	-	-	(10,999)	-	(10,999)
Sales	-	-	(986)	(986)	-	-	(1,059)	-	(1,059)
Modification of original cash flows without derecognition	-	-	(1,932)	(1,932)	-	-	(1,932)	-	(1,932)
At 31 December 2019	**11,704**	**6,853**	**25,572**	**44,129**	**197,796**	**11,432**	**35,373**	**336**	**244,937**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Purchased/ originated credit impaired	Total
Credit card loans									
At 1 January 2018	**9,064**	**5,319**	**21,689**	**36,072**	**121,988**	**6,958**	**25,598**	**42**	**154,586**
Movements with impact on credit loss allowance charge for the year									
New originated or purchased	2,884	-	-	2,884	34,791	-	-	94	34,885
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(1,647)	4,319	-	2,672	(6,465)	6,465	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,063)	(4,636)	16,804	9,105	(13,933)	(5,569)	19,502	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	295	(930)	(29)	(664)	1,216	(1,184)	(32)	-	-
Changes to ECL measurement model assumptions and estimates	(19)	(9)	(257)	(285)	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	1,752	645	(3,245)	(848)	8,135	(16)	(3,902)	(29)	4,188
Total movements with impact on credit loss allowance charge for the year	**202**	**(611)**	**13,273**	**12,864**	**23,744**	**(304)**	**15,568**	**65**	**39,073**
Movements without impact on credit loss allowance charge for the year									
Unwinding of discount (for Stage 3)	-	-	3,098	3,098	-	-	3,098	-	3,098
Write-offs	-	-	(16,899)	(16,899)	-	-	(16,899)	-	(16,899)
Sales	-	-	(395)	(395)	-	-	(424)	-	(424)
Modification of original cash flows without derecognition	-	-	(1,444)	(1,444)	-	-	(1,444)	-	(1,444)
At 31 December 2018	**9,266**	**4,708**	**19,322**	**33,296**	**145,732**	**6,654**	**25,497**	**107**	**177,990**

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Purchased/ originated credit impaired	Total
Cash loans									
At 31 December 2018	**1,116**	**545**	**670**	**2,331**	**32,651**	**1,776**	**767**	**301**	**35,495**
Movements with impact on credit loss allowance charge for the year:									
New originated or purchased	2,628	-	-	2,628	44,199	-	-	422	44,621
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(587)	2,960	-	2,373	(5,663)	5,663	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(897)	(528)	3,927	2,502	(3,536)	(699)	4,235	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	14	(78)	-	(64)	408	(408)	-	-	-
Changes to ECL measurement model assumptions and estimates	(22)	-	(1)	(23)	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	106	(1,017)	193	(718)	(16,134)	(1,298)	676	(87)	(16,843)
Total movements with impact on credit loss allowance charge for the year	**1,242**	**1,337**	**4,119**	**6,698**	**19,274**	**3,258**	**4,911**	**335**	**27,778**
Movements without impact on credit loss allowance charge the year									
Unwinding of discount (for Stage 3)	-	-	138	138	-	-	138	-	138
Write-offs	-	-	(524)	(524)	-	-	(524)	-	(524)
Sales	-	-	(114)	(114)	-	-	(122)	-	(122)
Modification of original cash flows without derecognition	-	-	(500)	(500)	-	-	(500)	-	(500)
At 31 December 2019	**2,358**	**1,882**	**3,789**	**8,029**	**51,925**	**5,034**	**4,670**	**636**	**62,265**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Credit loss allowance Stage 2 (lifetime ECL for SICR)	Credit loss allowance Stage 3 (lifetime ECL for credit impaired)	Credit loss allowance Total	Gross carrying amount Stage 1 (12-months ECL)	Gross carrying amount Stage 2 (lifetime ECL for SICR)	Gross carrying amount Stage 3 (lifetime ECL for credit impaired)	Gross carrying amount Purchased/ originated credit impaired	Gross carrying amount Total
Cash loans									
At 1 January 2018	**268**	**151**	**156**	**575**	**6,478**	**438**	**161**	**177**	**7,254**
Movements with impact on credit loss allowance charge for the year									
New originated or purchased loans	1,255	-	-	1,255	32,010	-	-	144	32,154
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(162)	968	-	806	(1,953)	1,953	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(147)	(129)	673	397	(549)	(156)	705	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	4	(23)	-	(19)	96	(96)	-	-	-
Changes to ECL measurement model assumptions and estimates	8	3	(2)	9	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	(110)	(425)	157	(378)	(3,431)	(363)	214	(20)	(3,600)
Total movements with impact on credit loss allowance charge for the year	**848**	**394**	**827**	**2,069**	**26,173**	**1,338**	**919**	**124**	**28,554**
Movements without impact on credit loss allowance charge for the year									
Unwinding of discount (for Stage 3)	-	-	43	43	-	-	43	-	43
Write-offs	-	-	(256)	(256)	-	-	(256)	-	(256)
Sales	-	-	(19)	(19)	-	-	(19)	-	(19)
Modification of original cash flows without derecognition	-	-	(81)	(81)	-	-	(81)	-	(81)
At 31 December 2018	**1,116**	**545**	**670**	**2,331**	**32,651**	**1,776**	**767**	**301**	**35,495**

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Credit loss allowance Stage 2 (lifetime ECL for SICR)	Credit loss allowance Stage 3 (lifetime ECL for credit impaired)	Credit loss allowance Total	Gross carrying amount Stage 1 (12-months ECL)	Gross carrying amount Stage 2 (lifetime ECL for SICR)	Gross carrying amount Stage 3 (lifetime ECL for credit impaired)	Gross carrying amount Total
Secured Loans								
At 31 December 2018	**15**	**1**	**-**	**16**	**2,641**	**3**	**-**	**2,644**
Movements with impact on credit loss allowance charge for the year:								
New originated or purchased	168	-	-	168	27,907	-	-	27,907
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(23)	499	-	476	(2,141)	2,141	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(6)	-	81	75	(203)	-	203	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	1	(1)	-	-
Movements other than transfers and new originated or purchased loans	(4)	(236)	6	(234)	(839)	(106)	-	(945)
Total movements with impact on credit loss allowance charge for the year	**135**	**263**	**87**	**485**	**24,725**	**2,034**	**203**	**26,962**
Movements without impact on credit loss allowance charge the year								
Unwinding of discount (for Stage 3)	-	-	3	3	-	-	3	3
Modification of original cash flows	-	-	(8)	(8)	-	-	(8)	(8)
At 31 December 2019	**150**	**264**	**82**	**496**	**27,366**	**2,037**	**198**	**29,601**
Secured loans								
At 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	15	-	-	15	2,644	-	-	2,644
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	1	-	1	(3)	3	-	-
Total movements with impact on credit loss allowance charge for the year	**15**	**1**	**-**	**16**	**2,641**	**3**	**-**	**2,644**
At 31 December 2018	**15**	**1**	**-**	**16**	**2,641**	**3**	**-**	**2,644**

Notes to the Consolidated Financial Statements (Continued)

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance				Gross carrying amount				
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Purchased/ originated credit impaired	Total
POS loans									
At 31 December 2018	**190**	**81**	**189**	**460**	**14,560**	**505**	**210**	**105**	**15,380**
Movements with impact on credit loss allowance charge for the year:									
New originated or purchased	357	-	-	357	23,779	-	-	145	23,924
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(61)	479	-	418	(1,673)	1,673	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(71)	(92)	614	451	(518)	(137)	655	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	1	(7)	-	(6)	112	(112)	-	-	-
Changes to ECL measurement model assumptions and estimates	(15)	(7)	(1)	(23)	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	(103)	(264)	(61)	(428)	(12,229)	(876)	(34)	(52)	(13,191)
Total movements with impact on credit loss allowance charge for the year	**108**	**109**	**552**	**769**	**9,471**	**548**	**621**	**93**	**10,733**
Movements without impact on credit loss allowance charge the year									
Unwinding of discount (for Stage 3)	-	-	19	19	-	-	19	-	19
Write-offs	-	-	(131)	(131)	-	-	(131)	-	(131)
Sales	-	-	(23)	(23)	-	-	(24)	-	(24)
Modification of original cash flows without derecognition	-	-	(37)	(37)	-	-	(37)	-	(37)
At 31 December 2019	**298**	**190**	**569**	**1,057**	**24,031**	**1,053**	**658**	**198**	**25,940**

In millions of RR	Credit loss allowance				Gross carrying amount				
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Purchased/ originated credit impaired	Total
POS loans									
At 1 January 2018	**133**	**46**	**125**	**304**	**4,462**	**162**	**129**	**57**	**4,810**
Movements with impact on credit loss allowance charge for the year									
New originated or purchased	217	-	-	217	14,620	-	-	30	14,650
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(30)	236	-	206	(710)	710	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(31)	(41)	196	124	(151)	(56)	207	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	1	(4)	-	(3)	28	(28)	-	-	-
Changes to ECL measurement model assumptions and estimates	4	2	-	6	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	(104)	(158)	17	(245)	(3,689)	(283)	23	18	(3,931)
Total movements with impact on credit loss allowance charge for the year	**57**	**35**	**213**	**305**	**10,098**	**343**	**230**	**48**	**10,719**
Movements without impact on credit loss allowance charge for the year									
Unwinding of discount (for Stage 3)	-	-	21	21	-	-	21	-	21
Write-offs	-	-	(151)	(151)	-	-	(151)	-	(151)
Sales	-	-	(11)	(11)	-	-	(11)	-	(11)
Modification of original cash flows without derecognition	-	-	(8)	(8)	-	-	(8)	-	(8)
At 31 December 2018	**190**	**81**	**189**	**460**	**14,560**	**505**	**210**	**105**	**15,380**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Car Loans								
At 31 December 2018	**56**	**25**	**4**	**85**	**2,754**	**78**	**6**	**2,838**
Movements with impact on credit loss allowance charge for the year:								
New originated or purchased	469	-	-	469	18,238	-	-	18,238
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(98)	466	-	368	(1,087)	1,087	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(72)	(23)	248	153	(320)	(34)	354	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	(4)	-	(3)	24	(24)	-	-
Changes to ECL measure-ment model assumptions and estimates	(1)	-	-	(1)	-	-	-	-
Movements other than trans-fers and new originated or purchased loans	13	(179)	(1)	(167)	(884)	(47)	2	(929)
Total movements with impact on credit loss allow-ance charge for the year	**312**	**260**	**247**	**819**	**15,971**	**982**	**356**	**17,309**
Movements without impact on credit loss allowance charge the year								
Unwinding of discount (for Stage 3)	-	-	12	12	-	-	12	12
Modification of original cash flows	-	-	(3)	(3)	-	-	(3)	(3)
At 31 December 2019	**368**	**285**	**260**	**913**	**18,725**	**1,060**	**371**	**20,156**

In millions of RR	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Car loans								
At 1 January 2018	-	-	-	-	-	-	-	-
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	64	-	-	64	2,839	-	-	2,839
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(7)	31	-	24	(80)	80	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1)	-	4	3	(6)	-	6	-
Movements other than trans-fers and new originated or purchased loans	-	(6)	-	(6)	1	(2)	-	(1)
Total movements with impact on credit loss allow-ance charge for the year	**56**	**25**	**4**	**85**	**2,754**	**78**	**6**	**2,838**
At 31 December 2018	**56**	**25**	**4**	**85**	**2,754**	**78**	**6**	**2,838**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

9 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to IE and SME								
At 31 December 2018	13	10	10	33	332	21	10	363
Movements with impact on credit loss allowance charge for the year:								
New originated or purchased	13	-	-	13	301	-	-	301
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(4)	26	-	22	(58)	58	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(8)	(7)	44	29	(39)	(8)	47	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	1	(1)	-	-
Movements other than transfers and new originated or purchased loans	43	(19)	(13)	11	403	(49)	(10)	344
Total movements with impact on credit loss allowance charge for the year	**44**	**-**	**31**	**75**	**608**	**-**	**37**	**645**
Movements without impact on credit loss allowance charge the year								
Unwinding of discount (for Stage 3)	-	-	5	5	-	-	5	5
Modification of original cash flows	-	-	-	-	-	-	-	-
At 31 December 2019	**57**	**10**	**46**	**113**	**940**	**21**	**52**	**1,013**
Loans to IE and SME								
At 1 January 2018	-	-	-	-	-	-	-	-
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	8	-	-	8	155	-	-	155
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(3)	11	-	8	(25)	25	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	10	10	(10)	-	10	-
Movements other than transfers and new originated or purchased loans	8	(1)	-	7	212	(4)	-	208
Total movements with impact on credit loss allowance charge for the year	**13**	**10**	**10**	**33**	**332**	**21**	**10**	**363**
At 31 December 2018	**13**	**10**	**10**	**33**	**332**	**21**	**10**	**363**

The credit loss allowance charge during the year ended 31 December 2019 presented in the tables above differs from the amount presented in the consolidated statement of profit or loss and other comprehensive income for the year due to RR 3,420 million (2018: RR 4,083 million) recovery of amounts previously written-off as uncollectible, and due to RR 201 million (2018: RR 318 million) charge of ECL for credit related commitments.

The amount of the recovery from written-off loans received during the year was credited directly to the credit loss allowance line in the consolidated statement of profit or loss and other comprehensive income.

The contractual amount outstanding of loans and advances to customers which were written off during the reporting period ended 31 December 2019 and are still subject to enforcement activity is equal to RR 10,095 million (reporting period ended 31 December 2018: RR 16,294 million).

The amount of the ECL for credit related commitments is accounted separately from ECL for credit cards loans and is included in other financial liabilities in the consolidated statement of financial position.

During the year ended 31 December 2019 the Group sold credit-impaired loans to third parties (external debt collection agencies) with a gross amount of RR 1,205 million (2018: RR 454 million) and credit loss allowance of RR 1,123 million (2018: RR 425 million). The difference between the carrying amount of these loans and the consideration received was recognised as losses in the amount of RR 73 million within credit loss allowance for loans and advances to customers and credit related commitments for the year ended 31 December 2019 (2018: losses in the amount of RR 7 million).

Presented below is an analysis of issued, activated and utilised cards based on their credit card limits as at the end of the reporting period:

In units	31 December 2019	31 December 2018
Credit card limits		
Up to 20 RR thousand	781,128	651,290
20-40 RR thousand	482,343	443,659
40-60 RR thousand	451,425	423,030
60-80 RR thousand	455,978	427,986
80-100 RR thousand	440,139	361,803
100-120 RR thousand	322,726	285,574
120-140 RR thousand	365,750	341,017
140-200 RR thousand	772,992	402,002
More than 200 RR thousand	180,731	109,482
Total number of cards (in units)	**4,253,212**	**3,445,843**

Table above only includes credit cards less than 180 days overdue.

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

9 Loans and Advances to Customers (Continued)

Loans and advances to customers at 31 December 2019 are disclosed as follows:

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Purchased/ originated credit impaired	Total
Credit card loans					
- Excellent	87,716	-	-	-	87,716
- Good	102,020	1,582	-	-	103,602
- Monitor	8,060	3,722	-	-	11,782
- Sub-standard	-	6,128	6,661	-	12,789
- NPL	-	-	28,712	336	29,048
Gross carrying amount	**197,796**	**11,432**	**35,373**	**336**	**244,937**
Credit loss allowance	(11,704)	(6,853)	(25,572)	-	(44,129)
Carrying amount	**186,092**	**4,579**	**9,801**	**336**	**200,808**
Cash loans					
- Excellent	34,258	-	-	-	34,258
- Good	17,321	3,315	-	-	20,636
- Monitor	346	585	-	-	931
- Sub-standard	-	1,134	758	-	1,892
- NPL	-	-	3,912	636	4,548
Gross carrying amount	**51,925**	**5,034**	**4,670**	**636**	**62,265**
Credit loss allowance	(2,358)	(1,882)	(3,789)	-	(8,029)
Carrying amount	**49,567**	**3,152**	**881**	**636**	**54,236**
Secured Loans					
- Excellent	19,941	-	-	-	19,941
- Good	7,319	1,496	-	-	8,815
- Monitor	106	322	-	-	428
- Sub-standard	-	219	-	-	219
- NPL	-	-	198	-	198
Gross carrying amount	**27,366**	**2,037**	**198**	**-**	**29,601**
Credit loss allowance	(150)	(264)	(82)	-	(496)
Carrying amount	**27,216**	**1,773**	**116**	**-**	**29,105**

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Purchased/ originated credit impaired	Total
POS loans					
- Excellent	19,525	-	-	-	19,525
- Good	4,406	763	-	-	5,169
- Monitor	100	117	-	-	217
- Sub-standard	-	173	26	-	199
- NPL	-	-	632	198	830
Gross carrying amount	**24,031**	**1,053**	**658**	**198**	**25,940**
Credit loss allowance	(298)	(190)	(569)	-	(1,057)
Carrying amount	**23,733**	**863**	**89**	**198**	**24,883**
Car loans					
- Excellent	15,581	-	-	-	15,581
- Good	3,051	702	-	-	3,753
- Monitor	93	157	-	-	250
- Sub-standard	-	201	-	-	201
- NPL	-	-	371	-	371
Gross carrying amount	**18,725**	**1,060**	**371**	**-**	**20,156**
Credit loss allowance	(368)	(285)	(260)	-	(913)
Carrying amount	**18,357**	**775**	**111**	**-**	**19,243**
Loans to IE and SME					
- Excellent	622	-	-	-	622
- Good	314	6	-	-	320
- Monitor	4	6	-	-	10
- Sub-standard	-	9	-	-	9
- NPL	-	-	52	-	52
Gross carrying amount	**940**	**21**	**52**	**-**	**1,013**
Credit loss allowance	(57)	(10)	(46)	-	(113)
Carrying amount	**883**	**11**	**6**	**-**	**900**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

9 Loans and Advances to Customers (Continued)

Loans and advances to customers at 31 December 2018 are disclosed as follows:

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Purchased/ originated credit impaired	Total
Credit card loans					
- Excellent	74,078	-	-	-	74,078
- Good	64,388	974	-	-	65,362
- Monitor	7,266	2,212	-	-	9,478
- Sub-standard	-	3,468	4,774	-	8,242
- NPL	-	-	20,723	107	20,830
Gross carrying amount	**145,732**	**6,654**	**25,497**	**107**	**177,990**
Credit loss allowance	(9,266)	(4,708)	(19,322)	-	(33,296)
Carrying amount	**136,466**	**1,946**	**6,175**	**107**	**144,694**
Cash loans					
- Excellent	22,238	-	-	-	22,238
- Good	10,266	1,274	-	-	11,540
- Monitor	147	207	-	-	354
- Sub-standard	-	295	72	-	367
- NPL	-	-	695	301	996
Gross carrying amount	**32,651**	**1,776**	**767**	**301**	**35,495**
Credit loss allowance	(1,116)	(545)	(670)	-	(2,331)
Carrying amount	**31,535**	**1,231**	**97**	**301**	**33,164**
POS loans					
- Excellent	10,293	-	-	-	10,293
- Good	4,206	385	-	-	4,591
- Monitor	61	60	-	-	121
- Sub-standard	-	60	6		66
- NPL	-	-	204	105	309
Gross carrying amount	**14,560**	**505**	**210**	**105**	**15,380**
Credit loss allowance	(190)	(81)	(189)	-	(460)
Carrying amount	**14,370**	**424**	**21**	**105**	**14,920**

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Purchased/ originated credit impaired	Total
Car loans					
- Excellent	1,876	-	-	-	1,876
- Good	866	42	-	-	908
- Monitor	12	16	-	-	28
- Sub-standard	-	20	-	-	20
- NPL	-	-	6	-	6
Gross carrying amount	**2,754**	**78**	**6**	**-**	**2,838**
Credit loss allowance	(56)	(25)	(4)	-	(85)
Carrying amount	**2,698**	**53**	**2**	**-**	**2,753**
Secured loans					
- Excellent	1,805	-	-	-	1,805
- Good	833	1	-	-	834
- Monitor	3	2	-	-	5
Gross carrying amount	**2,641**	**3**	**-**	**-**	**2,644**
Credit loss allowance	(15)	(1)	-	-	(16)
Carrying amount	**2,626**	**2**	**-**	**-**	**2,628**
Loans to IE and SME					
- Excellent	224	-	-	-	224
- Good	103	6	-	-	109
- Monitor	5	9	-	-	14
- Sub-standard	-	6	-	-	6
- NPL	-	-	10	-	10
Gross carrying amount	**332**	**21**	**10**	**-**	**363**
Credit loss allowance	(13)	(10)	(10)	-	(33)
Carrying amount	**319**	**11**	**-**	**-**	**330**

Stage 3 includes restructured loans that are less than 90 days overdue which are not considered as NPL according to the Group's credit risk grading master scale. Refer to Note 31 for the description of credit risk grading system used by the Group.

Loans in courts are included in Stage 3 and are loans to delinquent borrowers, against which the Group has filed claims to courts in order to recover outstanding balances. As at 31 December 2019 the gross carrying amount of the loans in courts was RR 22,228 million (31 December 2018: RR 15,531 million).

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

9 Loans and Advances to Customers (Continued)

Description of collateral held for loans to individuals carried at amortised cost is as follows at 31 December 2019:

In millions of RR	Secured loans	Car loans	Total
Loans collateralised by:			
- residential real estate	27,437	-	27,437
- cars	1,904	15,256	17,160
Total	**29,341**	**15,256**	**44,597**
Unsecured exposures	260	4,900	5,160
Total gross carrying amount (representing exposure to credit risk for each class of loans at AC)	**29,601**	**20,156**	**49,757**

Description of collateral held for loans to individuals carried at amortised cost is as follows at 31 December 2018:

In millions of RR	Secured loans	Car loans	Total
Loans collateralised by:			
- residential real estate	2,449	-	2,449
- cars	189	2,095	2,284
Total	**2,638**	**2,095**	**4,733**
Unsecured exposures	6	743	749
Total gross carrying amount (representing exposure to credit risk for each class of loans at AC)	**2,644**	**2,838**	**5,482**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures which arise mainly due to application of a discount in determining the carrying value of collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral on credit impaired assets at 31 December 2019 is as follows.

	Over-collateralised assets		Under-collateralised assets	
In millions of RR	Gross carrying amount of the assets	Value of collateral	Gross carrying amount of the assets	Value of collateral
Credit impaired assets:				
Secured loans	194	442	4	2
Car loans	25	31	346	208

The effect of collateral on credit impaired assets at 31 December 2018 is as follows.

	Over-collateralised assets		Under-collateralised assets	
In millions of RR	Gross carrying amount of the assets	Value of collateral	Gross carrying amount of the assets	Value of collateral
Credit impaired assets:				
Secured loans	-	-	-	-
Car loans	-	-	6	4

The values of collateral considered in this disclosure are after a valuation haircut of 20% (2018: 20%) for residential real estate and 30% (2018: 30%) for cars applied to consider liquidity and quality of the pledged assets.

All contractual modifications of loans with the lifetime ECL that did not lead to derecognition did not have gains less losses on modification recognised in profit or loss for the year ended 31 December 2019 (2018: same).

Refer to Note 38 for the disclosure of the fair value of loans and advances to customers. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 31. Information on related party balances is disclosed in Note 40.

10 Investments in Securities

In millions of RR	31 December 2019	31 December 2018
Debt securities measured at fair value through other comprehensive income	134,765	94,474
Securities measured at fair value through profit or loss	413	5,666
Total investments in securities	**135,178**	**100,140**

1) Debt securities measured at fair value through other comprehensive income

The table below discloses investments in debt securities measured at FVOCI by classes:

In millions of RR	31 December 2019	31 December 2018
Corporate bonds	72,032	65,140
Russian government bonds	56,382	23,560
Municipal bonds	6,351	5,774
Total debt securities measured at FVOCI	**134,765**	**94,474**
Including credit loss allowance	345	481

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

10 Investments in Securities (Continued)

1) Debt securities measured at fair value through other comprehensive income (Continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2019, for which an ECL allowance is recognised, based on credit risk grades:

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Corporate bonds				
- Excellent	411	-	-	411
- Good	61,042	-	-	61,042
- Monitor	8,192	-	-	8,192
Total AC gross carrying amount	69,645	-	-	69,645
Credit loss allowance	(225)	-	-	(225)
Fair value adjustment from AC to FV	2,612	-	-	2,612
Carrying value	**72,032**	**-**	**-**	**72,032**
Russian government bonds				
- Good	54,471	-	-	54,471
Total AC gross carrying amount	54,471	-	-	54,471
Credit loss allowance	(99)	-	-	(99)
Fair value adjustment from AC to FV	2,010	-	-	2,010
Carrying value	***56,382***	**-**	**-**	***56,382***
Municipal bonds				
- Good	5,663	-	-	5,663
- Monitor	422	-	-	422
Total AC gross carrying amount	6,085	-	-	6,085
Credit loss allowance	(21)	-	-	(21)
Fair value adjustment from AC to FV	287	-	-	287
Carrying value	**6,351**	**-**	**-**	**6,351**

1) Debt securities measured at fair value through other comprehensive income (Continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2018, for which an ECL allowance is recognised, based on credit risk grades:

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Corporate bonds				
- Excellent	896	-	-	896
- Good	53,664			53,664
- Monitor	10,304	1,413	-	11,717
- Sub-standard	14	-	-	14
- Doubtful	-	194	-	194
Total AC gross carrying amount	64,878	1,607	-	66,485
Credit loss allowance	(255)	(128)	-	(383)
Fair value adjustment from AC to FV	(511)	(451)	-	(962)
Carrying value	**64,112**	**1,028**	**-**	**65,140**
Russian government bonds				
- Good	24,021	-	-	24,021
Total AC gross carrying amount	24,021	-	-	24,021
Credit loss allowance	(63)	-	-	(63)
Fair value adjustment from AC to FV	(398)	-	-	(398)
Carrying value	**23,560**	**-**	**-**	**23,560**
Municipal bonds				
- Good	4,325	-	-	4,325
- Monitor	1,508	-	-	1,508
Total AC gross carrying amount	5,833	-	-	5,833
Credit loss allowance	(35)	-	-	(35)
Fair value adjustment from AC to FV	(24)	-	-	(24)
Carrying value	**5,774**	**-**	**-**	**5,774**

Refer to Note 31 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI

The debt securities at FVOCI are not collateralised.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

10 Investments in Securities (Continued)

1) Debt securities measured at fair value through other comprehensive income (Continued)

The following table explains the changes in the credit loss allowance (including those pledged under repurchase agreements) and gross carrying amount for debt securities at FVOCI for the year ended 31 December 2019:

	Credit loss allowance				Gross carrying amount			
In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Corporate bonds								
At 1 January 2019	**255**	**128**	**-**	**383**	**64,951**	**1,607**	**-**	**66,558**
Movements with impact on credit loss allowance charge:								
New originated or purchased	89	-	-	89	25,936	-	-	25,936
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	24	(26)	-	(2)	1,318	(1,318)	-	-
Foreign exchange losses	(12)	(6)	-	(18)	(2,702)	(96)	-	(2,798)
Redemption during the year	(12)	-	-	(12)	(3,609)	-	-	(3,609)
Disposal during the year	(91)	(40)	-	(131)	(16,348)	(193)	-	(16,541)
Interest income accrued	12	4	-	16	4,074	43	-	4,117
Interest received	(12)	(4)	-	(16)	(3,975)	(43)	-	(4,018)
Other movements	(28)	(56)	-	(84)	-	-	-	-
Total movements with impact on credit loss allowance charge	**(30)**	**(128)**	**-**	**(158)**	**4,694**	**(1,607)**	**-**	**3,087**
At 31 December 2019	**225**	**-**	**-**	**225**	**69,645**	**-**	**-**	**69,645**

1) Debt securities measured at fair value through other comprehensive income (Continued)

	Credit loss allowance				Gross carrying amount			
In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Russian government bonds								
At 1 January 2019	**66**	**-**	**-**	**66**	**25,190**	**-**	**-**	**25,190**
Movements with impact on credit loss allowance charge:								
New originated or purchased	167	-	-	167	81,179	-	-	81,179
Foreign exchange losses	(2)	-	-	(2)	(833)	-	-	(833)
Redemption during the year	(63)	-	-	(63)	(30,858)	-	-	(30,858)
Disposal during the year	(53)	-	-	(53)	(20,414)	-	-	(20,414)
Interest income accrued	4	-	-	4	2,119	-	-	2,119
Interest received	(4)	-	-	(4)	(1,912)	-	-	(1,912)
Other movements	(16)	-	-	(16)	-	-	-	-
Total movements with impact on credit loss allowance charge	**33**	**-**	**-**	**33**	**29,281**	**-**	**-**	**29,281**
At 31 December 2019	**99**	**-**	**-**	**99**	**54,471**	**-**	**-**	**54,471**

	Credit loss allowance				Gross carrying amount			
In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Municipal bonds								
At 1 January 2019	**35**	**-**	**-**	**35**	**5,833**	**-**	**-**	**5,833**
Movements with impact on credit loss allowance charge:								
New originated or purchased	3	-	-	3	968	-	-	968
Redemption during the year	(1)	-	-	(1)	(482)	-	-	(482)
Disposal during the year	(4)	-	-	(4)	(216)	-	-	(216)
Interest income accrued	2	-	-	2	469	-	-	469
Interest received	(3)	-	-	(3)	(487)	-	-	(487)
Other movements	(11)	-	-	(11)	-	-	-	-
Total movements with impact on credit loss allowance charge	**(14)**	**-**	**-**	**(14)**	**252**	**-**	**-**	**252**
At 31 December 2019	**21**	**-**	**-**	**21**	**6,085**	**-**	**-**	**6,085**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

10 Investments in Securities (Continued)

1) Debt securities measured at fair value through other comprehensive income (Continued)

The following table explains the changes in the credit loss allowance and gross carrying amount for debt securities at FVOCI for the year ended 31 December 2018:

In millions of RR	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate bonds								
At 1 January 2018	**216**	**17**	**-**	**233**	**46,663**	**270**	**-**	**46,933**
Movements with impact on credit loss allowance charge:								
New originated or purchased	184	-	-	184	27,235	-	-	27,235
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(15)	71	-	56	(1,082)	1,082	-	-
Foreign exchange gains	12	17	-	29	3,039	228	-	3,267
Redemption during the year	(6)	-	-	(6)	(1,040)	-	-	(1,040)
Disposal during the year	(41)	-	-	(41)	(9,856)	-	-	(9,856)
Interest income accrued	15	9	-	24	3,893	80	-	3,973
Interest received	(16)	(7)	-	(23)	(3,901)	(53)	-	(3,954)
Other movements	(94)	21	-	(73)	-	-	-	-
Total movements with impact on credit loss allowance charge	**39**	**111**	**-**	**150**	**18,288**	**1,337**	**-**	**19,625**
At 31 December 2018	**255**	**128**	**-**	**383**	**64,951**	**1,607**	**-**	**66,558**
Russian government bonds								
At 1 January 2018	**36**	**-**	**-**	**36**	**13,686**	**-**	**-**	**13,686**
Movements with impact on credit loss allowance charge:								
New originated or purchased	189	-	-	189	73,217	-	-	73,217
Foreign exchange gains	3	-	-	3	1,108	-	-	1,108
Redemption during the year	(128)	-	-	(128)	(49,829)	-	-	(49,829)
Disposal during the year	(33)	-	-	(33)	(12,649)	-	-	(12,649)
Interest income accrued	4	-	-	4	1,398	-	-	1,398
Interest received	(5)	-	-	(5)	(1,741)	-	-	(1,741)
Total movements with impact on credit loss allowance charge	**30**	**-**	**-**	**30**	**11,504**	**-**	**-**	**11,504**
At 31 December 2018	**66**	**-**	**-**	**66**	**25,190**	**-**	**-**	**25,190**

1) Debt securities measured at fair value through other comprehensive income (Continued)

In millions of RR	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Municipal bonds								
At 1 January 2018	**23**	**-**	**-**	**23**	**4,308**	**-**	**-**	**4,308**
Movements with impact on credit loss allowance charge:								
New originated or purchased	16	-	-	16	1,752	-	-	1,752
Disposal during the year	(1)	-	-	(1)	(240)	-	-	(240)
Interest income accrued	2	-	-	2	382	-	-	382
Interest received	(2)	-	-	(2)	(369)	-	-	(369)
Other movements	(3)	-	-	(3)	-	-	-	-
Total movements with impact on credit loss allowance charge	**12**	**-**	**-**	**12**	**1,525**	**-**	**-**	**1,525**
At 31 December 2018	**35**	**-**	**-**	**35**	**5,833**	**-**	**-**	**5,833**

2) Securities measured at fair value through profit or loss

The table below discloses investments in securities measured at FVTPL by classes:

In millions of RR	31 December 2019	31 December 2018
Perpetual corporate bonds	-	5,666
Other securities	413	-
Total securities measured at FVTPL	**413**	**5,666**

Other securities are represented by assets of the mutual fund which are controlled by the Group and managed by LLC "Tinkoff Capital".

As at 31 December 2019 securities measured at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Group's maximum exposure to credit risk. The securities measured at FVTPL are not collateralized (2018: same).

Interest rate, maturity and geographical risk concentration analysis of investment in securities are disclosed in Note 31.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

11 Guarantee Deposits with Payment Systems

As at 31 December 2019 and 2018 guarantee deposits were placed in favour of MasterCard with Barclays Bank Plc London (A rated), in favour of Visa with United Overseas Bank Ltd Singapore (AA-rated), and in favour of Russia payment card Mir with Russian National payment card system (NSPK).

As at 31 December 2019 the carrying value of guarantee deposits with payment systems was RR 8,877 million (2018: RR 4,603 million).

The table below discloses the credit quality of guarantee deposits with payment systems balances based on credit risk grades:

In millions of RR	31 December 2019	31 December 2018
- Excellent	8,376	4,435
- Good	501	168
Total guarantee deposits with payment systems	**8,877**	**4,603**

The carrying amount of guarantee deposits with payment systems at 31 December 2019 and 2018 also represents the Group's maximum exposure to credit risk on these assets. Refer to Note 31 for the description of credit risk grading system used by the Group. For the purpose of ECL measurement guarantee deposits with payment systems balances are included in Stage 1. Guarantee deposits with payment systems are unsecured financial assets.

The ECL for these balances represents an immaterial amount, therefore the Group did not create any credit loss allowance for guarantee deposits with payment systems. Refer to Note 31 for the ECL measurement approach. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 31.

12 Tangible Fixed Assets, Intangible Assets, and Right-of-use Assets

In millions of RR	Land	Building	Equip-ment	Leasehold im-prove-ments	Vehicles	Total tan-gible fixed assets	Intangible assets
Cost							
At 31 December 2017	**396**	**4,088**	**2,420**	**747**	**41**	**7,692**	**4,559**
Additions	-	131	2,131	789	1	3,052	2,066
Disposals	-	-	(210)	-	-	(210)	-
At 31 December 2018	**396**	**4,219**	**4,341**	**1,536**	**42**	**10,534**	**6,625**
Additions	-	-	1,788	86	46	1,920	2,564
Disposals	-	-	(59)	(2)	-	(61)	(72)
At 31 December 2019	**396**	**4,219**	**6,070**	**1,620**	**88**	**12,393**	**9,117**
Depreciation and amortisation							
At 31 December 2017	**-**	**(48)**	**(1,042)**	**(434)**	**(28)**	**(1,552)**	**(1,503)**
Charge for the year (Note 25)	-	(42)	(695)	(81)	(5)	(823)	(899)
Disposals	-	-	210	-	-	210	-
At 31 December 2018	**-**	**(90)**	**(1,527)**	**(515)**	**(33)**	**(2,165)**	**(2,402)**
Charge for the year (Note 25)	-	(43)	(1,076)	(160)	(8)	(1,287)	(1,331)
Disposals	-	-	9	2	-	11	51
At 31 December 2019	**-**	**(133)**	**(2,594)**	**(673)**	**(41)**	**(3,441)**	**(3,682)**
Net book value							
At 31 December 2018	**396**	**4,129**	**2,814**	**1,021**	**9**	**8,369**	**4,223**
At 31 December 2019	**396**	**4,086**	**3,476**	**947**	**47**	**8,952**	**5,435**

Intangible assets additions in the amount of RR 1,212 million related to capitalised the software developments by Tinkoff Software DC during the year ended 31 December 2019 (2018: RR 774 million).

Other intangible assets acquired during the year ended 31 December 2019 and 2018 mainly represent accounting software, retail banking software, insurance software, licenses and development of software.

During 2019 the Group acquired no office building space (2018: RR 131 million, VAT included).

Right-of-use assets and lease liabilities. Right-of-use-assets represented above relate to the office premises leased by the Group. Rental contracts are typically for fixed periods from 1 to 5 years.

The group does not have extension or termination options of its lease agreements other than lease agreements of low value items.

The right of use assets by class of underlying items is analysed as follows:

In millions of RR	Office premises
Carrying amount at 1 January 2019	**1,671**
Additions	1,071
Depreciation charge (Note 25)	(1,134)
Carrying amount at 31 December 2019	**1,608**

Prior to 1 January 2019 Group's leases of premises and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

Expenses relating to leases of low-value assets in the amount of RR 390 million are included in administrative and other operating expenses (Note 25). Total cash outflow for leases during the year ended 31 December 2019 was RR 1,087 million.

13 Other Financial and Non-financial Assets

In millions of RR	31 December 2019	31 December 2018
Other Financial Assets		
Settlement of operations with plastic cards	16,384	12,694
Other	5,289	2,948
Total Other Financial Assets	**21,673**	**15,642**
Other Non-Financial Assets		
Prepaid expenses	1,223	2,360
Other	1,287	664
Total Other Non-Financial Assets	**2,510**	**3,024**

Settlement of operations with plastic cards represents balances due from payment agents in respect of payments made by borrowers to reimburse credit card loans and to be settled within 3 days. This amount includes prepayment to the payment systems for operations during holiday period.

At 31 December 2019, included in other financial assets are receivables, investments in associates and subrogation rights (2018: same).

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

13 Other Financial and Non-financial Assets (Continued)

As at 31 December 2019 and 2018 prepaid expenses consist of prepayments for marketing, IT support, security, TV advertising and ATM-service.

The table below discloses the credit quality of other financial assets based on credit risk grades:

In millions of RR	31 December 2019	31 December 2018
- Excellent	9,219	7,430
- Good	12,454	8,212
Total other financial assets	**21,673**	**15,642**

Refer to Note 31 for the description of the Group's credit risk grading system.

For the purpose of ECL measurement settlement of operations with plastic cards balances and other receivables are included in Stage 1. The ECL for these balances represents an immaterial amount, therefore the Group did not recognise any credit loss allowance. Refer to Note 31 for the ECL measurement approach. Refer to Note 38 for the disclosure of the fair value of other financial assets. The maturity and geographical risk concentration analysis of amounts of other financial assets is disclosed in Note 31.

14 Due to Banks

In millions of RR	31 December 2019	31 December 2018
Sale and repurchase agreements with other banks	640	1,111
Correspondent accounts and overnight placements of other banks	23	1,597
Total due to banks	**663**	**2,708**

Refer to Note 38 for the disclosure of the fair value of amounts due to banks. Interest rate, maturity and geographical risk concentration analysis of due to banks is disclosed in Note 31. Refer to Note 34 and 35 for information on the amounts included in due to banks received under sale and repurchase agreements and fair value of securities pledged.

15 Customer Accounts

In millions of RR	Note	31 December 2019	31 December 2018
Individuals			
- Current/demand accounts		211,661	137,637
- Term deposits		137,292	100,227
IE and SME			
- Current/demand accounts	30	60,174	41,702
- Term deposits	30	1,880	-
Other legal entities			
- Current/demand accounts		495	552
- Term deposits		112	798
Total customer accounts		**411,614**	**280,916**

Refer to Note 38 for the disclosure of the fair value of customer accounts. Interest rate, maturity and geographical risk concentration analysis of customer accounts amounts is disclosed in Note 31. Information on related party balances is disclosed in Note 40.

16 Debt Securities in Issue

In millions of RR	Date of maturity	31 December 2019	31 December 2018
RR denominated bonds issued in April 2019	21 March 2029	10,158	-
RR denominated bonds issued in September 2019	12 September 2029	10,157	-
RR denominated bonds issued in April 2017	22 April 2022	2,468	5,067
EUR denominated ECP issued in December 2019	20 November 2020	1,030	-
RR denominated bonds issued in June 2016	24 June 2021	835	784
EUR denominated ECP issued in February 2019	18 February 2020	831	-
USD denominated ECP issued in December 2019	20 November 2020	599	-
EUR denominated ECP issued in December 2018	19 December 2019	-	2,392
USD denominated ECP issued in December 2018	19 December 2019	-	1,266
RR denominated ECP issued in December 2018	19 December 2019	-	96
Total debt securities in issue		**26,078**	**9,605**

On 3 April 2019 the Bank issued RR denominated bonds with a nominal value of RR 10,000 million at 9.25% coupon rate maturing on 21 March 2029.

On 25 September 2019 the Bank issued RR denominated bonds with a nominal value of RR 10,000 million at 8.25% coupon rate maturing on 12 September 2029.

On 28 April 2017 the Bank issued RR denominated bonds with a nominal value of RR 5,000 million at 9.65% coupon rate maturing on 22 April 2022.

On 30 June 2016 the Group issued RR denominated bonds with a nominal value of RR 3,000 million at 11.7% coupon rate maturing on 24 June 2021.

On 20 December 2019 the Group issued two tranches of Euro-Commercial Paper (ECP) denominated in USD and EUR maturing on 20 November 2020. USD denominated ECP has a nominal value of USD 10 million with a discount of 3.6%. EUR denominated ECP has a nominal value of EUR 15 million with a discount of 1.0%.

On 19 February 2019 the Group issued Euro-Commercial Paper (ECP) denominated in EUR maturing on 18 February 2020. EUR denominated ECP has a nominal value of EUR 12 million with a discount of 1.25%.

On 20 December 2018 the Group issued three tranches of Euro-Commercial Paper (ECP) denominated in USD, EUR and RR maturing on 19 December 2019. USD denominated ECP has a nominal value of USD 19 million with a discount of 4.25%. EUR denominated ECP has a nominal value of EUR 30.5 million with a discount of 1.25%. RR denominated ECP has a nominal value of RR 105 million with a discount of 9.5%. The Group redeemed all outstanding ECP of this issue at maturity.

All RR denominated bonds issued by the Bank are traded on the Moscow Exchange. Refer to Note 38 for the disclosure of the fair value of debt securities in issue. Interest rate, maturity and geographical risk concentration analysis of debt securities in issue are disclosed in Note 31.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

17 Subordinated Debt

As at 31 December 2019 the carrying value of the subordinated debt was RR 18,487 million (31 December 2018: RR 20,644 million).

On 15 June 2017 the Group issued perpetual subordinated loan participation notes with a nominal value of USD 300 million with zero premium. The notes have no stated maturity. The Group has a right to repay the notes at its discretion starting from 15 September 2022 and they are repayable in case of certain events other than liquidation. The notes bear a fixed interest rate of 9.25% p.a. payable quarterly starting from 15 September 2017. Interest payments may be cancelled by the Group at any time.

The claims of lenders against the Group in respect of the principal and interest on these bonds are subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation.

The perpetual subordinated loan participation notes are traded on the Global Exchange Market. Interest rate, maturity and geographical risk concentration analysis of subordinated debt is disclosed in Note 31. Refer to Note 38 for the disclosure of the fair value of financial instruments.

18 Insurance Provisions

In millions of RR	31 December 2019	31 December 2018
Insurance Provisions		
Provision for unearned premiums	3,938	1,760
Loss provisions	2,342	1,099
Total Insurance Provisions	**6,280**	**2,859**

Movements in provision for unearned premiums for the year ended 31 December 2019 and 2018 are as follows:

	2019			2018		
In millions of RR	Gross provision	Reinsurer's share of provision	Provision net of reinsurance	Gross provision	Reinsurer's share of provision	Provision net of reinsurance
Provision for unearned premiums as at 1 January	**1,760**	**(3)**	**1,757**	**1,117**	**(1)**	**1,116**
Change in provision, gross	2,178	-	2,178	643	-	643
Change in reinsurers' share of provision	-	(8)	(8)	-	(2)	(2)
Provision for unearned premiums as at 31 December	**3,938**	**(11)**	**3,927**	**1,760**	**(3)**	**1,757**

Movements in loss provisions for the year ended 31 December 2019 and 2018 are as follows:

In millions of RR	Note	OCP and IBNR	URP	Provision for claims handling expenses	Total loss provisions
Loss provisions as at 1 January 2018		**518**	**83**	**82**	**683**
Losses incurred in the current reporting period		1,921	-	-	1,921
Changes in OCP and IBNR provisions related to prior periods losses		(61)	-	(28)	(89)
Insurance claims paid	24	(1,413)	-	-	(1,413)
Claims handling expenses accrued		-	-	372	372
Claims handling expenses paid	24	-	-	(301)	(301)
Unexpired risk provision charge		-	(65)	-	(65)
Unexpired risk provision written off		-	(9)	-	(9)
Loss provisions as at 31 December 2018		**965**	**9**	**125**	**1,099**
Losses incurred in the current reporting period		4,026	-	-	4,026
Changes in OCP and IBNR provisions related to prior periods losses		(138)	-	(39)	(177)
Insurance claims paid	24	(2,923)	-		(2,923)
Claims handling expenses accrued		-	-	862	862
Claims handling expenses paid	24	-	-	(733)	(733)
Unexpired risk provision charge		-	253	-	253
Unexpired risk provision written off		-	(65)	-	(65)
Loss provisions as at 31 December 2019		**1,930**	**197**	**215**	**2,342**

19 Other Financial and Non-financial Liabilities

In millions of RR	31 December 2019	31 December 2018
Other financial liabilities		
Settlement of operations with plastic cards	6,427	4,904
Trade payables	4,621	3,189
Credit related commitments (Note 33)	2,242	2,041
Other	1,358	1,067
Total other financial liabilities	**14,648**	**11,201**
Other non-financial liabilities		
Lease liabilities	1,694	-
Taxes payable other than income tax	1,321	1,212
Accrued administrative expenses	1,277	1,438
Other	582	791
Total other non-financial liabilities	**4,874**	**3,441**

Notes to the Consolidated Financial Statements (Continued)

19 Other Financial and Non-financial Liabilities (Continued)

Settlements of operations with plastic cards include funds that were spent by customers of the Bank by usage of plastic cards but have not yet been compensated to payment systems by the Bank. Accrued administrative expenses are mainly represented by accrued staff costs.

Interest expense on lease liabilities was RR 134 million during 2019 (Note 21).

Movements in the credit loss allowance for credit related commitments were as follows for the year ended 31 December 2019:

In millions of RR	**Stage 1** (12-months ECL)	**Stage 2** (lifetime ECL for SICR)	**Stage 3** (lifetime ECL for credit im-paired)	**Gross committed amount**
At 31 December 2018	**2,024**	**17**	**-**	**2,041**
Movements with impact on provision for credit related commitments charge for the year:				
New originated or purchased	840	-	-	840
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(23)	9	-	(14)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(45)	(7)	-	(52)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	5	(15)	-	(10)
Changes to ECL measurement model assumptions and estimates	(163)	-	-	(163)
Movements other than transfers and new originated or purchased loans	(410)	10	-	(400)
Total charge to profit or loss for the year	**204**	**(3)**	**-**	**201**
At 31 December 2019	**2,228**	**14**	**-**	**2,242**

Movements in the credit loss allowance for credit related commitments were as follows for the year ended 31 December 2018:

In millions of RR	**Stage 1** (12-months ECL)	**Stage 2** (lifetime ECL for SICR)	**Stage 3** (lifetime ECL for credit im-paired)	**Total**
At 1 January 2018	**1,701**	**22**	**-**	**1,723**
Movements with impact on credit loss allowance for credit related commitments charge for the year:				
New originated or purchased	893	-	-	893
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(23)	18	-	(5)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(53)	(7)	-	(60)
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	5	(16)	-	(11)
Movements other than transfers and new originated or purchased loans	(499)	-	-	(499)
Total movements with impact on credit loss allowance for credit related commitments charge for the year	**323**	**(5)**	**-**	**318**
At 31 December 2018	**2,024**	**17**	**-**	**2,041**

The main movements in the table presented above are described as follows:

- new originated or purchased category represents the day one 12-month ECL for the undrawn part of the purchased loans and loans to new borrowers (for this particular product) before the first payment became due;
- transfers between Stage 1, 2 and 3 due to undrawn limits experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL. Transfers present the amount of credit loss allowance for loan commitments charged or recovered at the moment of transfer of a loan commitment among the respective stages;
- movements other than transfers and new originated or purchased loans category represents all other movements of ECL for loan commitments in particular related to changes in gross carrying amounts of associated loans, ECL model assumptions and other.

Interest rate, maturity and geographical risk concentration analysis of other financial liabilities is disclosed in Note 31. Refer to Note 38 for disclosure of fair value of other financial liabilities. Refer to Note 33 for analysis of loan commitments by credit risk grades.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

20 Share Capital

In millions of RR except for the number of shares	Number of authorised shares	Number of outstanding shares	Ordinary shares	Share premium	Treasury shares	Total
At 1 January 2018	**190,479,500**	**182,638,825**	**188**	**8,623**	**(1,587)**	**7,224**
Increase of authorized shares	1,291,266	-				
GDRs buy-back	-	-	-	-	(2,455)	(2,455)
GDRs and shares transferred under MLTIP	-	-	-	-	372	372
At 31 December 2018	**191,770,766**	**182,638,825**	**188**	**8,623**	**(3,670)**	**5,141**
Shares issued	18,263,882	16,666,667	42	18,874	-	18,916
Secondary public offering costs	-	-	-	(499)	-	(499)
GDRs and shares transferred under MLTIP	-	-	-	-	506	506
At 31 December 2019	**210,034,648**	**199,305,492**	**230**	**26,998**	**(3,164)**	**24,064**

During three months ended 31 March 2019 Altoville Holdings Limited converted 6,385,310 Class B shares into Class A (on a one-to-one basis), which was 3.49% of its share, and then sold them to the market.

On 2 July 2019 the Group completed a SPO on the London Stock Exchange plc. and issued 16,666,667 "Class A" shares of the Company in the form of GDRs at a price of USD 18.00 per GDR, raising aggregate gross proceeds of USD 300 million (RR 18,916 million). All issued ordinary shares are fully paid.

All the incurred SPO costs were primary direct expenses accounted within share premium.

At 31 December 2019 the total number of outstanding shares is 199,305,492 shares (2018: 182,638,825 shares) with a par value of USD 0.04 per share (2018: USD 0.04 per share).

In June 2019 the Company's shareholders approved a resolution to increase authorised share capital to USD 8,401,385.92 by the creation of 18,263,882 new undesignated ordinary shares of nominal value USD 0.04 each. At 31 December 2019 the total number of authorised shares is 210,034,648 shares (2018: 191,770,766 shares) with a par value of USD 0.04 per share (2018: USD 0.04 per share).

As at 31 December 2019 and 2018 treasury shares represent GDRs of the Group repurchased from the market for the purposes permitted by Cyprus law including contribution to MLTIP. Refer to Note 40.

At 31 December 2019 the total number of treasury shares is 4,185,166 (2018: 6,604,353).

During the year ended 31 December 2019 no GDRs were repurchased by the Group (2018: 2,094,126 GDRs at market price for RR 2,455 million).

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. For the purpose of calculating diluted earnings per share the Group considered the dilutive effect of share options granted under MLTIP.

Earnings per share are calculated as follows:

In millions of RR except for the number of shares	2019	2018
Profit for the year attributable to ordinary shareholders of the Company	36,122	27,088
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation (thousands)	186,559	176,425
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation (thousands)	190,070	182,070
Basic earnings per ordinary share (expressed in RR per share)	**193.62**	**153.54**
Diluted earnings per ordinary share (expressed in RR per share)	**190.05**	**148.78**

Information on dividends is disclosed in Note 28.

Reconciliation of the number of shares used for basic and diluted EPS:

In thousands	Note	2019	2018
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation		**186,559**	**176,425**
Number of shares attributable for MLTIP	40	9,940	9,849
Number of shares transferred out of treasury shares upon vesting under the MLTIP to retained earnings or forfeited	40	(6,158)	(3,671)
Number of shares that would have been issued at fair value		(271)	(533)
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation		**190,070**	**182,070**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

21 Net Margin

In millions of RR	Note	2019	2018
Interest income calculated using the effective interest rate method			
Loans and advances to customers, including:			
Credit card loans		83,352	64,446
Cash loans		11,878	4,029
POS loans		3,452	1,454
Secured loans		2,285	41
Car loans		1,512	38
Loans to IE and SME		325	68
Debt securities and repurchase receivables at FVOCI		6,705	5,753
Placements with other banks and non-bank credit organizations with original maturities of less than three months		463	440
Total Interest income calculated using the effective interest rate method		**109,972**	**76,269**
Other similar income			
Debt securities and repurchase receivables at FVTPL		118	456
Total interest income		**110,090**	**76,725**
Interest expense calculated using the effective interest rate method			
Customer accounts, including:			
Individuals			
- Current/demand accounts		8,988	5,963
- Term deposits		7,006	5,283
IE and SME	30	1,421	1,212
Other legal entities		40	90
Subordinated debt		1,846	2,089
RR denominated bonds		1,282	706
Due to banks		634	92
Euro-Commercial Paper		100	124
Total Interest expense calculated using the effective interest rate method		**21,317**	**15,559**
Other similar expense			
Lease liabilities		134	-
Total interest expense		**21,451**	**15,559**
Expenses on deposit insurance		1,870	1,174
Net margin		**86,769**	**59,992**

22 Fee and Commission Income and Expense

In millions of RR	2019	2018
Fee and commission income		
IE and SME current accounts commission	8,483	6,943
Acquiring commission	6,616	4,162
Fee for selling credit protection	5,550	5,601
Interchange fee	3,473	3,046
SMS fee	3,244	2,256
Foreign currency exchange transactions fee	3,024	1,785
Card to card commission	1,980	1,279
Income from MVNO services	890	186
Brokerage operations	819	210
Cash withdrawal fee	720	885
Marketing services fee	340	108
Placement fee	141	167
Mortgage agency fee	136	419
Other fees receivable	626	376
Total fee and commission income	**36,042**	**27,423**

IE and SME current accounts commission represents commission for services to individual entrepreneurs and small to medium businesses. Fee for selling credit protection represents fee which the Bank receives for selling voluntary credit insurance to borrowers of the Group. Acquiring commission represents commission for processing card payments from online and offline points of sale. Income from MVNO services represents income from providing mobile services such as full coverage across Russia and international roaming, offering a number of value-added options such as virtual numbers, music and video streaming services, etc.

In millions of RR	2019	2018
Fee and commission expense		
Payment systems	12,745	8,430
Service fees	2,043	1,429
Payment channels	1,327	1,209
Costs of MVNO services	910	246
Banking and other fees	423	456
Total fee and commission expense	**17,448**	**11,770**

Payment systems fees represent fees for MasterCard, Visa and other payment systems' services. Service fees represent fees for statement printing, mailing service, sms services and others. Payment channels represent fees paid to third parties though whom borrowers make loan repayments. Costs of MVNO services represent expenses for the traffic, telecommunications service and roaming.

Refer to Note 3 that describes the types of revenues recognized on a point in time basis and on the over time basis.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

23 Customer Acquisition Expense

In millions of RR	2019	2018
Marketing and advertising	8,106	5,672
Staff costs	5,916	5,509
Taxes other than income tax	1,413	1,107
Partnership expenses	979	768
Credit bureaux	697	535
Cards issuing expenses	411	260
Telecommunication expenses	326	285
Other acquisition	329	86
Total customer acquisition expenses	**18,177**	**14,222**

Customer acquisition expenses represent expenses paid by the Group on services related to origination of customers which are not directly attributable to the recognised assets and are not incremental. The Group uses a variety of different channels for the acquisition of new customers.

Staff costs represent salary expenses and related costs of employees directly involved in customer acquisition. Included in staff costs are statutory social contributions to the state non-budgetary funds in the amount of RR 1,561 million for the year ended 31 December 2019 (2018: RR 1,341 million).

24 Insurance Premiums Earned and Claims Incurred

In millions of RR	2019	2018
Insurance premiums earned		
Insurance premiums on insurance, co-insurance and reinsurance operations	16,289	7,315
Change in provision for unearned premiums	(2,178)	(643)
Reinsurers' share	(1)	2
Total Insurance premiums earned	**14,110**	**6,674**
Insurance claims incurred		
Insurance claims on insurance, co-insurance and reinsurance operations	(2,923)	(1,413)
Changes in loss provisions	(1,243)	(416)
Claims handling expenses	(733)	(301)
Reinsurers' share	8	4
Total Insurance claims incurred	**(4,891)**	**(2,126)**

The Insurance company provides following types of insurance:

Personal accident insurance and collective insurance against accidents, illnesses or loss of work provides compensation and financial protection in the event of injuries, disability, death or loss of loss of work of the borrower. It is different from life insurance and medical and health insurance. In accordance with the terms of individual insurance contracts, the policyholder and beneficiary is an individual who has entered into an insurance contract. In accordance with the terms of the collective insurance contract, the insurer is the Bank that has concluded the collective insurance contract with the Insurance Company, the beneficiary is the insured individual.

Motor vehicle insurance and property insurance provides compensation for damage to a client's vehicle or other property.

Compulsory third party liability insurance (CTP) contracts provide the insured with financial protection from the risk of civil liability of vehicle owners, which may occur as a result of harm to life, health or property of others when using vehicles.

Voluntary third party (VTP) risk insurance contracts provide the insured with financial protection in case of insufficiency of insurance payment for compulsory third party liability insurance of motor vehicle owners (CTP) to compensate for harm caused to life, health and / or property.

Travel insurance provides compensation in case of medical or other unforeseen expenses of the client while being away from their place of permanent residence.

Staff and administrative expenses for insurance operations are included in Note 25.

25 Administrative and Other Operating Expenses

In millions of RR	Note	2019	2018
Staff costs		19,204	15,602
Taxes other than income tax		1,473	1,148
Amortization of intangible assets	12	1,331	899
Depreciation of fixed assets	12	1,287	823
Depreciation of right-of-use assets	12	1,134	-
Information services		787	570
Professional services		773	333
Operating lease expense		410	799
Stationery		383	263
Communication services		280	254
Security expenses		167	171
Collection expenses		165	168
Other provisions		60	-
Other administrative expenses		398	469
Total administrative and other operating expenses		**27,852**	**21,499**

The total fees charged by the Company's statutory auditor for the statutory audit of the annual consolidated and separate financial statements of the Company for the year ended 31 December 2019 amounted to RR 2.8 million (2018: RR 2.7 million). The total fees charged by the Company's statutory auditor for the year ended 31 December 2019 for other assurance services amounted to RR 3.8 million (2018: RR 4.7 million), for tax advisory services amounted to RR 2.3 million (2018: RR 5.7 million) and for other non-assurance services amounted to RR 2.2 million (2018: nil).

Included in staff costs are statutory social contributions to the non-budget funds and share-based remuneration:

In millions of RR	2019	2018
Statutory social contribution to the non-budget funds	3,398	2,582
Share-based remuneration	469	630

The average number of employees employed by the Group during the reporting year, including those who are working under civil contracts, was 26,780 (2018: 21,577).

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

26 Other Operating Income

In millions of RR	2019	2018
Income from payment systems under marketing agreement	3,298	2,060
Subrogation fee	218	122
Other	1,197	789
Total other operating income	**4,713**	**2,971**

27 Income Taxes

Income tax expense comprises the following:

In millions of RR	2019	2018
Current tax	13,844	4,639
Deferred tax	(4,431)	3,463
Total income tax expense	**9,413**	**8,102**

The income tax rate applicable to the majority of the Group's income is 20% (2018: 20%). The operations of the Group are subject to multiple tax jurisdictions. The income tax rate applicable to the Russian subsidiaries of the Company is 20%. The income tax rate applicable to the Company registered in Cyprus is 12.5% (2018: 12.5%).

A reconciliation between the expected and the actual taxation charge is provided below.

In millions of RR	2019	2018
Profit before tax	**45,536**	**35,224**
Theoretical tax expense at statutory rate of 20% (2018: 20%)	9,107	7,045
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	272	311
- Other expenses including dividend tax	38	740
Unrecognised tax losses	226	177
Effects of different tax rates:		
- Income on government securities taxed at different rates	(214)	(165)
- Results of companies of the Group taxed at different statutory rates	(16)	(6)
Income tax expenses for the year	**9,413**	**8,102**

Differences between IFRS and taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. As all of the Group's temporary differences arise in Russia, the tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2018: 20%).

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

The tax effect of the movements in temporary differences for the year ended 31 December 2019 is detailed below.

In millions of RR	31 December 2018	1 January 2019 (IFRS 16 adoption)	Credited/ (charged) to profit or loss	Charged to OCI	31 December 2019
Tax effect of deductible and taxable temporary differences					
Loans and advances to customers	696	-	2,819	-	3,515
Tangible fixed assets	(601)	-	(3)	-	(604)
Right-of-use assets	-	(334)	12	-	(322)
Intangible assets	(285)	-	14	-	(271)
Revaluation of debt investment at FVOCI	(487)	-	702	(1,234)	(1,019)
Revaluation of debt investment at FVTPL	1	-	(1)	-	-
Accrued expenses and other temporary differences	(773)	-	586	-	(187)
Lease liabilities	-	333	6	-	339
Customer accounts	(21)	-	(23)	-	(44)
Debt securities in issue	(40)	-	(22)	-	(62)
Financial derivatives	(324)	-	364	-	40
Insurance provisions	13	-	(23)	-	(10)
Net deferred tax (liabilities)/assets	**(1,821)**	**(1)**	**4,431**	**(1,234)**	**1,375**

The tax effect of the movements in temporary differences for the year ended 31 December 2018 is detailed below.

In millions of RR	31 December 2017	(Charged)/ credited to profit or loss	Credited directly to equity	Credited to OCI	31 December 2018
Tax effect of deductible and taxable temporary differences					
Loans and advances to customers	223	(1,636)	2,109	-	696
Tangible fixed assets	(344)	(257)	-	-	(601)
Intangible assets	(312)	27	-	-	(285)
Revaluation of debt investment at FVOCI	(327)	(827)	-	667	(487)
Revaluation of debt investment at FVTPL	-	1	-	-	1
Accrued expenses and other temporary differences	(199)	(919)	345	-	(773)
Customer accounts	(30)	9	-	-	(21)
Debt securities in issue	(55)	15	-	-	(40)
Financial derivatives	(435)	111	-	-	(324)
Insurance provisions	-	13	-	-	13
Net deferred tax liabilities	**(1,479)**	**(3,463)**	**2,454**	**667**	**(1,821)**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

28 Dividends

The movements in dividends during the year ended 31 December 2019 and 2018 are as follows:

In millions of RR	2019	2018
Dividends payable at 1 January	**760**	**377**
Dividends declared during the year	5,856	12,265
Dividends paid during the year	(5,601)	(11,946)
Dividends paid under MLTIP after vesting date	(524)	(144)
Foreign exchange loss on dividends payable	91	208
Dividends payable at 31 December	**582**	**760**
Dividends per share declared during the year (in USD)	**0.49**	**1.07**
Dividends per share paid during the year (in USD)	**0.49**	**1.07**

Dividends declared in the tables above represent dividends declared by the Board of Directors are reduced by RR 25 million for the year ended 31 December 2019 due to dividends on GDRs acquired by the Company from the market not for the immediate purposes of the existing MLTIP.

On 13 May 2019 the Board of Directors declared an interim dividend of USD 0.17 (RR 11.09) per share/per GDR amounting to USD 31.05 million (RR 2,026 million). Declared dividends were paid in USD on 28 and 30 May 2019.

On 11 March 2019 the Board of Directors declared an interim dividend of USD 0.32 (RR 21.11) per share/per GDR amounting to USD 58.4 million (RR 3,855 million). Declared dividends were paid in USD on 25 and 27 March 2019.

On 27 August 2018 the Board of Directors declared a regular interim dividend of USD 0.24 (RR 16.27) per share/per GDR amounting to USD 43.9 million (RR 2,972 million). Declared dividends were paid in USD on 24, 28 and 29 September 2018.

On 29 May 2018 the Board of Directors declared a regular interim dividend of USD 0.24 (RR 14.95) per share/per GDR amounting to USD 43.8 million (RR 2,730 million). Declared dividends were paid in USD on 21 and 27 June 2018.

On 9 March 2018 the Board of Directors declared a regular interim dividend of USD 0.31 (RR 17.61) per share/per GDR amounting to USD 56.6 million (RR 3,216 million). Declared dividends were paid in USD on 4 and 9 April 2018.

Dividends were declared and paid in USD throughout the years ended 31 December 2019 and 2018. Dividends payable at 31 December 2019 related to treasury shares acquired under MLTIP amounting to RR 582 million are included in other non-financial liabilities (31 December 2018: RR 760 million).

On 11 June 2019 the Group announced suspension of dividend payments for the three months ended 30 June and 30 September 2019 to ensure the Group will have the necessary capital to further support credit portfolio growth.

29 Reconciliation of Liabilities Arising from Financing Activities

The table below sets out an analysis of the Group's debt and the movements in the Group's debt for each of the periods presented. The debt items are those that are reported as financing in the consolidated statement of cash flows.

	Liabilities from financing activities				
In millions of RR	Debt securities in issue	Perpetual subordinated bonds	Other subordinated debt	Lease liabilities	Total
At 1 January 2018	**10,819**	**17,115**	**4,886**	**-**	**32,820**
Cash flows	(1,803)	(49)	(5,209)	-	(7,061)
Foreign exchange adjustments	580	3,553	382	-	4,515
Other non-cash movements	9	25	(59)	-	(25)
At 31 December 2018	**9,605**	**20,644**	**-**	**-**	**30,249**
Adoption of IFRS 16	-	-	-	1,665	1,665
Cash flows	16,671	46	-	(1,087)	15,630
Foreign exchange adjustments	(432)	(2,267)	-	-	(2,699)
Other non-cash movements	234	64	-	1,116	1,414
At 31 December 2019	**26,078**	**18,487**	**-**	**1,694**	**46,259**

30 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the Group. The functions of CODM are performed by the Management of the Bank and the Management of the Insurance Company.

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of 4 main business segments:

Retail banking – representing customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans, car loans, secured loans and brokerage services to individuals.

IE and SME accounts services – representing customer current accounts, savings, deposits services and providing loans to individual entrepreneurs and small to medium businesses.

Insurance operations – representing insurance services provided to individuals, such as personal accident insurance, personal property insurance, travel insurance and vehicle insurance (Note 24).

MVNO services - providing full coverage across Russia and international roaming, offering a number of value-added options such as virtual numbers, music and video streaming services, etc.

Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different services to the customers of the Group. They are managed separately because each business unit requires different marketing strategies and represents different types of businesses.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

30 Segment Analysis (Continued)

Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on International financial reporting standards adjusted to meet the requirements of internal reporting. The CODM evaluates performance of each segment based on profit before tax.

Information about reportable segment profit or loss, assets and liabilities

Segment reporting of the Group's assets and liabilities as at 31 December 2019 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Eliminations	Total
Cash and cash equivalents	31,098	25,524	3,851	43	(2,720)	57,796
Mandatory cash balances with the CBRF	3,448	-	-	-	-	3,448
Due from other banks	250	-	1,834	-	-	2,084
Loans and advances to customers	330,905	900	-	-	(2,630)	329,175
Financial derivatives	390	-	-	-	-	390
Investments in securities	90,566	41,950	2,662	-	-	135,178
Guarantee deposits with payment systems	8,877	-	-	-	-	8,877
Current income tax assets	807	-	8	-	-	815
Deferred income tax assets	1,517	-	-	-	-	1,517
Tangible fixed assets and right-of-use assets	10,454	-	-	106	-	10,560
Intangible assets	4,105	823	196	311	-	5,435
Other financial assets	20,429	444	1,768	87	(1,055)	21,673
Other non-financial assets	2,034	-	592	187	(303)	2,510
Total reportable segment assets	**504,880**	**69,641**	**10,911**	**734**	**(6,708)**	**579,458**
Due to banks	663	-	-	2,630	(2,630)	663
Customer accounts	352,280	62,054	-	-	(2,720)	411,614
Debt securities in issue	26,078	-	-	-	-	26,078
Financial derivatives	590	-	-	-	-	590
Deferred income tax liabilities	142	-	-	-	-	142
Subordinated debt	18,487	-	-	-	-	18,487
Insurance provisions	-	-	6,280	-	-	6,280
Other financial liabilities	14,091	-	700	912	(1,055)	14,648
Other non-financial liabilities	5,067	-	52	58	(303)	4,874
Total reportable segment liabilities	**417,398**	**62,054**	**7,032**	**3,600**	**(6,708)**	**483,376**

Segment reporting of the Group's income and expenses for the year ended 31 December 2019 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Eliminations	Total
External revenues:						
Interest income calculated using the effective interest rate method	107,021	2,629	322	-	-	109,972
Other similar income	118	-	-	-	-	118
Fee and commission income						
- IE and SME current accounts commission	-	8,483	-	-	-	8,483
- Fee for selling credit protection	5,550	-	-	-	-	5,550
- Acquiring commission	6,397	219	-	-	-	6,616
- SMS fee	3,244	-	-	-	-	3,244
- Interchange fee	2,674	799	-	-	-	3,473
- Foreign currency exchange transactions fee	2,713	311	-	-	-	3,024
- Card to card commission	1,980	-	-	-	-	1,980
- Cash withdrawal fee	720	-	-	-	-	720
- Income from MVNO services	-	-	-	890	-	890
- Brokerage operations	819	-	-	-	-	819
- Mortgage agency fee	136	-	-	-	-	136
- Marketing services fee	340	-	-	-	-	340
- Placement fee	141	-	-	-	-	141
- Other fees receivable	626	-	-	-	-	626
Timing of fee and commission income recognition:						
- At point in time	22,096	9,726	-	890	-	32,712
- Over time	3,244	86	-	-	-	3,330
Total fee and commission income	25,340	9,812	-	890	-	36,042
Net gains from foreign exchange translation	2,216	-	-	-	-	2,216
Net gains from disposals of debt securities at FVOCI	301	-	-	-	-	301
Net gains from debt instruments at FVTPL	389	-	-	-	-	389
Insurance premiums earned	318	-	13,792	-	-	14,110
Credit loss allowance for debt securities at FVOCI	139	-	-	-	-	139
Other operating income	4,355	69	288	1	-	4,713
Total external revenues	**140,197**	**12,510**	**14,402**	**891**	**-**	**168,000**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

30 Segment Analysis (Continued)

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Eliminations	Total
Revenues from other segments:						
Interest income calculated using the effective interest rate method	146	-	83	1	(230)	-
Fee and commission income:						
- Acquiring commission	6	-	-	-	(6)	-
- Income from MVNO services	-	-	-	250	(250)	-
- Other fees receivable	83	-	-	-	(83)	-
Insurance premiums earned	-	-	453	-	(453)	-
Other operating income	62	-	-	-	(62)	-
Total revenues from other segments	**297**	**-**	**536**	**251**	**(1,084)**	**-**
Total revenues	**140,494**	**12,510**	**14,938**	**1,142**	**(1,084)**	**168,000**
Interest expense calculated using the effective interest rate method	(19,979)	(1,421)	-	(147)	230	(21,317)
Other similar expense	(129)	-	-	(5)	-	(134)
Expenses on deposit insurance	(1,659)	(211)	-	-	-	(1,870)
Credit loss allowance for loans and advances to customers and credit related commitments	(27,169)	(75)	-	-	-	(27,244)
Fee and commission expense	(14,755)	(2,022)	(14)	(910)	253	(17,448)
Customer acquisition expense	(15,361)	(1,272)	(1,091)	(986)	533	(18,177)
Net losses from derivatives revaluation	(2,563)	-	-	-	-	(2,563)
Net losses from operations with foreign currencies	(952)	-	(16)	-	-	(968)
Insurance claims incurred	-	-	(4,891)	-	-	(4,891)
Administrative and other operating expenses	(23,124)	(2,774)	(1,185)	(837)	68	(27,852)
Segment result	**34,803**	**4,735**	**7,741**	**(1,743)**	**-**	**45,536**

Segment reporting of the Group's assets and liabilities as at 31 December 2018 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Elimina-tions	Total
Cash and cash equivalents	19,621	13,110	3,537	15	(2,481)	33,802
Mandatory cash balances with the CBRF	2,435	-	-	-	-	2,435
Due from other banks	-	-	776	-	-	776
Loans and advances to customers	199,513	330	386	-	(1,740)	198,489
Financial derivatives	1,710	-	-	-	-	1,710
Investments in debt securities	68,375	30,394	1,371	-	-	100,140
Repurchase receivables	1,182	-	-	-	-	1,182
Guarantee deposits with payment systems	4,603	-	-	-	-	4,603
Current income tax assets	1,104	-	-	-	-	1,104
Tangible fixed assets	8,280	-	-	89	-	8,369
Intangible assets	3,214	547	264	198	-	4,223
Other financial assets	15,316	173	542	46	(435)	15,642
Other non-financial assets	2,344	-	618	150	(88)	3,024
Total reportable segment assets	**327,697**	**44,554**	**7,494**	**498**	**(4,744)**	**375,499**
Due to banks	2,708	-	-	1,344	(1,344)	2,708
Customer accounts	242,092	41,702	-		(2,878)	280,916
Debt securities in issue	9,605	-	-	-	-	9,605
Financial derivatives	3	-	-	-	-	3
Current income tax liabilities	51	-	-	-	-	51
Deferred income tax liabilities	1,821	-	-	-	-	1,821
Subordinated debt	20,644	-	-	-	-	20,644
Insurance provisions	-	-	2,859	-	-	2,859
Other financial liabilities	9,746	-	1,711	213	(469)	11,201
Other non-financial liabilities	3,367	-	63	64	(53)	3,441
Total reportable segment liabilities	**290,037**	**41,702**	**4,633**	**1,621**	**(4,744)**	**333,249**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

30 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2018 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Eliminations	Total
External revenues:						
Interest income calculated using the effective interest rate method	74,283	1,807	179	-	-	76,269
Other similar income	456	-	-	-	-	456
Fee and commission income:						
- SME current accounts commission	-	6,943	-	-	-	6,943
- Fee for selling credit protection	5,601	-	-	-	-	5,601
- Acquiring commission	4,078	84	-	-	-	4,162
- Interchange fee	2,595	451	-	-	-	3,046
- SMS fee	2,256	-	-	-	-	2,256
- Foreign currency exchange transactions fee	1,576	209	-	-	-	1,785
- Card to card commission	1,279	-	-	-	-	1,279
- Cash withdrawal fee	885	-	-	-	-	885
- Mortgage agency fee	419	-	-	-	-	419
- Brokerage operations	210	-	-	-	-	210
- Income from MVNO services	-	-	-	186	-	186
- Placement fee	167	-	-	-	-	167
- Marketing services fee	108	-	-	-	-	108
- Other fees receivable	376	-	-	-	-	376
Timing of fee and commission income recognition:						
- At point in time	17,294	7,469	-	186	-	24,949
- Over time	2,256	218	-	-	-	2,474
Total fee and commission income	19,550	7,687	-	186	-	27,423
Net gains from derivatives revaluation	1,784	-	-	-	-	1,784
Net gains from operations with foreign currencies	363	-	18	-	-	381
Net gains from disposals of debt securities at FVOCI	378	-	-	-	-	378
Insurance premiums earned	320	-	6,354	-	-	6,674
Other operating income	2,726	39	202	4	-	2,971
Total external revenues	**99,860**	**9,533**	**6,753**	**190**	**-**	**116,336**

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Eliminations	Total
Revenues from other segments:						
Interest income calculated using the effective interest rate method	50	-	71	-	(121)	-
Fee and commission income						
- Acquiring commission	40	-	-	-	(40)	-
- Income from MVNO services	-	-	-	53	(53)	-
- Other fees receivable	17	-	-	-	(17)	-
Net gains from disposals of debt securities at FVOCI	79	-	-	-	(79)	-
Insurance premiums earned	-	-	311	-	(311)	-
Other operating income	59	-		-	(59)	-
Total revenues from other segments	**245**	**-**	**382**	**53**	**(680)**	**-**
Total revenues	**100,105**	**9,533**	**7,135**	**243**	**(680)**	**116,336**
Interest expense calculated using the effective interest rate method	(14,418)	(1,212)	-	(50)	121	(15,559)
Expenses on deposit insurance	(1,090)	(84)	-	-	-	(1,174)
Credit loss allowance for loans and advances to customers and credit related commitments	(11,574)	(33)	-	-	-	(11,607)
Credit loss allowance for debt securities at FVOCI	(192)	-	-	-	-	(192)
Fee and commission expense	(10,453)	(1,125)	-	(246)	54	(11,770)
Customer acquisition expense	(11,189)	(2,374)	(772)	(254)	367	(14,222)
Net losses from foreign exchange translation	(2,153)	-	-	(2)	-	(2,155)
Net losses from debt instruments at FVTPL	(808)	-	-	-	-	(808)
Insurance claims incurred	-	-	(2,126)	-	-	(2,126)
Administrative and other operating expenses	(17,372)	(2,370)	(1,002)	(814)	59	(21,499)
Segment result	**30,856**	**2,335**	**3,235**	**(1,123)**	**(79)**	**35,224**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

31 Financial and Insurance Risk Management

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks by the management of the Bank and Insurance Company. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimize operational and legal risks.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets. The Group grants retail loans and IE and SME loans to customers across all regions of Russia, therefore its credit risk is broadly diversified.

The management of the Group takes special measures to mitigate growing credit risk such as decreasing of credit limits for unreliable clients, diversifying of modes of work with overdue borrowers, toughening of scoring for the new borrowers etc., giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines, the maximum exposure to credit risk is the amount of the commitment (Note 33).

The Bank created a credit committee, which establishes general principles for lending to individual borrowers. According to these principles, the minimum requirements for potential customers are listed below:

- Citizenship of the Russian Federation;
- Age from 18 to 70 y.o., but not older than 70 y.o. at the time of loan repayment;
- Availability of a cell-phone;
- Permanent employment;
- Permanent income.

For cash loans, minimum requirements are listed below:

- The requested loan term is from 3 to 36 months;
- Cash loan volumes range between RR 50 thousand and RR 2,000 thousand.

For POS loans minimum requirements are listed below:

- The requested loan amount should exceed RR 3 thousand;
- The requested loan term is from 3 to 36 months;
- The amount of one POS loan does not exceed RR 200 thousand.

For secured loans minimum requirements are listed below:

- The requested loan secured with a car amount should be between RR 100 thousand and RR 3,000 thousand, loan term is from 3 months to 5 years. The requirement for the car is in good condition of driving with an age not more than 15 years;
- The requested loan secured with a real estate amount should be between RR 200 thousand and RR 15,000 thousand, loan term is from 3 months to 15 years. The requirement for the real estate is an apartment in the apartment building within the Russian Federation, which is free from any encumbrances.

For car loans minimum requirements are listed below:

- The requested loan term is from 1 to 5 years;
- Car loan volumes up to RR 2,000 thousand;
- The requirement for the car is with an age not more than 18 years.

For loans to SME minimum requirements are listed below:

- Working capital loan: loan volumes up to RR 10,000 thousand and loan term to 6 months;
- Credit for individual entrepreneurs for any purpose: loan volumes up to RR 2,000 thousand and loan term to 36 months;
- Credit for individual entrepreneurs secured by real estate: loan volumes up to RR 15,000 thousand and loan term to 15 years. The requirement for the real estate is an apartment in the apartment building within the Russian Federation, which is free from any encumbrances;
- Investment credit line secured by real estate: loan volumes up to RR 15,000 thousand and loan term to 5 years. The requirement for the real estate is an apartment in the apartment building within the Russian Federation, which is free from any encumbrances.

A credit decision process includes:

- Validation of the application data. The system checks the validity of the data provided (addresses, telephone numbers, age, if the applicant already uses any other products of the Bank);
- Phone verification of the application information about the potential customer, his/her employment, social and property status, etc. This step may be omitted for POS loans;
- Requesting of the previous credit history of the applicant from the three largest credit bureaus in Russia – Equifax, UCB (United Credit Bureau) and NBCH (National Bureau of Credit Histories).
- Based on all available information, the credit score of the applicant is calculated and a final decision is made about the approval of the credit product;
- The approved loan amount, loan term and tariff plan are calculated depending on the score and declared income.

Management of the Group manages the credit risk on unused limits on credit cards in the following way:

a) if the credit card loan is overdue for more than 7 days, its account will be blocked till repayment;

b) if the borrower had lost his/her source of income, then borrower account might be blocked till verification of his/her new employment;

c) if borrower's loan debt burden in other banks is substantially bigger than at the time of loan origination or the credit quality of the borrower decreases significantly then the borrower's limit for credit might be reduced accordingly.

When a customer experiences serious difficulties with his/her current debt servicing, he/she may be offered loan restructuring. In this case the Bank stops accrual of interest, commissions and fines and the debt amount is restructured according to a fixed instalment payment plan with not more than 36 equal monthly payments. Another way of working with overdue loans is initiation of the state court process. This collection option statistically gives greater recovery than the sale of credit-impaired loans. Defaulted clients that could be subject to the court process are chosen by the Bank's Collection Department considering the following criteria:

a) the client's account balance was fixed, accrual of interest stopped;

b) information about the client is considered to be up to date;

c) the client denied restructuring program;

d) term of limitation of court actions has not expired;

e) court process is economically justified.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

31 Financial and Insurance Risk Management (Continued)

When loans become unrecoverable or not economically viable to pursue further collection efforts, the Collection Department may decide to sell these loans to a debt collection agency. The Collection Department considers the following criteria for credit-impaired loans qualifying for sale to external debt collection agencies:

a) loans remain unpaid after all collection procedures were performed (no payment during last 4-6 months);

b) the debtor cannot be either reached or found for the previous 4 months;

c) the debtor has no assets and there is no expectation he/she will have any in the future;

d) the debtor has died and there is no known estate or guarantor;

e) it is determined that it is not cost effective to continue collection efforts.

Credit risk grading system. For measuring credit risk and grading financial instruments except for loans and advances to customers by the level of credit risk, the Group applies risk grades estimated by external international rating agencies in case these financial instruments have risk grades estimated by external international rating agencies (using Fitch ratings and in case of their absence - Moody's or Standard & Poor's ratings adjusting them to Fitch's categories using a reconciliation table):

Master scale credit risk grade	Corresponding ratings of external international rating agency (Fitch)
Excellent	AAA, AA+ to AA-, A+ to A-
Good	BBB+ to BBB-, BB+
Monitor	BB to B+
Sub-standard	B, B-
Doubtful	CCC+ to CC-
Default	C, D

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – high credit quality with lowest or very low expected credit risk;
- *Good* – good credit quality with currently low expected credit risk;
- *Monitor* – adequate credit quality with a moderate credit risk;
- *Sub-standard* – moderate credit quality with a satisfactory credit risk;
- *Doubtful* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

For measuring credit risk and grading loans and advances to customers, credit related commitments and those financial instruments which do not have risk grades estimated by external international rating agencies, the Group applies risk grades and the corresponding range of probabilities of default (PD):

Master scale credit risk grade	Corresponding interval
Excellent	For credit cards: non-overdue with PD < 5%; for other types of loans: non-overdue for the last 12 months with PD < 5% or with early repayments
Good	all other non-overdue loans
Monitor	1-30 days overdue for all types of loans or without first due date for credit card loans
Sub-standard	31-90 days overdue or restructured loans 0-90 days overdue
NPL	90+ days overdue

The condition of early repayments is satisfied, as described in the table above, if cumulative amount of early repayments exceed 5% of the gross carrying amount at the date of recognition of the loan

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with minimum expected credit risk;
- *Good* – adequate credit quality with low expected credit risk;
- *Monitor* – adequate credit quality with a moderate credit risk and credit cards loans before the first due date;
- *Sub-standard* – low credit quality with a substantial credit risk, includes restructured loans that are less than 90 days overdue;
- *NPL* – non-performing loans, credit-impaired loans more than 90 days overdue.

The rating models are regularly reviewed by the Credit Risk Department, backtested on actual default data and updated if necessary. Despite the method used, the Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

Expected credit loss (ECL) measurement – definitions and description of estimation techniques.
ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). ECL measurement is based on the following components used by the Group:

Default occurs when a financial asset is 90 days past due or less than 90 days overdue but with the final statement issued, i.e. the limit is closed, the balance is fixed, interest and commissions are no longer accrued.

Probability of Default (PD) – an estimate of the likelihood of default to occur over a given time period.

Exposure at Default (EAD) – an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Loss Given Default (LGD) – an estimate of the loss arising on default as a percentage of the EAD. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive.

Discount Rate – a rate to discount an expected loss to its present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Lifetime period – the maximum period over which ECL should be measured. For loans with fixed maturity, the lifetime period is equal to 20 months. For revolving facilities, it is based on statistics of the average period between the moment of the loan falling into the Stage 2 until the write-off or attrition. Currently the Group estimates that this period equals to 4 years, though it is subject to periodical reassessment.

Lifetime ECL – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL – the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument.

Forward looking information – the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Credit Conversion Factor (CCF) – a coefficient that shows that the probability of conversion of an off-balance sheet amount to exposure on the consolidated statement of financial position within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Group considers that 12-month and lifetime CCFs are the same.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

31 Financial and Insurance Risk Management (Continued)

Purchased or originated credit-impaired (POCI) financial assets – financial assets that are credit-impaired upon initial recognition.

Default and credit-impaired assets – assets for which a default event has occurred.

The default definition stated above should be applied to all types of financial assets of the Group.

An instrument is considered to no longer be in default (i.e. to have "cured") when it no longer meets any of the default criteria.

Significant increase in credit risk (SICR) – the SICR assessment is performed on an individual basis for all financial assets by monitoring the triggers stated below. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Group's Risk Management Department.

The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For interbank operations, bonds issued by banks and bonds issued by corporates and sovereigns:

- 30 days past due;
- award of risk grade "Doubtful";
- decrease of assigned external rating by 2 notches, which corresponds to an approximate increase of PD by 2.5 times.

For credit card loans:

- 30 days past due; or
- threshold defined on an individual basis using existing scoring models: increase of the 12-month PD compared to 12-month PD estimated 18 months ago or as of the date of initial recognition (if it occurred less than 18 months ago) by 3 times or PD reaching 50% and above. 18-month period was determined as the weighted average period of the most recent date where the credit limit was revised by at least 25%, which is considered to be a substantial revision.

For all other loans:

- 30 days past due; or
- if the loans were past due for more than 30 days during the last 6 months or if the loans fell past due during the last 4 months more than once.

If the SICR criteria are no longer met, the instrument will be transferred back to Stage 1.

General principle of techniques applied

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether or not the credit risk of the borrower has increased significantly since initial recognition.

This approach can be summarised in a three-stage model for ECL measurement:

- Stage 1 – a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition, the loss allowance is based on 12-month ECLs;
- Stage 2 – if since the date, which was assumed to be the date of initial recognition is identified a SICR, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired, the loss allowance is based on lifetime ECLs;
- Stage 3 – if the financial instrument is credit-impaired or restructured, the financial instrument is then moved to Stage 3 and the loss allowance is based on lifetime ECLs.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Group only recognises the cumulative changes in lifetime expected credit losses.

The Group carries out two separate approaches for ECL measurement:

- for loans and advances to customers: assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) are applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio;
- for all other financial assets except FVTPL: assessment based on external ratings.

The Group performs an assessment on a portfolio basis for the retail loans. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information, such as delinquency, the historical data on losses and other.

Principles of assessment on portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a group are homogeneous.

Examples of shared characteristics include type of customer, product type, credit risk rating, date of initial recognition, overdue level and repayment statistics.

The different segments reflect differences in PD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the multiplication of the following credit risk parameters: EAD, PD and LGD (definitions of the parameters are provided above). The general approach used for ECL calculation is stated below.

$$ECL = PD_{t_i} \cdot EAD_{t_i} \sum_{i=0}^{N-1} \frac{LGD_{t_i}}{(1+EIR)^{t_i}})$$

where:

PD_{t_i} – probability of default in moment t_i (can't be higher than 100%);

EAD_{t_i} – exposure at default in moment t_i;

LGD_{t_i} – loss given default in moment t_i;

t_i – number of months in the loan's lifetime;

EIR – effective interest rate;

N – remaining amount of payments.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

31 Financial and Insurance Risk Management (Continued)

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month during the lifetime period for each exposure or segment. These three components are multiplied together. This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

The EADs are determined based on the expected payment profile, on an individual basis. For revolving products, the EAD is predicted by taking the current withdrawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit of utilised loans by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics. For other products EAD is equal to current exposure as there is no credit limit to utilize.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months. This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historic default data using borrower-specific behavioural characteristics and adjusted for forward-looking information when appropriate. Based on borrower-specific PDs the exposures are allocated to segments to which average PD for the segment is applied.
- Lifetime PDs – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs for Stage 2 and Stage 3 exposures. An assessment of a lifetime PD is based on the latest available historic default data using product specific lifetime periods defined above. To calculate Lifetime PD, the Group developed lifetime PD curves based on the 12-month PD data.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. For credit card loans, cash loans and POS loans LGDs are calculated on portfolio basis based on recovery statistics of defaulted loans over the period of 24 or 36 months. For secured loans, car loans and loans to SME LGDs are calculated using current market data in relation to the expected recoveries.

ECL measurement for loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment. CCF for undrawn credit limits of credit cards and overdrafts is defined based on statistical analysis of exposures at default.

Principles of assessment based on external ratings – the principles of ECL calculations based on external ratings are the same as for their assessment on a portfolio basis. Credit risk parameters (PD and LGD) are taken from the default and recovery statistics published by international rating agencies (Fitch and in case of their absence - Moody's or Standard & Poor's).

Forward-looking information incorporated in the ECL models. The calculation of ECLs incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECLs for each portfolio. The list of variables:

- Russian stock market index MOEX;
- Moscow Prime Offered Rate;
- Debt load of Russian population based on statistics from bureaus of credit history.

The impact of these economic variables on the ECL has been determined by performing statistical regression analysis in order to understand the way how changes in these variables historically impacted default rates. Three different scenarios are used: base, optimistic and pessimistic. The scenarios are weighted accordingly with base scenario having the 90.8% weight, optimistic scenario having the 1.3% weight and pessimistic scenario having the 7.9% weight.

Backtesting – the Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed on a quarterly basis.

The results of backtesting the ECL measurement methodology are communicated to Group Management and further steps for refining models and assumptions are defined after discussions between authorised persons.

Market risk. The Group takes on exposure to market risks. Market risks of the Group arise from open positions in (a) currency and (b) interest rate, both of which are exposed to general and specific market movements. The priority goal of market risk management is to maintain the risks assumed by the Group at a level determined by the Group in accordance with its own strategic objectives. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, the management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at the end of the year:

	At 31 December 2019				At 31 December 2018			
In millions of RR	**Non-derivative monetary financial assets**	**Non-derivative monetary financial liabilities**	**Derivatives**	**Net position**	**Non-derivative monetary financial assets**	**Non-derivative monetary financial liabilities**	**Derivatives**	**Net position**
RR	491,635	(390,010)	(12,995)	88,630	307,617	(264,073)	(5,283)	38,261
USD	46,930	(62,098)	13,422	(1,746)	37,550	(47,539)	7,245	(2,744)
Euro	18,902	(20,261)	(595)	(1,954)	11,318	(13,773)	(233)	(2,688)
GBP	677	(675)	(32)	(30)	571	(586)	(22)	(37)
Others	87	(788)	-	(701)	13	(202)	-	(189)
Total	**558,231**	**(473,832)**	**(200)**	**84,199**	**357,069**	**(326,173)**	**1,707**	**32,603**

Derivatives presented above are monetary financial assets or monetary financial liabilities but are presented separately in order to show the Group's gross exposure. Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 37.

The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

	At 31 December 2019		At 31 December 2018	
In millions of RR	**Impact on profit for the year**	**Impact on total equity**	**Impact on profit for the year**	**Impact on total equity**
USD strengthening by 20% (2018: by 20%)	(277)	(277)	(417)	(417)
USD weakening by 20% (2018: by 20%)	277	277	417	417
Euro strengthening by 20% (2018: by 20%)	(310)	(310)	(408)	(408)
Euro weakening by 20% (2018: by 20%)	310	310	408	408
GBP strengthening by 20% (2018: by 20%)	(5)	(5)	(6)	(6)
GBP weakening by 20% (2018: by 20%)	5	5	6	6

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

31 Financial and Insurance Risk Management (Continued)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Group is exposed to prepayment risk through providing fixed rate loans, which give the borrower the right to repay the loans early. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2018: no material impact).

The table below summarizes the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates:

In millions of RR	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
31 December 2019						
Total financial assets	136,206	153,392	66,962	121,755	80,306	558,621
Total financial liabilities	(199,880)	(155,323)	(62,923)	(44,109)	(12,187)	(474,422)
Net interest sensitivity gap at 31 December 2019	**(63,674)**	**(1,931)**	**4,039**	**77,646**	**68,119**	**84,199**
31 December 2018						
Total financial assets	103,449	124,541	35,930	31,883	62,976	358,779
Total financial liabilities	(200,101)	(56,301)	(40,080)	(3,743)	(25,951)	(326,176)
Net interest sensitivity gap at 31 December 2018	**(96,652)**	**68,240**	**(4,150)**	**28,140**	**37,025**	**32,603**

The Group has no significant risk associated with variable interest rates on loans and advances provided to customers or loans received.

The aim of interest rate risk management is to maintain the risks assumed by the Group within the limits determined by the Group in accordance with its own strategic objectives. The interest rate risk is managed by setting caps and floors in relation to interest rates on financial assets and liabilities depending on their types and maturities and balancing the assets and liabilities which are sensitive to changes in interest rates.

The assessment of the magnitude of interest rate risk is carried out by performing a sensitivity analysis which imply assessment of impact on net interest income of a shift in interest rates by 200 basis points. At 31 December 2019, if interest rates at that date had been 200 basis points lower/higher (2018: 200 basis points), with all other variables held constant, profit for the year would have been RR 1,684 million (2018: RR 652 million) lower/higher, equity would have been RR 1,684 million (2018: RR 652 million) lower/higher.

The Group monitors interest rates for its financial instruments. The table below summarizes interest rates for the years 2019 and 2018 based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2019					2018			
In % p.a.	RR	USD	EURO	GPB	Other	RR	USD	EURO	GPB
Assets									
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	37.2	-	-	-	-	42.7	-	-	-
Due from banks	5.3	1.6	-	-	-	5.9	-	-	-
Investment in securities	7.9	4.3	2.4	-	-	8.5	4.5	3.2	-
Repurchase receivables	-	-	-	-	-	7.4	4.3	-	-
Liabilities									
Due to banks	6.2	0.0	-	-	-	7.0	2.4	-	-
Customer accounts	5.1	1.0	0.1	0.1	0.0	5.2	0.9	0.4	0.3
Debt securities in issue	9.0	3.8	1.2	-	-	9.9	4.4	1.4	-
Subordinated debt	-	10.0	-	-	-	-	10.0	-	-

The sign "-" in the table below means that the Group does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Group has exposure to equity price risk. Transactions with equity instruments are monitored and authorised by the Group's Treasury function. At 31 December 2019, if equity prices at that date had been 20% lower (higher) with all other variables held constant, profit for the year would have been RR 83 million lower (higher).

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

31 Financial and Insurance Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2019 is set out below:

In millions of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	54,893	2,903	-	-	57,796
Mandatory cash balances with the CBRF	3,448	-	-	-	3,448
Due from other banks	2,084	-	-	-	2,084
Loans and advances to customers	329,175	-	-	-	329,175
Financial derivatives	390		-	-	390
Investments in securities	134,765	413	-	-	135,178
Repurchase receivables	-	-	-	-	-
Guarantee deposits with payment systems	501	8,376	-	-	8,877
Other financial assets	8,272	13,401	-	-	21,673
Total financial assets	**533,528**	**25,093**	**-**	**-**	**558,621**
Financial liabilities					
Due to banks	663	-	-		663
Customer accounts	411,504	-	110	-	411,614
Debt securities in issue	2,460	-	-	23,618	26,078
Financial derivatives	590	-	-	-	590
Subordinated debt	-	-	-	18,487	18,487
Insurance provisions	2,342				2,342
Other financial liabilities	14,589	59	-	-	14,648
Total financial liabilities	**432,148**	**59**	**110**	**42,105**	**474,422**
Credit related commitments (Note 33)	**168,059**	**-**	**-**		**168,059**

The geographical concentration of the Group's financial assets and liabilities at 31 December 2018 is set out below:

In millions of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	31,911	1,891	-	-	33,802
Mandatory cash balances with the CBRF	2,435	-	-	-	2,435
Due from other banks	776	-	-	-	776
Loans and advances to customers	198,489	-	-	-	198,489
Financial derivatives	1,710	-	-	-	1,710
Investment in debt securities	100,126	-	14	-	100,140
Repurchase receivables	1,182	-	-	-	1,182
Guarantee deposits with payment systems	168	4,435	-	-	4,603
Other financial assets	8,212	7,430	-	-	15,642
Total financial assets	**345,009**	**13,756**	**14**	**-**	**358,779**
Financial liabilities					
Due to banks	2,708	-	-	-	2,708
Customer accounts	280,118	-	798	-	280,916
Debt securities in issue	3,754	-	-	5,851	9,605
Financial derivatives	3	-	-	-	3
Subordinated debt	-	-	-	20,644	20,644
Insurance provisions	1,099	-	-	-	1,099
Other financial liabilities	11,018	183	-	-	11,201
Total financial liabilities	**298,700**	**183**	**798**	**26,495**	**326,176**
Credit related commitments (Note 33)	**110,478**	**-**	**-**	**-**	**110,478**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption "Russia".

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group did not have any such significant risk concentrations at 31 December 2019 and 2018.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from unused limits on issued credit cards, retail deposits from customers, current accounts and due to banks. The Group does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place and it can be predicted with a high level of certainty. Liquidity risk is managed by the Financial Committee of the Bank. The Group seeks to maintain a stable funding base primarily consisting of amounts due to institutional investors, corporate and retail customer deposits and debt securities. The Group keeps all available cash in diversified portfolios of liquid instruments such as a correspondent account with CBRF and overnight placements in high-rated commercial banks, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The available cash at all times exceeds all accrued financing costs falling due within half a year plus two months of regular operating costs.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

31 Financial and Insurance Risk Management (Continued)

The liquidity management of the Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements.

The liquidity analysis takes into account the covenant requirements and ability of the Group to waive any potential breaches within the grace period. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the CBRF. The Bank has complied with these ratios throughout 2019 and 2018. The CFO receives information about the liquidity profile of the financial assets and liabilities. This includes daily, weekly, monthly and quarterly updates on the level of credit card transactions and repayments, statistics on credit card issuance and credit card limit utilisation, inflow and outflow of retail deposits, changes in the investment securities portfolio, level of expected outflows such as operating costs and financing activities. The CFO then ensures the availability of an adequate portfolio of short-term liquid assets, made up of an amount on the correspondent account with the CBRF and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole. Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behaviour is reviewed by the CFO.

The table below shows liabilities at 31 December 2019 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities						
Due to banks	663	-	-	-	-	663
Customer accounts	189,176	84,108	70,530	60,627	11,605	416,046
Debt securities in issue	168	338	487	2,082	23,795	26,870
Subordinated debt	149	291	440	891	18,541	20,312
Insurance provisions	463	917	438	296	228	2,342
Other financial liabilities	14,648	-	-	-	-	14,648
Financial derivatives	-	199	203	399	19,833	20,634
Credit related commitments (Note 33)	168,059	-	-	-	-	168,059
Total potential future payments for financial obligations	**373,326**	**85,853**	**72,098**	**64,295**	**74,002**	**669,574**

The maturity analysis of financial liabilities at 31 December 2018 is as follows:

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities						
Due to banks	2,708	-	-	-	-	2,708
Customer accounts	191,308	24,257	32,600	34,571	1,719	284,455
Debt securities in issue	55	106	162	4,175	5,906	10,404
Subordinated debt	167	320	493	998	20,865	22,843
Insurance provisions	213	422	217	156	91	1,099
Other financial liabilities	11,201	-	-	-	-	11,201
Financial derivatives	-	92	92	185	9,706	10,075
Credit related commitments (Note 33)	110,478	-	-	-	-	110,478
Total potential future payments for financial obligations	**316,130**	**25,197**	**33,564**	**40,085**	**38,287**	**453,263**

Financial derivatives receivable and payable are disclosed in the Note 37. The tables above present only the gross payables.

Insurance provisions are disclosed in the table above based on their expected maturities.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group takes on exposure to liquidity risk, which is the risk of cash surplus in case of assets-liabilities cash-flow profile mismatch. Exposure to liquidity risk arises as a result of the Group's borrowing and operational activities that assume cash payment obligations. The Group uses daily, short-term and long-term reporting, stress-testing and forecasting practices to monitor and prevent potential liquidity problems. The Group is actively increasing the number of counterparties for interbank lending, looks for new wholesale markets, improves and creates additional debit and credit products to have more instruments over cash-flow management. The recent economic situation has resulted in increased liquidity risk. In response the management of the Group preserves cash safety cushions for possible cash outflows and has planned Group's liquidity position for the next year to ensure it can cover all upcoming payment obligations.

The expected maturity analysis of financial instruments at carrying amounts as monitored by management at 31 December 2019 is presented in the table below.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

31 Financial and Insurance Risk Management (Continued)

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets							
Cash and cash equivalents	57,796	-	-	-	-	-	57,796
Mandatory cash balances with the CBRF	1,508	510	346	513	571	-	3,448
Due from other banks	-	-	46	-	2,038	-	2,084
Loans and advances to customers	48,391	63,640	63,466	61,884	79,105	12,689	329,175
Financial derivatives	-	-	-	-	390	-	390
Investments in securities	135,178	-	-	-	-	-	135,178
Guarantee deposits with payment systems	1,304	1,717	1,712	1,669	2,133	342	8,877
Other financial assets	21,569	63	20	10	11	-	21,673
Total financial assets	**265,746**	**65,930**	**65,590**	**64,076**	**84,248**	**13,031**	**558,621**
Liabilities							
Due to banks	663	-	-	-	-	-	663
Customer accounts	180,017	60,879	41,259	61,298	68,161	-	411,614
Debt securities in issue	-	411	599	1,008	12,463	11,597	26,078
Financial derivatives	-	-	-	-	590	-	590
Subordinated debt	-	158	-	-	18,329	-	18,487
Insurance provisions	463	917	438	296	228	-	2,342
Other financial liabilities	14,648	-	-	-	-	-	14,648
Total financial liabilities	**195,791**	**62,365**	**42,296**	**62,602**	**99,771**	**11,597**	**474,422**
Net liquidity gap at 31 December 2019	**69,955**	**3,565**	**23,294**	**1,474**	**(15,523)**	**1,434**	**84,199**
Cumulative liquidity gap at 31 December 2019	**69,955**	**73,520**	**96,814**	**98,288**	**82,765**	**84,199**	**-**

Provision for unearned premiums in the amount of RR 3,938 million is not included in the insurance provisions stated above. Refer to Note 18.

The expected maturity analysis of financial instruments at carrying amounts as monitored by management at 31 December 2018 is presented in the table below.

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets							
Cash and cash equivalents	33,802	-	-	-	-	-	33,802
Mandatory cash balances with the CBRF	1,602	66	106	298	363	-	2,435
Due from other banks	13	206	-	431	126	-	776
Loans and advances to customers	33,496	44,272	43,675	40,612	35,292	1,142	198,489
Financial derivatives	-	-	-	-	1,710	-	1,710
Investment in debt securities	100,140	-	-	-	-	-	100,140
Repurchase receivables	1,182	-	-	-	-	-	1,182
Guarantee deposits with payment systems	1,084	1,463	1,138	735	183	-	4,603
Other financial assets	15,542	63	21	11	5	-	15,642
Total financial assets	**186,861**	**46,070**	**44,940**	**42,087**	**37,679**	**1,142**	**358,779**
Liabilities							
Due to banks	2,708	-	-	-	-	-	2,708
Customer accounts	119,413	42,478	28,554	43,657	46,814		280,916
Debt securities in issue	-	-	274	4,027	5,304	-	9,605
Financial derivatives	-	-	-	-	3	-	3
Subordinated debt	-	114	-	-	20,530	-	20,644
Insurance provisions	213	422	217	156	91	-	1,099
Other financial liabilities	11,201	-	-	-	-	-	11,201
Total financial liabilities	**133,535**	**43,014**	**29,045**	**47,840**	**72,742**	**-**	**326,176**
Net liquidity gap at 31 December 2018	**53,326**	**3,056**	**15,895**	**(5,753)**	**(35,063)**	**1,142**	**32,603**
Cumulative liquidity gap at 31 December 2018	**53,326**	**56,382**	**72,277**	**66,524**	**31,461**	**32,603**	**-**

Provision for unearned premiums in the amount of RR 1,760 million is not included in the insurance provisions stated above. Refer to Note 18.

As at the 31 December 2019 all the investment in debt securities are classified within demand and less than one month as they are easy repoable in CBR or on the open market securities and can provide immediate liquidity to the Group. All current accounts of individuals are classified within demand and less than one month (2018: the same).

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

31 Financial and Insurance Risk Management (Continued)

The allocation of deposits of individuals considers the statistics of autoprolongations and top-ups of longer deposits with the funds from shorter deposits after their expiration in case when the customers have more than one active deposit. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Insurance risk. Insurance risk is the risk associated with insurance contracts, consisting in the possibility of the occurrence of an insurance event and the uncertainty of the amount and time of occurrence of the loss associated with it.

The insurance risk management process covers all stages, from the stage of development of insurance rates to the settlement of losses.

The main steps in the insurance risk management process include:

- Underwriting and regulation of tariff policy;
- Efficiency of the loss settlement process;
- Diversification of the insurance portfolio.

Tariff policy. The process of underwriting and regulation of the tariff policy includes the formation of tariffs for certain areas of activity based on the analysis of results for previous periods, existing market conditions and the Insurance Company's strategy.

The insurance tariff is set on the basis of the analysis of the expected loss ratio based on Group's insurance portfolio and similar products on the market, the commission ratio based on the analysis of product profitability and commission rates for similar products on the market, and the analysis of the average market rate. When developing tariffs, factors such as expected inflation and changes in the legislation of the Russian Federation are also taken into account.

The Insurance Company monitors the correctness of the calculation of the insurance premium under the insurance contract by analyzing, on a regular basis, the deviations of the actual received premiums from the estimated premiums.

Loss settlement process. In accordance with the insurance contract, the policyholder is obliged to notify the insurance company of a loss within a certain period of time. Losses are settled by specialized units, other than selling business units. The insurance claims will be paid only after receiving all the necessary documents confirming the fact of the insured event. Also, if necessary, economic security department and legal department are involved in checking documents for settlement of losses. If at the time of payment of the insurance claims the policyholder had outstanding debt of the insurance premium, the unpaid part is deducted from the amount of compensation.

If there is a third party that caused an insurance loss to the insured client, the Group has a right to pursue third parties responsible for loss for payment of some or all costs related to the claims settlement process of the Group.

Diversification of the insurance portfolio. To reduce insurance risk, the Group also uses the diversification of its insurance portfolio - it insures a large number of small risks, which, in particular, is achieved through the remote provision of insurance services almost throughout the Russian Federation. The company does not operate outside the Russian Federation and is exposed to risks associated with the geographical features of the regions of the Russian Federation.

Sensitivity analysis. The following analyses the possible changes in the key assumptions used in the calculation of insurance liabilities under contracts other than life insurance, provided that the other assumptions are constant. This analysis reflects the impact on gross and net liabilities, profit before tax and equity of the Group.

Effect of changes in the key assumptions as at 31 December 2019:

In millions of RR except for the number of claims	**Change in assumptions**	**Effect on insurance obligations other than life insurance**	**Effect on the reinsurers' share in insurance obligations other than life insurance**	**Effect on profit before tax**	**Effect on equity**
The average cost of insurance claims	− 10%	(193)	-	193	154
	+ 10%	193	-	(193)	(154)
The average number of claims	− 10%	193	-	(193)	(154)
	+ 10%	(193)	-	193	154

Effect of changes in the key assumptions as at 31 December 2018:

In millions of RR except for the number of claims	**Change in assumptions**	**Effect on insurance obligations other than life insurance**	**Effect on the reinsurers' share in insurance obligations other than life insurance**	**Effect on profit before tax**	**Effect on equity**
The average cost of insurance claims	− 10%	(97)	-	97	77
	+ 10%	97	-	(97)	(77)
The average number of claims	− 10%	(97)	-	97	77
	+ 10%	97	-	(97)	(77)

32 Management of Capital

The Group's objectives when managing capital are (i) for the Bank to comply with the capital requirements set by the Central Bank of Russian Federation (CBRF), (ii) for the Insurance Company to comply with the capital requirements set by the legislation of the Russian Federation, (iii) for the Group to comply with the financial covenants set by the terms of securities issued; (iv) to safeguard the Group's ability to continue as a going concern.

The Group considers total capital under management to be equity attributable to shareholders of the Company as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2019 was RR 95,979 million (31 December 2018: RR 42,014 million).

Compliance with capital adequacy ratios set by the CBRF is monitored daily and submitted to the CBRF monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually. The amount of regulatory capital of Tinkoff Bank calculated in accordance with the methodology set by CBRF as at 31 December 2019 was RR 99,731 million, and the equity capital adequacy ratio (N1.0) was 12.12% (31 December 2018: RR 74,375 million and 13.92%). Minimum required statutory equity capital adequacy ratio (N1.0) was 8% as at 31 December 2019 (31 December 2018: 8%).

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

32 Management of Capital (Continued)

The Group also monitors capital requirements including capital adequacy ratio under the Basel III methodology of the Basel Committee on Banking Supervision: global regulatory framework for more resilient banks and banking systems (hereinafter "Basel III"). The composition of the Group's capital calculated in accordance with the methodology set by Basel Committee with capital adjustments as set out in Basel III is as follows:

In millions of RR	31 December 2019	31 December 2018
Share capital	230	188
Share premium	26,998	8,623
Treasury shares	(3,164)	(3,670)
Share-based payment reserve	1,039	1,232
Retained earnings	66,880	36,785
Revaluation reserve for investments in debt securities	3,996	(1,144)
Less intangible assets	(5,435)	(4,223)
Non-controlling interest	103	236
Common Equity Tier 1 (CET1)	**90,647**	**38,027**
Additional Tier 1	18,487	20,644
Tier 1 capital	**109,134**	**58,671**
Total capital	**109,134**	**58,671**
Risk weighted assets (RWA)		
Credit risk	412,741	276,875
Operational risk	152,881	109,818
Market risk	4,603	6,626
Total risk weighted assets (RWA)	**570,225**	**393,319**
Common equity Tier 1 capital adequancy ratio (CET1/ Total RWA), %	**15.90%**	**9.67%**
Tier 1 capital adequacy ratio (Tier 1 capital / Total RWA), %	**19.14%**	**14.92%**
Total capital adequacy ratio (Total capital / Total RWA), %	**19.14%**	**14.92%**

The Group and the Bank have complied with all externally imposed capital requirements throughout the years ended 31 December 2019 and 2018.

The Insurance Company has complied with all capital requirements set by the legislation of the Russian Federation throughout the years ended 31 December 2019 and 2018.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material unprovided losses will be incurred in respect of claims.

Tax contingencies. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods. The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties), if such transactions are not on an arm's length.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. The Company is a tax resident of Cyprus only and full beneficial owner of the Bank and Insurance Company. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate if the CFC is controlled by a legal entity and a rate of 13% if it is controlled by an individual. As a result, management reassessed the Group's tax positions and recognised current tax expense as well as deferred taxes that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group. As at 31 December 2019 and 31 December 2018 no material tax risks were identified.

Future lease payments related to leases where leased asset is of low value at 31 December 2019. The future cash outflows to which the Group is exposed and which are not reflected in the lease liabilities amounted to RR 59 million at 31 December 2019 and relate primarily to leases of assets which are of low value.

Maturity analysis of lease liabilities. The expected maturity analysis of lease liabilities at carrying amounts at 31 December 2019 is presented in the table below.

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Lease liabilities	11	109	111	209	1,254	**1,694**

Compliance with covenants. The Group is subject to certain covenants related primarily to its subordinated perpetual debt. Non-compliance with such covenants may result in negative consequences for the Group. Management believes that the Group was in compliance with all such covenants as at 31 December 2019 and 31 December 2018.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

33 Contingencies and Commitments (Continued)

Credit related commitments and performance guarantees issued. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of credit card loans, guarantees. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down.

Most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses a scoring model to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows.

Outstanding credit related commitments and performance guarantees are as follows:

In millions of RR	**31 December 2019**	**31 December 2018**
Unused limits on credit card loans	168,059	110,478
Credit loss allowance	(2,242)	(2,041)
Total credit related commitments, net of credit loss allowance	**165,817**	**108,437**
Performance guarantees issued	660	44
Provisions	(3)	-
Total performance guarantees issued, net of provisions	**657**	**44**

The total outstanding contractual amount of unused limits on contingencies and commitments liability does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. In accordance with credit card service conditions the Group has a right to refuse the issuance, activation, reissuing or unblocking of a credit card, and is providing a credit card limit at its own discretion and without explaining its reasons.

The following table contains an analysis of credit related commitments by credit quality at 31 December 2019 based on credit risk grades.

In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Credit related commitments				
- Excellent	145,154	-	-	145,154
- Good	12,285	84	-	12,369
- Monitor	10,360	176	-	10,536
Unrecognised gross amount	**167,799**	**260**	**-**	**168,059**
Credit loss allowance	(2,228)	(14)	-	(2,242)
Unrecognised net amount	**165,571**	**246**	**-**	**165,817**

The following table contains an analysis of credit related commitments by credit quality at 31 December 2018 based on credit risk grades.

In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Credit related commitments				
- Excellent	94,144	-	-	94,144
- Good	7,274	71	-	7,345
- Monitor	8,827	162	-	8,989
Unrecognised gross amount	**110,245**	**233**	**-**	**110,478**
Credit loss allowance	(2,024)	(17)	-	(2,041)
Unrecognised net amount	**108,221**	**216**	**-**	**108,437**

Also, the Group may decide to increase or decrease a credit card limit using a scoring model, which is based on the client's behaviour model. Therefore, the fair value of the contractual amount of revocable unused limits on contingencies and commitments is close to zero. Credit related commitments are denominated in RR.

The following table contains an analysis of performance guarantees issued by credit quality based on credit risk grades.

In millions of RR	**2019 Stage 1 (12-months ECL)**	**2018 Stage 1 (12-months ECL)**
Performance guarantees issued		
- Excellent	415	44
- Good	245	-
Unrecognised gross amount	**660**	**44**
Provisions	(3)	-
Unrecognised net amount	**657**	**44**

Mandatory cash balances with the CBRF of RR 3,448 million as at 31 December 2019 (31 December 2018: RR 2,435 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

34 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2019:

In millions of RR	Gross amounts before offsetting	Gross amounts set off in the consolidated statement of financial position	Net amount after offsetting in the consolidated statement of financial position	Amounts subject to master netting and similar arrangements not set off in the consolidated statement of financial position: Financial instruments	Cash collateral	Net amount of exposure
Assets						
Reverse repurchase agreements	20,681	-	20,681	22,369	-	(1,688)
Due from banks	204	-	204	227	-	(23)
Financial derivatives	20	-	20	-	23	(3)
Total assets subject to offsetting, master netting and similar arrangement	**20,905**	**-**	**20,905**	**22,596**	**23**	**(1,714)**
LIABILITIES						
Due to banks	663	-	663	20	-	643
Financial derivatives	227	-	227	-	204	23
Total liabilities subject to offsetting, master netting and similar arrangement	**890**	**-**	**890**	**20**	**204**	**666**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2018:

In millions of RR	Gross amounts before offsetting	Gross amounts set off in the consolidated statement of financial position	Net amount after offsetting in the consolidated statement of financial position	Amounts subject to master netting and similar arrangements not set off in the consolidated statement of financial position: Financial instruments	Cash collateral	Net amount of exposure
Assets						
Reverse repurchase agreements	11,147	-	11,147	12,389	-	(1,242)
Repurchase receivables	1,182	-	1,182	-	1,111	71
Financial derivatives	1,706	-	1,706	-	1,598	108
Total assets subject to offsetting, master netting and similar arrangement	**14,035**	**-**	**14,035**	**12,389**	**2,709**	**(1,063)**
LIABILITIES						
Correspondent accounts and overnight placements of other banks	1,598	-	1,598	1,706	-	(108)
Sale and repurchase agreements	1,111	-	1,111	1,182	-	(71)
Total liabilities subject to offsetting, master netting and similar arrangement	**2,709**	**-**	**2,709**	**2,888**	**-**	**(179)**

As at 31 December 2019 the Group has master netting arrangements with counterparty banks, which are enforceable in case of default. The Group also made margin deposits with clearing house counterparty as collateral for its outstanding derivative positions. The counterparty may set off the Group's liabilities with the margin deposit in case of default (2018: same). The disclosure does not apply to loans and advances to customers and related customer deposits.

35 Transfers of Financial Assets.

The Group transferred financial assets in transactions that did not qualify for derecognition in the current periods.

The table below shows the amount of operations under sale and repurchase agreements which the Group enters into in the normal course of business:

		31 December 2019		31 December 2018	
In millions of RR	Notes	Carrying amount of the assets	Carrying amount of the associated liabilities	Carrying amount of the assets	Carrying amount of the associated liabilities
Debt securities at FVOCI pledged under repurchase agreements	14	-	-	1,182	1,111
Securities of clients pledged under repurchase agreements	14	683	640	-	-
Total		**683**	**640**	**1,182**	**1,111**

In the normal course of business, the Group makes borrowings on interbank market using different financial instruments as collateral to support its everyday operations in terms of liquidity.

The Group also enters into reverse sale and repurchase agreements. The summary of such operations is provided in the table below:

	31 December 2019		31 December 2018	
In millions of RR	Amounts granted under repo agreements	Fair value of securities received as collateral	Amounts granted under repo agreements	Fair value of securities received as collateral
Cash and cash equivalents	20,681	22,369	11,147	12,389
Total	**20,681**	**22,369**	**11,147**	**12,389**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

36 Non-Controlling Interest

The following table provides information about each subsidiary that has non-controlling interest:

In millions of RR	Place of business (and country of incorpo-ration if different)	Proportion of non-con-trolling interest	Proportion of non-con-trolling inter-est's voting rights held	Profit or loss attribu-table to non-con-trolling interest	Accumu-lated non-con-trolling interest in the subsidiary	Dividends paid to non-con-trolling inter-est during the year
Year ended 31 December 2019						
LLC "Cloudpayments"	Russia	5%	5%	1	103	-
Year ended 31 December 2018						
LLC "Cloudpayments"	Russia	45%	45%	34	236	-

The summarised financial information of these subsidiaries was as follows:

In millions of RR	Current assets	Non-cur-rent assets	Current liabilities	Non-cur-rent liabil-ities	Revenue	Profit	Total com-pre-hen-sive income	Cash flows
Year ended 31 December 2019								
LLC "Cloudpayments"	329	301	136	-	512	91	91	2
Year ended 31 December 2018								
LLC "Cloudpayments"	180	376	43	-	226	30	30	23

37 Financial Derivatives

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forwards and swap contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

	31 December 2019		31 December 2018	
In millions of RR	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: discounted notional amounts, at the end of the reporting period, of				
- USD receivable on settlement (+)	8,768	8,888	9,373	-
- USD payable on settlement (-)	(1,570)	(2,664)	(1,146)	(982)
- RR receivable on settlement (+)	1,896	2,971	1,619	1,360
- RR payable on settlement (-)	(8,388)	(9,474)	(7,666)	(596)
- EUR receivable on settlement (+)	-	-	-	596
- EUR payable on settlement (-)	(301)	(294)	(459)	(370)
- GBP payable on settlement (-)	(15)	(17)	(11)	(11)
Fair value of foreign exchange forwards and swaps	**390**	**(590)**	**1,710**	**(3)**

Included in financial derivatives held by the Group as at 31 December 2019 are three outstanding swap contracts with total positive fair value of RR 380 million and three outstanding swap contracts with total negative fair value of RR 586 million (2018: three outstanding swap contracts with total positive fair value of RR 1,706 million).

38 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2019				31 December 2018			
In millions of RR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
Financial derivatives	-	390	-	390	-	1,710	-	1,710
Investments in securities	133,239	1,939	-	135,178	94,647	5,493	-	100,140
Repurchase receivables	-	-	-	-	1,182	-	-	1,182
Total assets recurring fair value measurements	**133,239**	**2,329**	**-**	**135,568**	**95,829**	**7,203**	**-**	**103,032**
LIABILITIES AT FAIR VALUE								
Financial derivatives	-	590	-	590	-	3	-	3
Total liabilities recurring fair value measurements	**-**	**590**	**-**	**590**	**-**	**3**	**-**	**3**

Investments in securities categorised in level 2 are represented by liquid debt securities classified in "Good" credit risk grade.

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

38 Fair Value of Financial Instruments (Continued)

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2019 are as follows:

In millions of RR	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Investments in securities	1,939	Observable quotes for comparable securities adjusted by multiplicator depending on the degree of the market activity	Quotes from the automated fair value system for financial instruments of NSD Price Center*
Foreign exchange swaps and forwards	390	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. EUR Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**2,329**		
LIABILITIES AT FAIR VALUE			
Foreign exchange swaps and forwards	590	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. EUR Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**590**		

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2018 are as follows:

In millions of RR	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Investments in securities	5,493	Observable quotes for comparable securities adjusted by multiplicator depending on the degree of the market activity	Quotes from the automated fair value system for financial instruments of NSD Price Center*
Foreign exchange swaps and forwards	1,710	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**7,203**		
LIABILITIES AT FAIR VALUE			
Foreign exchange swaps and forwards	3	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**3**		

* NSD Valuation Center is a fair value measurement service for bonds and other financial instruments, accredited by the CBRF.

There were no changes in the valuation techniques for level 2 recurring fair value measurements during the year ended 31 December 2019. Level 2 derivatives comprise foreign exchange forwards and swaps.

The foreign exchange forwards have been fair valued using forward exchange rates that are quoted in an active market. Foreign exchange swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for level 2 derivatives.

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2019				31 December 2018			
In millions of RR	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS CARRIED AT AMORTISED COST								
Cash and cash equivalents								
- Cash on hand	11,118	-	-	11,118	5,839	-	-	5,839
- Cash balances with the CBRF (other than mandatory reserve deposits)	-	16,599	-	16,599	-	11,158	-	11,158
- Placements with other banks and non-bank credit organizations with original maturities of less than three months	-	30,079	-	30,079	-	16,805	-	16,805
Mandatory cash balances with the CBRF	-	3,448	-	3,448	-	2,435	-	2,435
Due from other banks	-	2,084	-	2,084	-	776	-	776
Loans and advances to customers	-	-	329,340	329,175	-	-	199,041	198,489
Guarantee deposits with payment systems	-	-	8,877	8,877	-	-	4,603	4,603
Other financial assets								
Settlement of operations with plastic cards receivable	-	16,384	-	16,384	-	12,694	-	12,694
Other receivables	-	5,289	-	5,289	-	2,948	-	2,948
Total financial assets carried at amortised cost	**11,118**	**73,883**	**338,217**	**423,053**	**5,839**	**46,816**	**203,644**	**255,747**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

38 Fair Value of Financial Instruments (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	31 December 2019				31 December 2018			
In millions of RR	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST								
Due to banks								
Customer accounts	-	663	-	663	-	2,708	-	2,708
Individuals								
-Current/demand accounts	-	211,661	-	211,661	-	137,637	-	137,637
-Term deposits	-	139,114	-	137,292	-	102,829	-	100,227
SME								
-Current/demand accounts	-	60,174	-	60,174	-	41,702	-	41,702
-Term deposits	-	1,879	-	1,880	-	-	-	-
Other legal entities								
-Current/demand accounts	-	495	-	495	-	552	-	552
-Term deposits	-	112	-	112	-	847	-	798
Debt securities in issue								
RR Bonds issued on domestic market	24,442	-	-	23,618	5,919	-	-	5,851
Euro-Commercial Paper	-	2,460	-	2,460	-	3,754	-	3,754
Subordinated debt								
Perpetual subordinated bonds	19,604	-	-	18,487	20,505	-	-	20,644
Other financial liabilities								
Settlement of operations with plastic cards	-	6,427	-	6,427	-	4,904	-	4,904
Trade payables	-	4,621	-	4,621	-	3,189	-	3,189
Credit related commitments	-	-	-	2,242	-	-	-	2,041
Other financial liabilities	-	1,358	-	1,358	-	1,067	-	1,067
Total financial liabilities carried at amortised cost	**44,046**	**428,964**	**-**	**471,490**	**26,424**	**299,189**	**-**	**325,074**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

As at 31 December 2019 and 31 December 2018 the fair value of the debt securities in issue and subordinated debt has been calculated based on quoted prices from the Moscow Exchange MICEX-RTS and Global Exchange Market, where the Group's debt securities are listed and traded.

Weighted average discount rates used in determining fair value as of 30 December 2019 and 2018 are disclosed below:

In % p.a.	31 December 2019	31 December 2018
Assets		
Cash and cash equivalents	0.0	0.0
Due from other banks	5.2	5.9
Loans and advances to customers	37.2	42.7
Investments in securities	4.9	5.5
Repurchase receivables	-	4.3
Liabilities		
Due to banks	0.2	6.0
Customer accounts	3.9	4.4
Debt securities in issue	7.5	7.6
Subordinated debt	6.8	9.8

39 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) financial assets at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets measured at FVTPL mandatorily, and (ii) assets designated as such upon initial recognition.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2019:

In millions of RR	AC	FVTPL	FVOCI	Total
Cash and cash equivalents				
- Cash on hand	11,118	-	-	11,118
- Cash balances with the CBRF (other than mandatory reserve deposits)	16,599	-	-	16,599
- Placements with other banks and non-bank credit organizations with original maturities of less than three months	30,079	-	-	30,079
Mandatory cash balances with the CBRF	3,448	-	-	3,448
Due from other banks	2,084			2,084
Loans and advances to customers	329,175	-	-	329,175
Financial derivatives	-	390	-	390
Guarantee deposits with payment systems	8,877	-	-	8,877
Investment in securities	-	413	134,765	135,178
Other financial assets				
- Settlement of operations with plastic cards receivable	16,384	-	-	16,384
- Other receivables	5,289	-	-	5,289
TOTAL FINANCIAL ASSETS	**423,053**	**803**	**134,765**	**558,621**

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

39 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2018:

In millions of RR	AC	FVTPL (mandatory)	FVOCI	Total
Cash and cash equivalents				
- Cash on hand	5,839	-	-	5,839
- Cash balances with the CBRF (other than mandatory reserve deposits)	11,158	-	-	11,158
- Placements with other banks and non-bank credit organizations with original maturities of less than three months	16,805	-	-	16,805
Mandatory cash balances with the CBRF	2,435	-	-	2,435
Due from other banks	776	-	-	776
Loans and advances to customers	198,489	-	-	198,489
Financial derivatives	-	1,710	-	1,710
Guarantee deposits with payment systems	4,603	-	-	4,603
Investment in debt securities	-	5,666	94,474	100,140
Repurchase receivables	-	-	1,182	1,182
Other financial assets				
- Settlement of operations with plastic cards receivable	12,694	-	-	12,694
- Other receivables	2,948	-	-	2,948
TOTAL FINANCIAL ASSETS	**255,747**	**7,376**	**95,656**	**358,779**

As of 31 December 2019 and 2018 all of the Group's financial liabilities except derivatives were carried at amortised cost.

40 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can 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. The outstanding balances with related parties were as follows:

	31 December 2019		31 December 2018	
In millions of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
ASSETS				
Gross amounts of loans and advances to customers (contractual interest rate: 11.7-25.7% (31 December 2018: 11.7-27.8%))	437	150	9	100
Other financial assets	-	843	-	431
TOTAL ASSETS	**437**	**993**	**9**	**531**
LIABILITIES				
Customer accounts (contractual interest rate: 0.5-7.2% (31 December 2018: 3.8-4.2% p.a.))	1,779	227	1,349	905
Debt securities in issue (yield: 1.0-3.6% (31 December 2018: 1.3-9.5%))	-	2,460	-	3,754
Other non-financial liabilities	521	-	888	-
TOTAL LIABILITIES	**2,300**	**2,687**	**2,237**	**4,659**
EQUITY				
Share-based payment reserve				
- Management long-term incentive program	930	-	1,102	-
TOTAL EQUITY	**930**	**-**	**1,102**	**-**

Other related parties in the tables above are represented by entities which are under control of the Group's ultimate controlling party Oleg Tinkov.

The income and expense items with related parties were as follows:

	2019		2018	
In millions of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
Interest income calculated using the effective interest rate method	2	27	3	-
Interest expense calculated using effective interest rate method	(64)	(101)	(46)	(165)
Net gains/(losses) from foreign exchange translation	-	31	-	(69)
Other operating income	-	49	-	18
Administrative and other operating expenses	(1,913)	(173)	(2,273)	(89)

31 DECEMBER 2019

Notes to the Consolidated Financial Statements (Continued)

40 Related Party Transactions (Continued)

Key management compensation is presented below:

In millions of RR	2019	2018
Short-term benefits:		
- Salaries	906	792
- Short-term bonuses	586	917
Long-term benefits:		
- Management long-term incentive programme	421	564
Total	**1,913**	**2,273**

Management long-term incentive program. On 31 March 2016 the Group introduced a MLTIP as both a long-term incentive and a retention tool for the management of the Group.

On 15 January 2019 the Group granted GDRs to new participants in MLTIP which resulted the total number of GDRs attributable to the Management of 9,940 thousand as at 31 December 2019 (31 December 2018: 9,849 thousand).

Participants of the program receive the vested parts of their grants provided that they are employed by the Group during the vesting period. Participants are entitled to the dividends, if any. Participants who leave the Group lose their right for the unvested parts of the grants.

The fair value of the awards as at grant dates (31 March 2016, 8 February 2017, 22 February 2018 and 15 January 2019) is determined on the basis of market quotes of GDRs as at those dates.

Each grant is divided into 4 equal awards, each award is vested during 4 years in delivered equal tranches. The delivery dates as of which the GDRs are allowed to be sold by the participants correspond to the vesting dates at 14 April 2016 and each subsequent 31 March (with exception of 2019 when the vesting date for all participants was 31 January 2019) until 2022 for participants joining in 2016, until 2023 for participants joining in 2017, then until 2024 for participants joining in 2018, and until 2025 for participants joining in 2019.

The following table disclose the changes in the numbers of GDRs attributable to the MLTIP between the beginning of the program and the end of the reporting period:

In thousands	Number of GDRs attributable to the MLTIP
Granted during the year	7,425
Vested during the year	(464)
At 31 December 2016	**6,961**
Granted during the year	2,270
Vested during the year	(1,326)
Forfeited during the year	(60)
At 31 December 2017	**7,845**
Granted during the year	154
Vested during the year	(1,805)
Forfeited during the year	(16)
At 31 December 2018	**6,178**
Granted during the year	91
Vested during the year	(2,419)
Forfeited during the year	(68)
At 31 December 2019	**3,782**

41 Events after the End of the Reporting Period

In February 2020 the Group announced plans to invest in a new venture project to set up a fintech company providing a range of services to retail customers in Europe (excluding CIS). The startup will offer non-credit financial products. The project is due to launch in 2020, with the Company as its key seed investor. The Company will have a controlling interest in the new venture. The Company's initial commitment is up to Euro 25 million and will be contributed in tranches as the venture develops.

On 10 March 2020 the Board of Directors declared an interim dividend in line with the current dividend policy of USD 0.21 per share/per GDR with a total amount allocated for dividend payment of around USD 41.9 million.

31 DECEMBER 2019

TCS Group Holding PLC

International Financial Reporting Standards Separate Financial Statements and Independent Auditor's Report

Contents

Board of Directors and other officers

Board of Directors

Constantinos Economides, Chairman
Alexios Ioannides
Mary Trimithiotou
Jacques Der Megreditchian
Martin Robert Cocker

The above all served throughout 2019 and through to the date of these separate financial statements. Philippe Delpal retired from the Board on 16 August 2019.

The Company's Articles of Association include regulations for the retirement by rotation of Directors at each annual general meeting. These regulations will operate in 2020 on the basis of the composition of the Board at the relevant date.

Company Secretary Caelion Secretarial Limited

25 Spyrou Araouzou
Berengaria 25, 5th floor,
3036, Limassol, Cyprus

Registered office

25 Spyrou Araouzou
Berengaria 25, 5th floor,
3036, Limassol, Cyprus

31 DECEMBER 2019

Management Report

1. The Board of Directors presents its report together with the audited separate financial statements of TCS Group Holding PLC (the "Company") for the year ended 31 December 2019.

Principal activities and nature of operations of the Company

2. The principal activities of the Company are holding of investments in subsidiary companies operating in the Russian Federation and offering call center services to customers and potential customers in the Russian Federation following the launch of Cyprus based home call center. The main subsidiaries are JSC "Tinkoff Bank" (the "Bank"), JSC "Tinkoff Insurance" (the "Insurance company"), LLC "Phoenix", LLC "CloudPayments", LLC "Tinkoff Mobile", Tinkoff Software DC, LLC "Fintech DC" and LLC "Tinkoff Capital" (the Company and its subsidiaries collectively the "Group"). Refer to Note 1.

3. The Bank specialises in retail banking for individuals, individual entrepreneurs ("IE"), small and medium-sized enterprises ("SME") and brokerage services. The Bank, which is fully licensed by the Central Bank of Russia, launched its operations in the Summer of 2007 and is a member of the Russian Deposit Insurance System. The Insurance Company specialises in providing non-life insurance coverage such as accident, property, travel, credit protection and auto insurance. LLC "Phoenix" is a debt collection agency. LLC "CloudPayments" is a developer of online payment solutions whose core business is online merchant acquiring in Russia. LLC "Tinkoff Mobile" is a mobile virtual network operator set up in 2017 to provide mobile services. Tinkoff Software DC provides software development services to the Group. The founder and controlling shareholder of the Company is Oleg Tinkov.

Review of developments, position and performance of the Company's business

4. During 2019 the Company actively continued the development of its call center and software development services in Cyprus. The Company continues to increase its call center work force, providing training so that these employees can provide services to Tinkoff Bank and, indirectly, its customers.

5. The Bank operates a flexible business model. Its virtual network enables it to quickly and easily increase business or slow down customer acquisition depending upon the availability of funding and market conditions. The Bank's primary customer acquisition channels are Internet and Mobile, but it also uses Direct Sales Agents and partnerships (co-brands) to acquire new customers. These customer acquisition models, combined with the Bank's virtual network, afford it a geographic reach across all of Russia's regions resulting in a highly diversified portfolio.

6. During 2019 the Company completed a secondary public offering ("SPO") of its "class A" shares in the form of Global Depositary Receipts (GDRs) raising by RR 18,916 million (USD 300 million) gross of costs. This provides additional necessary capital to take advantage of profitable growth opportunities whilst maintaining sufficient capital buffers for the future (Note 1 and 13).

7. The key offerings of JSC "Tinkoff Insurance" are personal accident insurance, collective insurance against accidents and illnesses, travel insurance, motor vehicle insurance and property insurance, compulsory third party liability insurance (CTP) and voluntary third party liability insurance (VTP). The Insurance Company focuses on online sales.

8. The profit of the Company for the year ended 31 December 2019 was RR 15,816 million (2018: loss of RR 23 million). On 31 December 2019 the total assets of the Company were RR 263,567 million (2018: RR 222,216 million) and the net assets were RR 260,273 million (2018: RR 193,046 million). On 20 December 2019 the Company issued two tranches of Euro-Commercial Paper (ECP) denominated in USD and EUR maturing on 20 November 2020. The USD denominated ECP has a nominal value of USD 10 million with a discount of 3.6% and the EUR denominated ECP has a nominal value of EUR 15 million with a discount of 1.0%. On 19 February 2019 the Company issued Euro-Commercial Paper (ECP) denominated in EUR maturing on 18 February 2020 with a nominal value of EUR 12 million and at a discount of 1.25%. During 2019 the Company distributed dividends in accordance with its dividend policy in the amount of RR 5,856 million (2018: RR 12,265 million).

Environmental matters

9. As the Group, and, by extension the Company is an online-only financial institution, the management of the Company believes that none of the Company's business relationships, products or services are likely to have any significant actual or potential significant environmental impacts and do not believe its operations are exposed to any material environmental risks. Management, in reaching this view, have taken into account the risk of adverse impacts that may stem from the Company's own activities as well as its business relationships including its supply and subcontracting chains. This belief is based on continuous scrutiny of the business. The Company is continuously reviewing its processes to identify opportunities to reduce their environmental impact.

Human resources

10. Empowerment is an important ingredient in the success of our organization. To achieve this, decision making is delegated to the levels deep below the management team; discussion, idea generation and exchange and transparency is actively promoted and encouraged; and an open leadership style ensures that information can move freely. The Company utilizes all types of forums to promote continual dialogue – such as email, online chat rooms, flash meetings, as well as formalized meeting structures. The Company offers a clear far-reaching career path for its employees, a unique work environment and a fair and transparent compensation.

11. Clear performance evaluation processes and fair compensation are essential. Compensation is a combination of fixed rate salary and supplemental bonuses and is based on employee performance. Employees are evaluated on a regular basis in order to monitor their achievement against their Key Performance Indicators as well as to provide feedback which can be used for their career development and to determine incentive compensation.

12. Prior to its IPO in 2013, the Company set up share-based management long term incentive plans ('MLTIP') as retention and motivational tools for key and senior managers of the Company's subsidiaries. In March 2016, the Company announced a consolidated long-term management incentive and retention plan, covering around 50 key, senior and middle managers. Since then the number of participants has increased to over 80. Total size of the MLTIP pool is 5.4% of the Company's share capital as at 31 December 2018 before the SPO (Note 13). The plan is designed to align more closely managers' interests with those of shareholders to grow the Company's value. The plan is awarded over four years with each such annual award vesting over the subsequent three years. The Company believes that participation in its share capital is an effective motivation and retention tool. The new management incentive and retention plan now embraces more managers, for two main reasons: firstly, internal promotions as some employees were promoted to key managerial positions; and, secondly, as part of its expansion and transformation into a financial marketplace, the Bank and other companies of the Group have hired a significant number of new managers to develop and manage new business lines and to strengthen internal controls, including cyber security.

Non-Financial Information and Diversity Statement

13. The Company's policies and other information that provide an understanding of the development, performance, position and impact of the Company's activities in the areas of environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters can be found in the Company's most recently published Non-Financial Information and Diversity Statement. The Company will publish its Non-Financial Information and Diversity Statement for the year ended 2019, on the Company's website, www.tcsgh.com.cy (and www.tinkoff.ru/eng) no later than 30 June 2020.

Principal risks and uncertainties

14. The Company's business and financial results are impacted by the uncertainties and volatilities in the Russian economic environment which can be impacted by global factors and/or by national factors.

15. The Company's subsidiaries and the Company on its own are subject to a number of principal risks which might adversely impact its performance. The principal activities of the Company through its subsidiaries are banking and insurance operations and so it is within this area that the principal risks occur. Management considers that those principal risks are: financial risks, operational risks and legal risks. Financial risks comprise market risks (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

16. The Board has put in place arrangements to identify, evaluate and manage the principal risks and uncertainties faced by the Company. The Company has an established risk management program that focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. This is overseen by a dedicated Risk Management function, which works with senior management of the operating companies in Russia as well as the Board of Directors in this area. The primary objectives of the financial risk management function are to establish acceptable risk limits, and then ensure that the exposures remain within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures that minimize operational and legal risks. The risk management strategy is established so as to identify, assess, monitor and manage the risks arising from Company's and subsidiaries' activities. These risks as well as other risks and uncertainties, which affect the Company and how these are managed, are presented in Notes 19 and 20 of the separate financial statements.

31 DECEMBER 2019

Management Report (Continued)

17. In addition, late in 2019, news first emerged from China about the COVID-19 (Coronavirus). At the end of 2019 a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally resulting in an announcement of pandemic status by the World Health Organization in March 2020.

    Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have had a significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on the business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Company's subsidiaries may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the impact of COVID-19 on the subsidiaries' business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these separate financial statements, to date there has been no discernible impact on the Group's business, however the future effects cannot be predicted. As the situation is rapidly evolving, we do not consider it is practicable at present to determine a quantitative estimate of the potential impact of this outbreak on the Group.

    Management will continue to monitor the potential impact and will take steps to mitigate any effects where required. Further discussion of the potential impact on the Group of COVID 19 together with the responses of management are detailed in Note 2.

Contingencies

18. The Company's contingencies are disclosed in Note 20 to the separate financial statements.

Future developments

19. The strategic objective for the Group and so, by extension, the Company is to be a full service, online financial and lifestyle ecosystem with a broad range of financial, insurance and quasi-financial products, serving customers through a high-tech online and mobile platform that offers premium quality service and convenience, while maintaining high growth rates, profitability and effective data-driven risk management.

Results

20. The Company's results for the year are set out on page 2 of the separate financial statements. Information on distribution of profits is presented in Note 17.

Any important events for the Company that have occurred after the end of the financial year

21. Important events for the Company that have occurred after the end of the financial year are presented in Note 24.

Share capital

22. In June 2019 the Company's shareholders approved a resolution to increase the authorised share capital to USD 8,401,385.92 by the creation of 18,263,882 new undesignated ordinary shares of nominal value USD 0.04 each. At 31 December 2019 the total number of authorised shares is 210,034,648 shares (31 December 2018: 191,770,766 shares) with a par value of USD 0.04 per share (31 December 2018: USD 0.04 per share).

23. On 2 July 2019 the Company completed a SPO on the London Stock Exchange plc and issued 16,666,667 "Class A" shares of the Company in the form of GDRs at a price of USD 18.00 per GDR (RR 1,135 per GDR), raising aggregate gross proceeds of USD 300 million (RR 18,916 million) which would ensure the necessary capital to seize the current profitable growth opportunities whilst maintaining ample capital buffers in the future.

24. As at 31 December 2019 the number of issued "class A" shares is 119,291,268 and issued "class B" shares is 80,014,224 (31 December 2018: the number of issued "class A" shares is 96,239,291 and issued "class B" shares is 86,399,534).

Research and development activities

25. The Company has not undertaken any significant research and development activities during the year ended 31 December 2019 though it continues to identify opportunities and ways to further develop its business in line with its strategic objective as set out above.

Treasury shares

26. At 31 December 2019 the Group held 4,185,166 (2018: 6,604,353) of its own GDRs, equivalent to approximately RR 3,164 million (2018: RR 3,670 million) and which represent 2.1% (2018: 3.6%) of the issued shares.

27. Treasury shares are GDRs of TCS Group Holding PLC that are held by a special purpose trust which has been specifically created for the long-term incentive programme for the management of the Company's subsidiaries (MLTIP) (see Note 23 for further information).

28. In 2019, the Company repurchased no GDRs (2018: the Company repurchased 2,094,126 GDRs at market price for RR 2,455 million representing 1.1% of the issued share capital).

29. During 2019 the Company transferred 2,419,187 GDRs (2018: 1,804,894 GDRs), representing 1.21% (2018: 1.0%) of the issued shares, upon vesting under the MLTIP. This resulted in a transfer of RR 506 million (2018: RR 372 million) out of treasury shares to retained earnings.

Board of Directors

30. The members of the Board of Directors as of 31 December 2019 and at the date of this report are presented above. All served throughout the year ended 31 December 2019 and through to the date of these separate financial statements, except from Philippe Delpal, who retired from the Board on 16 August 2019.

31. There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Branches

32. The Company did not operate through any branches during the year.

Independent auditor

33. The Independent Auditor, PricewaterhouseCoopers Limited, has expressed its willingness to continue in office. A resolution giving authority to the Board of Directors to fix its remuneration will be proposed at the Annual General Meeting.

Going concern

34. Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the separate financial statements based on the fact that, after making enquiries and following a review of the Company's budget for 2020, including cash flows and funding facilities, the Directors consider that the Company has adequate resources to continue in operation for the foreseeable future. This assessment was made with the available information to the Company as at the date of approving the financial statements.

Crporate Governance Statement

GDRs of TCS Group Holding PLC, with each GDR issued under a deposit agreement dated on or about 24th October 2013 with JPMorganChase Bank N.A. as depositary representing one Class A share, are listed on the London Stock Exchange. The Company's GDRs are also listed on the Moscow Exchange. No shares of TCS Group Holding PLC are listed on any exchange.

The Company is required to comply with the UK corporate governance regime to the extent it applies to foreign issuers of GDRs listed on the London Stock Exchange. The Company has not adopted corporate governance measures of the same standard in all respects as those adopted by UK incorporated companies or companies with a premium listing on the London Stock Exchange.

As the Class A shares themselves are not listed on the Cyprus Stock Exchange (or elsewhere), the Cypriot corporate governance regime, which only relates to companies that are listed on the Cyprus Stock Exchange, does not apply to the Company and accordingly the Company does not monitor its compliance with that regime.

The Company's Home State is Cyprus.

A description of the terms and conditions of the GDRs can be found at 'Terms and Conditions of the Global Depositary Receipts', 'Summary of the Provisions relating to the GDRs whilst still in Master Form' and 'Description of Arrangements to Safeguard the Rights of the Holders of the GDRs' in the Prospectus issued by the Company dated 22 October 2013 and on the website at www.tinkoff.ru/eng. Refer to Note 1 for the description of the rights of each class of shares.

Copies of the Articles of Association of the Company adopted on 21 October 2013, the terms of reference of the Committees, and other corporate governance related as well as investor relations related materials can also be found on the website www.tinkoff.ru/eng, at the Company's main website (www.tcsgh.com.cy), on the Company's page on the London Stock Exchange website (www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary) and at the official site of the Department of Registrar of Companies, Cyprus (http://www.mcit.gov.cy/).

31 DECEMBER 2019

Management Report (Continued)

Board of Directors

The role of the Board is to provide entrepreneurial leadership to the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Company's strategic objectives, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management's performance. The Board also sets the Company's values and standards and ensures that its obligations towards the shareholders and other stakeholders are understood and met.

The Board operates under a formal schedule of matters reserved to the Board for its decision, approved by shareholders in 2013.

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The current five strong Board of Directors is comprised of three executive directors including the chairman, and two non-executive directors both of whom are independent. Other than the retirement of Mr. Philippe Delpal on 16 August 2019, there was no change in the composition of the Board or status of the directors in 2019. The Board of Directors currently contains no B Directors.

The longest serving director is Mr. Constantinos Economides who became a director in 2008, and later took over the role of Chairman of the Board of Directors in June 2015. The names of the people who served on the Board during 2019 are listed at Board of Directors and other officers.

The Company has established two Committees of the Board. Specific responsibilities have been delegated to those committees as described below.

The Board is required to undertake a formal and rigorous review annually of its own performance, that of its committees and of its individual directors. That review was recently carried out, in-house, in relation to 2019, looking at overall performance. All directors completed detailed questionnaires on the Board's, the committees' and the individual director's performance. Analysis of the resultant feedback was discussed at a meeting of the Board of Directors on 10 March 2020, and there were no changes in the performance of the Board, its committees or individual directors.

The Board has not appointed a senior independent director. There are only two independent directors of whom at least one will retire each year. The role of appraising the Chairman of the Board for FY2019 was performed by the Chairman of the Audit Committee.

Committees of the Board of directors

The Company has established two Committees of the Board of Directors: the Audit Committee and the Remuneration Committee. Their terms of reference are summarized below. Both Committees were formed in October 2013. The Board reserves the right to amend their terms of reference and arranges a periodic review of each Committee's role and activities and considers the appropriateness of additional committees.

Committees - current composition

The Audit Committee is chaired by an independent non-executive director Mr Martin Cocker, and had, until 16 August 2019, two other members both non-executive directors, one of whom was independent. From 16 August 2019 the Audit Committee has comprised of its chairman Mr Martin Cocker and one independent non-executive director.

The Remuneration Committee is also chaired by an independent non-executive director, Mr Jacques Der Megreditchian, and had until 16 August 2019 two other members both non-executive directors, one of whom was independent. From 16 August 2019 the Remuneration Committee has comprised of its chairman Mr Jacques Der Megreditchian and one independent non-executive director.

The current terms of reference of both Committees are available to the public and can be found on the Group's website. A short summary of both is set out below.

Role of the Audit Committee

The Audit Committee's primary purpose and responsibility is to assist the Board in its oversight responsibilities. In executing this role the Audit Committee monitors the integrity of the separate financial statements of the Company prepared under International Financial Reporting Standards ("IFRS") and any formal announcements relating to the Group's and the Company's financial performance, reviewing significant financial reporting judgments contained in them, oversees the financial reporting controls and procedures implemented by the Company and monitors and assesses the effectiveness of the Company's internal financial controls, risk management systems, internal audit function, the independence and qualifications of the independent auditor and the effectiveness of the external audit process. The Audit Committee is required to meet at appropriate times in the reporting and audit cycle but in practice meets more often as required.

Under its terms of reference, the Audit Committee is required, at least once each year, to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Audit Committee met this obligation through members participating in the main Board review described above. After consideration of the review, no changes were proposed to the committee's terms of reference. The Audit Committee operates a structured framework around the extensive work it does on non-financial statement matters holding at least two additional meetings annually, at least one of which would be held at the Bank's head office in Moscow, to consider specific, non-financial statement related areas within its terms of reference. One such meeting was held in 2019 with a further two are planned for 2020.

The Audit Committee has developed a risk matrix which constantly evolves to reflect new risks, the perceived impact of, and the Group's appetite for, any given risk and the measures taken to mitigate those risks. This matrix is run in conjunction with the internal audit function.

A new post of chief information security officer was created in late 2017 and filled, with additional personnel expert in cyber-security recruited, in a very competitive market, through 2018 and 2019 to support the Group's ever-increasing efforts to stay ahead of trends and threats in this sphere. The Group has further broadened its top management team with a new chief investment officer and new chief operating officer appointed in 2020 and now in place.

Role of the Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing among other things the framework of remuneration of the executive directors, senior management and its overall cost and the Group's remuneration policies. The objective is to ensure that the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are in a fair and responsible manner rewarded for their individual contributions to the success of the Company. The Remuneration Committee's Terms of Reference include reviewing the design and determining targets for any performance related pay schemes and reviewing the design of all share incentive plans for approval by the Board. The Remuneration Committee is required to meet at least twice a year but in practice meets far more often.

The Remuneration Committee continued with its work into 2019 on its ongoing review of the operation of the Company's MLTIP which launched in 2016 and in considering additional awards to both existing and new participants for this and subsequent years. The Remuneration Committee recommended 10 members of management be invited to join MLTIP in Q1 2019, but made no such recommendations in Q1 2020.

The Committee has also been working on plans for an incentive and compensation plan to supplement MLTIP for when, in the period 2022 to 2024, existing awards made to MLTIP joiners in 2016-2017 start to enter into run off.

Under its terms of reference the Remuneration Committee is required at least once each year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Remuneration Committee met this obligation through members participating in the main Board review (described above) under which detailed questionnaires were completed by all directors assessing the operation of the Board and both committees as well as individual directors. Although earlier reviews had resulted in certain minor changes to the Remuneration Committee's terms of reference, no further changes were felt required based on the most recent review. The Committee continues to meet as required. In 2019 it convened 5 times.

Appointment, retirement, rotation and removal of directors

The directors of the Company are appointed by the general meeting of shareholders with the sanction of an ordinary resolution. Such an appointment may be made to fill a vacancy or as an additional director. But no director may be appointed unless nominated by the Board of Directors or by a committee duly authorized by the Board of Directors or by a shareholder or shareholders together holding or representing shares which in aggregate constitute or represent at least 5% in number of votes carried or conferred by the shares giving a right to vote at a general meeting.

Notwithstanding that, one or more Directors B (a special category of director) may be appointed only by Class B shareholders, together holding or representing Class B shares which constitute or represent in aggregate over 50% in nominal capital paid up on the Class B shares upon serving notice to the Company.

The Board of Directors may at any time appoint any person to the office of director either to fill a vacancy or as an additional director and every such director shall hold office only until the next following annual general meeting and shall not be taken into account in determining the directors who are to retire by rotation.

31 DECEMBER 2019

Management Report (Continued)

One third of the directors (or if their number is not a multiple of three, the number nearest to three but not exceeding one-third) shall retire by rotation at every annual general meeting. Directors holding an executive office and Directors B are excluded from retirement by rotation.

Directors including Directors B may be removed from office by the shareholders at a general meeting with the sanction of an ordinary resolution, subject to giving 28 days' notice to that director in accordance with the Articles of Association. Directors B may at any time be removed from office by Class B shareholders together holding or representing Class B shares which constitute or represent over 50% in nominal capital paid up on the Class B Shares upon giving notice to the Company.

The office of director shall be vacated if the director:

- becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- becomes prohibited from being a director by reason of any court order made under Section 180 (disqualification from holding the position of director on the basis of fraudulent or other conduct) of the Cyprus Companies Law; or
- becomes, or may be, of unsound mind; or
- resigns his office by notice in writing to the Company left at the registered office; or
- is absent from meetings of the Board for six consecutive months without permission of the Board of Directors and his alternate director (if any) does not attend in his place and the Board of Directors resolves that his office be vacated.

At any time when Class B Shares cease to exist by virtue of conversion into Class A Shares, each Director B shall thereby become (undesignated) a director and shall remain in office until the next annual general meeting and such director will not be taken into account in determining the directors who are to retire by rotation at such meeting.

Significant direct/indirect holdings

For the significant direct and indirect shareholdings held in the share capital of the Company, please refer to Note 1 of the separate financial statements.

Internal control and risk management systems in relation to the financial reporting process

Policies, procedures and controls exist around financial reporting. Management is responsible for executing and assessing the effectiveness of these controls.

Financial reporting process

The Board of Directors is responsible for the preparation of the separate financial statements in accordance with IFRS as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error. In preparing the separate financial statements, the Board of Directors is responsible for assessing the Company'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 the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board has delegated to the Audit Committee the responsibility for reviewing the separate financial statements to ensure that they are in compliance with the applicable framework and legislation and for recommending these to the Board for approval. The Audit Committee is responsible for overseeing the Company's financial reporting process.

Internal Controls and Risk Management

Management is responsible for setting the principles in relation to risk management. The risk management organisation is divided between Policy Making Bodies and Policy Implementation Bodies. Policy Making Bodies are responsible for establishing risk management policies and procedures, including the establishment of limits. The main Policy Making Bodies are the Board of Directors, the Management Board, the Finance Committee, the Credit Committee and the Business Development Committee.

In addition the Company has implemented an online analytical processing management system based on a common SAS data warehouse that is updated on a daily basis. The set of daily reports includes but is not limited to sales reports, application processing reports, reports on the risk characteristics of the card portfolios, vintage reports, transition matrix (roll rates) reports, reports on the pre-, early and late collections activities, reports on compliance with CBR requirements, capital adequacy and liquidity reports, operational liquidity forecast reports and information on intra-day cash flows.

Diversity policy

The Company is committed to offering equal opportunity to all current and prospective employees, such that no applicant or employee is discriminated in favour of or against on the grounds of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation in recruitment, training, promotion or any other aspect of employment. Recruitment, training and promotion are exclusively based on merit. All the Company's and the Group's employees involved in the recruitment and management of staff are responsible for ensuring the policy is fairly applied within their areas of responsibility. The Company applies this approach throughout, at all levels. This includes its administrative, management and supervisory bodies, including the Board of Directors of the Company.

The composition and diversity information of the Board of Directors of the Company for the year ended and as at 31 December 2019 is set out below:

Name	Age	Male/Female	Educational/professional background
Constantinos Economides	44	Male	ICAEW, MSc in Management Sciences, experience in 'Big Four' professional services firms
Alexios Ioannides	43	Male	ICAEW, ICPAC, BSc in Business Administration, experience in 'Big Four' professional services firms
Mary Trimithiotou	42	Female	ICPAC, FCCA, Licensed insolvency practitioner, experience in 'Big Four' professional services firms
Martin Robert Cocker	60	Male	ICAEW, BSc in Mathematics and Economics, experience in 'Big Four' professional services firms
Philippe Delpal (resigned on 16 August 2019)	46	Male	BSc in IT, Telecoms and Economics, senior executive experience in banking industry
Jacques Der Megreditchian	60	Male	BSc in Business Administration and in Financial Analysis, banking and finance experience

Further details of the corporate governance regime of the Company can be found on the website: https://www.tinkoff.ru/eng/investor-relations/corporate-governance/.

By Order of the Board

Constantinos Economides

Chairman of the Board
Limassol

9 April 2020

Independent Auditor's Report

To the Members of TCS Group Holding PLC

Report on the Audit of the Separate Financial Statements

Our opinion

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of parent company TCS Group Holding PLC (the "Company") as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the separate financial statements which are presented in pages 1 to 43 and comprise:

- the separate statement of financial position as at 31 December 2019;
- the separate statement of profit or loss and other comprehensive income for the year then ended;
- the separate statement of changes in equity for the year then ended;
- the separate statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the separate financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' 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 separate financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

PricewaterhouseCoopers Ltd, PwC Central, 43 Demostheni Severi Avenue, CY-1080 Nicosia
P O Box 21612, CY-1591 Nicosia, Cyprus
T: +357 - 22 555 000, F:+357 - 22 555 001, www.pwc.com.cy

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality	• Overall materiality: Russian Roubles ("RR") 1 301 million, which approximately represents 0.5% of total equity.
Key audit matters	We have identified the following key audit matter: • Valuation of investments in subsidiaries.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the separate financial statements as a whole.

Overall materiality	RR 1 301 million
How we determined it	Approximately 0.5% of total equity
Rationale for the materiality benchmark applied	The Company is a holding company with limited operations. It elects to measure its investments in subsidiaries at fair value. Therefore, we chose total equity as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users. We chose 0.5%, which in our experience is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RR 65 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investments in subsidiaries	
We focused on this area because the management makes judgements over the fair value of investments in subsidiaries. The estimated fair value of investments in subsidiaries recognises that the majority of the value of TCS Group Holding PLC resides in its main operating subsidiaries JSC "Tinkoff Bank", JSC "Tinkoff Insurance", LLC "Phoenix" and Tinkoff Software DC. Thus in estimating the total fair value of the subsidiaries the primary input is the market quote of the Company's GDRs which are traded on the London and Moscow Stock Exchanges. Other inputs include the estimated fair value of the assets and liabilities held by the Company other than its investments in the subsidiaries. Note 3, Significant Accounting Policies, Note 4, Critical Accounting Estimates and Judgements in Applying Accounting Policies, Note 9, Investments in Equity Securities, and Note 21, Fair Value of Financial Instruments, and Note 24, Events after the End of the Reporting Period, included in the separate financial statements, provide detailed information on the valuation of investments in subsidiaries.	We assessed the reasonableness of the valuation technique followed by management in estimating the total fair value of the investments in subsidiaries. We tested the accuracy of the inputs used in the valuation, with the main input being the market quote of the GDRs of the Company. We also assessed the sensitivity of the valuation to the key inputs used. We also reviewed the appropriateness of the non-adjusting post balance sheet events disclosures in Note 24 in respect of this valuation. Based on the evidence obtained we found the valuation technique and inputs used to be appropriate and the outputs to be reasonable.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report, including the Corporate Governance Statement, which we obtained prior to the date of this auditor's report, and the Company's complete Annual Report, which is expected to be made available to us after that date. Other information does not include the separate financial statements and our auditor's report thereon.

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

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

When we read the Company's complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and if not corrected, we will bring the matter to the attention of the members of the Company at the Company's Annual General Meeting and we will take such other action as may be required.

Responsibilities of the Board of Directors and those charged with governance for the Separate Financial Statements

The Board of Directors is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Board of Directors is responsible for assessing the Company'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 the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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 Company'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 separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Company in 2008 by the members of the Company for the audit of the separate financial statements for the year ended 31 December 2007. Our appointment has been renewed annually, since then, by shareholder resolution. In December 2008 the Company listed Euro denominated bonds on the Swedish Stock Exchange (NASDAQ OMX Stockholm) and accordingly the first financial year after the Company qualified as a a European Union Public Interest Entity was the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 11 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the separate financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 9 April 2020 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Company and which have not been disclosed in the separate financial statements or the management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the separate financial statements.
- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the separate financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matters

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2019.

The engagement partner on the audit resulting in this independent auditor's report is George C. Kazamias.

George C. Kazamias

George C. Kazamias
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
PwC Central, 43 Demostheni Severi Avenue,
CY-1080 Nicosia Cyprus

9 April 2020

31 DECEMBER 2019

Separate Statement of Financial Position

In millions of RR	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	7	598	761
Loans and deposit placements with related parties	8	5,594	379
Financial derivatives		-	86
Tangible fixed assets and right-of-use assets		4	2
Investments in debt securities		-	425
Investments in equity securities	9	257,293	219,249
Other financial assets		64	1,300
Other non-financial assets		14	14
TOTAL ASSETS		**263,567**	**222,216**
LIABILITIES			
Loans received	10	-	23,243
Debt securities in issue	11	2,460	3,754
Financial derivatives		-	1
Deferred income tax liabilities		168	1,187
Other financial liabilities	12	81	222
Other non-financial liabilities	12	585	763
TOTAL LIABILITIES		**3,294**	**29,170**
EQUITY			
Share capital	13	230	188
Share premium	13	26,998	8,623
Treasury shares	13	(3,164)	(3,670)
Share-based payment reserve		1,039	1,232
Accumulated losses		(10,901)	(20,861)
Revaluation reserve		246,071	207,534
TOTAL EQUITY		**260,273**	**193,046**
TOTAL LIABILITIES AND EQUITY		**263,567**	**222,216**

Approved for issue and signed on behalf of the Board of Directors on 9 April 2020.

Constantinos Economides
Director

Mary Trimithiotou
Director

The notes № 1-24 are an integral part of these Separate Financial Statements.

Separate Statement of Profit or Loss and Other Comprehensive Income

In millions of RR	Note	2019	2018
Interest income calculated using the effective interest rate method	14	272	107
Other similar income	14	28	84
Interest expense calculated using the effective interest rate method	14	(732)	(1,404)
Net interest expense		**(432)**	**(1,213)**
Credit loss allowance for debt financial instruments		-	(19)
Net interest expense after credit loss allowance		**(432)**	**(1,232)**
Dividend income	9	17,158	1,351
Net (losses)/gains from derivatives revaluation		(678)	538
Net gains/(losses) from foreign exchange translation		477	(560)
Net gains from operations with foreign currencies		111	195
Net gains/(losses) from debt instruments at FVTPL		31	(112)
Net gains from disposals of debt securities at FVOCI		-	90
Administrative and other operating expenses	15	(251)	(347)
Other operating income		284	140
Profit before tax		**16,700**	**63**
Income tax expense	16	(884)	(86)
Profit/(loss) for the year		**15,816**	**(23)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Debt securities at FVOCI:			
- Net gains arising during the year, net of tax		-	78
- Net gains reclassified to profit or loss upon disposal, net of tax		-	(79)
Items that will not be reclassified subsequently to profit or loss:			
Net gains arising during the year on investments in equity securities at fair value through other comprehensive income		37,362	10,148
Income tax credit/(charge) recorded directly in other comprehensive income		1,019	(622)
Other comprehensive income for the year, net of tax		**38,381**	**9,525**
Total comprehensive income for the year		**54,197**	**9,502**

The notes № 1-24 are an integral part of these Separate Financial Statements.

31 DECEMBER 2019

Separate Statement of Changes in Equity

In millions of RR	Note	Share capital	Share premium	Revaluation reserve	Share-based payment	Accumulated (losses)/income	Treasury shares	Total
Balance at 31 December 2017		**188**	**8,623**	**197,717**	**1,286**	**(8,593)**	**(1,587)**	**197,634**
Effect of initial application of IFRS 9 – ECL remeasurement, net of tax		-	-	1	-	(1)	-	-
Effect of initial application of IFRS 9 – other		-	-	(21)	-	21	-	-
Restated balance at 1 January 2018		**188**	**8,623**	**197,697**	**1,286**	**(8,573)**	**(1,587)**	**197,634**
Loss for the year		-	-	-	-	(23)	-	(23)
Other comprehensive income:								
Investments in equity securities at FVOCI		-	-	10,148	-	-	-	10,148
Investments in debt securities at FVOCI				(1)	-	-	-	(1)
Income tax charge recorded directly in other comprehensive income		-	-	(622)	-	-	-	(622)
Total comprehensive income for the year		**-**	**-**	**9,525**	**-**	**(23)**	**-**	**9,502**
GDRs buy-back	13	-	-	-	-	-	(2,455)	(2,455)
Share-based payment reserve	13	-	-	312	(54)	-	372	630
Dividends	17	-	-	-	-	(12,265)	-	(12,265)
Balance at 31 December 2018		**188**	**8,623**	**207,534**	**1,232**	**(20,861)**	**(3,670)**	**193,046**
Profit for the year		-	-	-	-	15,816	-	15,816
Other comprehensive income:								
Investments in equity securities at FVOCI		-	-	37,362	-	-	-	37,362
Income tax credit recorded directly in other comprehensive income		-	-	1,019	-	-	-	1,019
Total comprehensive income for the year		**-**	**-**	**38,381**	**-**	**15,816**	**-**	**54,197**
Shares issued	13	42	18,874	-	-	-	-	18,916
Secondary public offering costs	13	-	(499)	-	-	-	-	(499)
Share-based payment reserve	13	-	-	156	(193)	-	506	469
Dividends	17	-	-	-	-	(5,856)	-	(5,856)
Balance at 31 December 2019		**230**	**26,998**	**246,071**	**1,039**	**(10,901)**	**(3,164)**	**260,273**

The notes № 1-24 are an integral part of these Separate Financial Statements.

Separate Statement of Cash Flows

In millions of RR	Note	2019	2018
Cash flows used in operating activities			
Interest income calculated using the effective interest rate method received		248	78
Other similar income received		-	71
Interest expense calculated using the effective interest rate method paid		(741)	(998)
Administrative and other operating expenses paid		(456)	(532)
Income tax paid		(26)	(20)
Cash (paid)/received from operations with financial derivatives		(651)	342
Cash received from trading in foreign currencies		111	195
Other operating income received		300	-
Cash flows used in operating activities before changes in operating assets and liabilities		**(1,215)**	**(864)**
Changes in operating assets and liabilities			
Net (increase)/decrease in loans and deposit placement with related parties		(5,215)	199
Net decrease in investments in debt securities at FVTPL		410	466
Net decrease in other non-financial liabilities		(373)	(144)
Net cash used in operating activities		**(6,393)**	**(343)**
Cash flows from/(used in) investing activities			
Dividend received from subsideries		17,583	-
Acquisition of debt securities at FVOCI		(21,317)	(12,545)
Proceeds from sale and redemption of debt securities at FVOCI		21,312	12,667
Acquisition of investments in equity securities at FVOCI		(416)	(606)
Proceeds from investments in equity securities at FVOCI		206	-
Acquisition of tangible fixed assets		-	(2)
Net cash generated from/(used in) investing activities		**17,368**	**(486)**
Cash flows (used in)/from financing activities			
Proceeds from secondary public offering	13	18,916	-
Secondary public offering costs paid	13	(499)	-
Proceeds from debt securities in issue	18	2,527	3,622
Repayment of debt securities in issue	18	(3,418)	(3,204)
Loans repaid	18	(23,092)	-
Loans received	10	-	14,955
Dividends paid	17	(5,601)	(11,946)
Repayment of principal of lease liabilities		(3)	-
GDR buy back	13	-	(2,455)
Net cash (used in)/generated from financing activities		**(11,170)**	**972**
Effect of exchange rate changes on cash and cash equivalents		32	233
Net (decrease)/increase in cash and cash equivalents		**(163)**	**376**
Cash and cash equivalents at the beginning of the year	**7**	**761**	**385**
Cash and cash equivalents at the end of the year	**7**	**598**	**761**

The notes № 1-24 are an integral part of these Separate Financial Statements.

31 DECEMBER 2019

Notes to the Separate Financial Statements

1 Introduction

These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") for the year ended 31 December 2019 for TCS Group Holding PLC (the "Company"), and in accordance with the requirements of the Cyprus Companies Law, Cap.113. The Company has also prepared and issued consolidated financial statements for the year ended 31 December 2019.

The Company was incorporated, and is domiciled, in Cyprus in accordance with the provisions of the Companies Law, Cap.113.

The Board of Directors of the Company at the date of authorisation of these of these separate financial statements consists of: Constantinos Economides, Alexios Ioannides, Mary Trimithiotou, Jacques Der Megreditchian and Martin Robert Cocker.

The Company Secretary is Caelion Secretarial Limited, 25 Spyrou Araouzou, 25 Berengaria, 5th floor, Limassol, Cyprus.

At 31 December 2019 and 2018 the share capital of the Company is comprised of "class A" shares and "class B" shares. A "class A" share is an ordinary share with a nominal value of USD 0.04 per share and carrying one vote. A "class B" share is an ordinary share with a nominal value of USD 0.04 per share and carrying 10 votes. As at 31 December 2019 the number of issued "class A" shares is 119,291,268 and issued "class B" shares is 80,014,224 (31 December 2018: the number of issued "class A" shares is 96,239,291 and issued "class B" shares is 86,399,534). Refer to Note 13 for the information about main changes during the year in the number of "class A" and "class B" shares.

On 25 October 2013 the Company completed an initial public offering of its "Class A" ordinary shares in the form of global depository receipts (GDRs) listed on the London Stock Exchange plc. On 2 July 2019 the Company completed a secondary public offering (SPO) of its "class A" shares in the form of GDRs. Refer to Note 13 for the information about SPO. On 28 October 2019 the Company's GDRs started trading also on the Moscow Exchange.

As at 31 December 2019 and 2018 the entities and the individuals holding either Class A or Class B shares of the Company were:

	Class of shares	31 December 2019	31 December 2018	Country of Incorporation
Guaranty Nominees Limited (JP Morgan Chase Bank NA)	Class A	59.85%	52.70%	United Kingdom
Altoville Holdings Limited	Class B	18.47%	23.65%	Cyprus
Nemorenti Limited	Class B	21.68%	23.65%	Cyprus
Ioanna Georgiou	Class A	0.00%	0.00%	Cyprus
Panagiota Charalambous	Class A	0.00%	0.00%	Cyprus
Maria Vyra	Class A	0.00%	0.00%	Cyprus
Marios Panayides	Class A	0.00%	0.00%	Cyprus
Chloi Panagiotou	Class A	0.00%	0.00%	Cyprus
Leonora Chagianni	Class A	0.00%	0.00%	Cyprus
Total		**100.00%**	**100.00%**	

Guaranty Nominees Limited is a company holding class A shares of the Company for which global depositary receipts are issued under a deposit agreement made between the Company and JP Morgan Chase Bank NA signed in October 2013.

As at 31 December 2019 and 2018 the beneficial owner of Altoville Holdings Limited and Nemorenti Limited is Russian entrepreneur Mr. Oleg Tinkov. The six individuals listed above each hold one share. The individuals hold them as nominees of Altoville Holdings Limited.

As at 31 December 2019 and 2018 the ultimate controlling party of the Company is Mr. Oleg Tinkov. Mr. Oleg Tinkov controls approximately 87.03% of the aggregated voting rights attaching to the Class A and B shares as at 31 December 2019 (31 December 2018: 89.98%) excluding voting rights attaching to TCS Group Holding PLC GDRs he holds, if any.

The Company owns 100% of the shares and has 100% of the voting rights (directly or indirectly) of the following subsidiaries at 31 December 2019 and 2018: JSC "Tinkoff Bank" ("the Bank"), LLC "Microfinance company "T-Finans", LLC TCS, LLC "Phoenix", Tinkoff Software DC, LLC "Tinkoff Mobile", Goward Group Limited (since February 2018 Goward Group Ltd was in liquidation process, and on 16 April 2019 the company was liquidated), LLC "Fintech DC", LLC "Tinkoff Capital" and ANO "Tinkoff Education". As at 31 December 2019 the Company owns 80.08% and the Bank owns 9.92% of the shares of the JSC "Tinkoff Insurance" ("the Insurance Company"). In June 2019 the Insurance company repurchased 10% of its shares. The Company and its subsidiaries together referred to as the "Group".

At 31 December 2019, the Company owns directly 55% of the shares of LLC "CloudPayments". Additional 40% of the shares of LLC "CloudPayments" is held indirectly through the shares owned by the Bank (31 December 2018: 55% to the Company).

Principal activity. The Company's principal business activities are the holding of investments in Russian subsidiary companies and starting from December 2017 offering Cyprus based home call center services to customers and potential customers outside of Russia. The Bank operates under general banking license No. 2673 issued by the Central Bank of the Russian Federation ("CBRF") since 8 December 2006. The Insurance Company operates under an insurance license issued by the CBRF.

The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No. 177-FZ "Deposits insurance in banks of the Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of insurance compensation up to RR 1.4 million per individual, individual entrepreneur and small enterprise deposits in case of the withdrawal of a licence of a bank or a CBRF-imposed moratorium on payments.

JSC "Tinkoff Insurance" (the "Insurance Company") provides insurance services such as accident, property, travellers, financial risks and auto insurance.

The subsidiary LLC "Microfinance company "T-Finans" provides micro-finance services to clients.

The subsidiary LLC "TCS" provides printing and distribution services to the Bank.

The subsidiary Goward Group Limited is an investment holding company which managed part of the Group's assets. Since February 2018 Goward Group Ltd was in liquidation process, and on 16 April 2019 the company was liquidated.

The subsidiary LLC "Tinkoff Mobile" is a mobile virtual network operator set up in 2017 to provide mobile services.

The subsidiary LLC "CloudPayments" is a developer of online payment solutions whose core business is online merchant acquiring in Russia.

The subsidiary LLC "Phoenix" is a debt collection agency.

The subsidiary Tinkoff Software DC and LLC "Fintech DC" provides software development services to the Group.

LLC "Tinkoff Capital" is an asset management company established in June 2019 to manage investment funds, mutual funds and non-state pension funds.

ANO "Tinkoff Education" is a non-commercial organization set up by the Bank as the sole founder.

EBT is a special purpose trust which has been specifically created for the long-term incentive programme for Management of the Group (MLTIP).

Registered address and place of business. The Company's registered address is 25 Spyrou Araouzou, 25 Berengaria, 5th floor, Limassol, Cyprus.

Presentation currency. These separate financial statements are presented in millions of Russian Rubles (RR).

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

2 Operating Environment of the Company

Russian Federation. The Company's main subsidiaries all operate within the Russian Federation, which displays certain characteristics of an emerging market. Its economy is particularly sensitive to the price of oil and gas on the world market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 21).

In recent years, the Russian economy has been negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals.

In March 2020, oil prices dropped significantly, which resulted in the immediate weakening of Russian Ruble against major currencies at the date of approval of these separate financial statements as compared to the end of 2019.

With respect to Rouble interest rates, CBRF "key rate" amounted to 6.25% per annum as at 31 December 2019 (31 December 2018: 7.75%).

The Group actively monitors the situation in the Russian banking sector and the activity of CBRF in response to current and newly developed requirements, or any sanctions against the participants who breach them. In particular in 2019 CBRF introduced certain macroprudential adjustments (for example borrowers' debt burden limit) to manage macroeconomic risks related to primarily unsecured lending. Management of the Group believes it is highly important to participate in the discussion of legislation development in the banking sphere and supports the intention of the CBRF to make the finance market more transparent and disciplined.

In addition, late in 2019, news first emerged from China about the COVID-19 (Coronavirus). At the end of 2019 a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally resulting in an announcement of pandemic status by the World Health Organization in March 2020.

Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have had a significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on the business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Company's subsidiaries may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the impact of COVID-19 on the subsidiaries' business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these separate financial statements, to date there has been no discernible impact on the Group's business, however the future effects cannot be predicted. As the situation is rapidly evolving, we do not consider it is practicable at present to determine a quantitative estimate of the potential impact of this outbreak on the Group.

However, the Company has developed a stress scenario of the possible impact on the current operating environment on the Company's cash flows and liquidity position. The scenario demonstrated the Company's ability to continue as a going concern.

Also several pieces of legislation have been adopted, with two particularly relevant provisions affecting the Company and its subsidiaries:

- Payment holidays for consumer loans of borrowers that have lost more than 30% of their income or have been diagnosed with COVID-19. Until the end of September 2020 troubled borrowers will be able to request a payment holiday of up to 6 months when supported by certain official documentation. During this period, interest can be accrued in an amount equating to 2/3 of the average market interest rate (PSK) for the product. At the end of the payment holiday, the original loan balance prior to the payment holidays returns to its contractual interest rate, while the additional interest accrued during the payment holiday is converted into a 720-day instalment loan, with instalments added to the regular payments of the original loan.
- Caps on interchange and acquiring fees for online purchases of certain goods: interchange and acquiring fees for online purchases of certain goods were temporarily reduced until the end of September 2020.

The overall impact on the Company and its subsidiaries will therefore depend on the number of borrowers that ask for payment holidays. While we are not yet in a position to predict this number, it is likely that the Group will be affected by a partial and temporary loss of interest income on rescheduled exposures, and an increase in risk costs as these loans would be reclassified to Stage 2 or 3 under IFRS. The effect of this negative situation will be reflected in impairment losses and expected credit losses in 2020, as a result of updating the expected credit loss model for statistical data and macroeconomic forecasts.

Using flexible business structure the Group swiftly moved some of its employees from acquisition to collection functions. The Group has been able to offer some of its cloud call center services to government institutions in support of dealing with increased enquiries coming from the Coronavirus outbreak. The Group reiterates its ability to withstand shocks and its positive long-term outlook. The Group has a highly liquid, FX-hedged, and well-capitalized balance sheet. The Group has the ability to delivery services digitally, and it intends to use this opportunity to heavily promote its mobile lifestyle app, current accounts, and brokerage business. Therefore, while management recognizes the near-term challenges, it is confident that the Group's business model and response function will lead to come out of the current volatility.

Management will continue to monitor the potential impact and will take steps to mitigate any effects where required.

3 Significant Accounting Policies

Basis of preparation. These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law Cap.113.

The Company has prepared these separate financial statements for compliance with the requirements of the Cyprus Income Tax Law and the Disclosure Rule as issued by the Financial Security Authority of the United Kingdom. The Company has also prepared consolidated financial statements in accordance with IFRS as adopted by the EU and the requirements of the Cyprus Companies Law Cap. 113 for the Company and its subsidiaries ("the Group").

The consolidated financial statements can be obtained from 25 Spyrou Araouzou, 25 Berengaria, 5th floor, Limassol, Cyprus and the website of the Company www.tinkoff.ru.

The separate financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Management prepared these separate financial statements on a going concern basis.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the quoted price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

The price within the bid-ask spread which management considers to be the most representative of fair value for quoted financial assets and liabilities is the last bid price of the business day. A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (an asset) for a particular risk exposure or paid to transfer a net short position (a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

This is applicable for assets carried at fair value on a recurring basis if the Company: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 21.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the separate statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or secured that are integral to the effective interest rate such as origination fees.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs that are incremental and directly attributable to the acquisition or the issue of the financial asset or financial liability. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Company uses discounted cash flow valuation techniques to determine the fair value of currency swaps, foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Financial assets – classification and subsequent measurement – measurement categories. The Company classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on:

- the Company's business model for managing the related assets portfolio; and
- the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is:

- solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"); or
- to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell");
- if neither of i) and ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Based on the analysis performed the Company included the following financial instruments in the business model "hold to collect contractual cash flows" since the Company manages these financial instruments solely to collect contractual cash flows: cash and cash equivalents, loans and deposit placements with related parties and other financial assets. The Company included debt securities at FVOCI in the business model "hold to collect contractual cash flows and sell" since the Company manages these financial instruments to collect both the contractual cash flows and the cash flows arising from the sale of assets (for 2018 only). The Company included debt securities measured at FVTPL and financial derivatives in the business model "other".

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest (the SPPI test). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. However, if the contractual terms of the asset are modified, the Company considers if the contractual cash flows continue to be consistent with a basic lending arrangement in assessing whether the modification is substantial. See below for "Financial assets – modification".

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Company did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets – impairment – credit loss allowance for ECL. The Company assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at AC and FVOCI and for the exposure arising from loan commitments and financial guarantee contracts. The Company measures ECL and recognises credit loss allowance at each reporting date.

The measurement of ECL reflects:

1) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
2) the time value of money; and
3) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the separate statement of financial position net of the allowance for ECL.

For financial guarantees a separate provision for ECL is recognised as a financial liability in the separate statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Company applies a "three stage" model for impairment in accordance with IFRS 9, based on changes in credit quality since initial recognition:

1) A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 months ECL").
2) If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("lifetime ECL"). Refer to Note 19 for a description of how the Company determines when a SICR has occurred.
3) If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL. Refer to Note 19 for a description of how the Company defines credit-impaired assets and default.

Note 19 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Company assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset, significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset, or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Company derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred.

The Company also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities).

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents include deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Loans and deposit placements with related parties. Loans and deposit placement with related parties are recorded when the Company advances money to purchase or originate an unquoted non-derivative receivable from related party due on fixed or determinable dates and has no intention of trading the receivable. Loans and deposit placement with related parties are classified within held to collect business model, pass SPPI and are carried at amortised cost using effective interest rate. Refer to Note 8 for details of ECL measurement for loans and deposit placements with related parties.

Financial derivatives. Financial derivatives represented by foreign exchange swaps and forwards are carried at their fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of financial derivatives are recorded within Net (losses)/gains from derivatives revaluation. The Company does not apply hedge accounting.

Tangible fixed assets. Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of tangible fixed assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Depreciation of each item of tangible fixed assets is calculated using the straight-line method to allocate its cost to its residual value over its estimated useful life as follows:

	Useful lives in years
Equipment	3 to 10

The residual value of an asset is an estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Accounting for leases by the Company as a lessee from 1 January 2019. From 1 January 2019, leases, where the Company is the lessee, are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable under cancellable and non-cancellable operating leases;
- variable lease payments that are based on an index or a rate and that are initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease term includes any non-cancellable and optional extension periods which have been assessed as reasonably certain to be exercised. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms, security and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- dismantling and restoration costs.

As an exception to the above, the Company accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense in profit or loss on a straight line basis. Short-term leases are leases with a lease term of 12 months or less, and the lease does not provide for the possibility of repurchase of the asset at the end of the contract. Low value assets are assets with a value of RR 300,000 or less at the date of conclusion of the contract.

Right-of-use assets are included in tangible fixed assets, lease liabilities are included in other non-financial liabilities in the separate statement of financial position. Depreciation of right-of-use assets are recognised in administrative and other operating expenses in the separate statement of profit or loss and other comprehensive income. Finance cost is recognised within other similar expense line of the separate statement of profit or loss and other comprehensive income. Repayment of principal of lease liabilities is disclosed within cash flows from financing activities of the separate statement of cash flows.

Right-of-use asset are reviewed for impairment in accordance with the Company's accounting policy for impairment of non-financial assets.

Accounting for operating leases by the Company as a lessee prior to 1 January 2019. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year (rental expense within administrative and other operating expenses) on a straight-line basis over the period of the lease. Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Investments in debt securities. Based on the business model and the contractual cash flow characteristics, the Company classifies investments in debt securities as carried at AC, FVOCI or FVTPL.

Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Notes to the Separate Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI except for net results from operations with foreign currencies and interest income calculated using the effective interest rate method. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Company may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the separate statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts loans received.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Company, are recorded as loans received. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of reverse repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the separate financial statements in their original category in the separate statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately.

Securities borrowed for a fixed fee are not recorded in the separate financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Based on classification of securities sold under the sale and repurchase agreements, the Company classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, FVTPL.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Company. Investments in equity securities are measured at FVTPL, except where the Company elects at initial recognition to irrevocably designate an equity investment at FVOCI. The Company's policy is to designate equity investments (including Invesments in subsidiaries) as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns.

When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Company's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Investments in equity securities include investments in subsidiaries. Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In cases of acquisitions of subsidiaries from entities under common control or subsidiaries of the Company, the cost of acquisition is determined to be the fair value of the investment acquired as opposed to the transaction price.

Any differences between the transaction price and the fair value of the investment acquired reflect notional contributions/ distributions from entities under common control or subsidiaries and are recognised as such, i.e. directly in equity in cases of transactions with common control entities and as an additional contribution to or distribution from the subsidiary transferring the investment to the Company.

Debt securities in issue. Debt securities are stated at amortised cost. If the Company purchases its own debt securities in issue, they are removed from the separate statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in a separate line of the separate statement of profit or loss and other comprehensive income.

Loans received. Loans received are non-derivative financial liabilities to corporate entities and are carried at amortised cost using effective interest rate. In case a loan is received at a rate below market the corresponding deferred income on recognition of the loan at a rate below market is included in loans received balance and is amortised over the lifetime of the loan received on the straight-line basis.

Other liabilities. Other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Income taxes. Income taxes have been provided for in the separate financial statements in accordance with Cyprus legislation enacted or substantively enacted as of the end of the reporting period. The income tax (charge)/credit comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Company controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future. Provision for deferred tax on the undistributed profits of the Company's subsidiaries is made when the dividend payment is probable to be made out of economic resources of the subsidiaries at the balance sheet date and is recognised in other comprehensive income. Withholding taxes incurred on actual dividend distributions by subsidiaries are recognised in profit or loss once the right of dividend income is established.

Uncertain tax positions. The Company's uncertain tax positions are assessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds and debited against share premium.

Share premium. Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. The share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

Treasury shares. Where the Company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Company until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity. The value of GDRs transferred out of treasury shares for the purposes of the long-term incentive programme for management of the Group are determined based on the weighted average cost.

The Company's equity instruments acquired by employee share trust entity are treated as treasury shares when the Company retains the majority of the risks and rewards relating to the funding arrangement for the trust entity.

Share-based payments. The Company grants equity settled share based payments to employees of its subsidiary. No share-based payment charge is recognised as no employees are providing services to the Company. The Company records a debit to the investment in the subsidiaries as a capital contribution from the parent to the subsidiary and a credit to share-based payment reserve within equity. When the rewards granted under share-based payment programs vest the Company reclassifies accumulated share based payment reserve to revaluation reserve.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the separate financial statements are authorised for issue, are disclosed in the Note "Events after the End of the Reporting Period". The separate financial statements of the Company prepared in accordance with IFRS as adopted by the EU and in accordance with Cyprus Companies Law is the basis of available reserves for distribution. Management considers the Revaluation Reserve to be a distributable reserve. Dividend distribution to the Company's shareholders is recognised as a liability in the Company's separate financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Company. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Company's shareholders.

Interest income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability. Commitment fees received by the Company to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Company will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Company does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

i) financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC (net of the ECL provision); and

ii) financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Other income and expense recognition. All other income is generally recorded on an accrual basis by reference to completion of the specific performance obligation assessed on the basis of measurement of the Company's progress towards complete satisfaction of that performance obligation.

All other expenses are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Other similar income. Other similar income represents interest income recorded for debt instruments measured at fair value through profit or loss ("FVTPL") and is recognised on an accrual basis using nominal interest rate.

Other similar expense. Other similar expense represents finance cost related to the discounted lease payments using the incremental borrowing rate.

Foreign currency translation. The functional currency of the Company is the national currency of the Russian Federation, Russian Rouble ("RR"), as, based on the principles of the International Accounting Standard IAS 21 "The Effects of Changes in Foreign Exchange Rates", this currency reflects the economic substance of the underlying events and circumstances of the Company. The Russian Rouble is also the presentation currency of the Company.

Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss for the year as Net gains/(losses) from foreign exchange translation.

Foreign exchange gains and losses resulting from the settlement of transactions with foreign currencies are recognised in profit or loss for the year as Net gains from operations with foreign currencies.

At 31 December 2019 the rate of exchange used for translating foreign currency balances was USD 1 = RR 61.9057 (31 December 2018: USD 1 = RR 69.4706), and the average rate of exchange was USD 1 = RR 64.7362 (2018: USD 1 = RR 62.7078).

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

Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Amendments of the separate financial statements after issue. The Board of Directors of the Company has the power to amend the separate financial statements after issue.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Changes in presentation. In these separate financial statements the management of the Company improved the presentation of the results of operations with foreign currencies, derivatives revaluation and foreign exchange translation and disclosed separately in the separate statement of profit or loss and other comprehensive income the following line items: Net gains from operations with foreign currencies, Net (losses)/gains from derivatives revaluation, Net gains/(losses) from foreign exchange translation.

The effect of changes described above on the separate statement of profit or loss and other comprehensive income for the year ended 31 December 2018 is as follows:

In millions of RR	As originally presented	Reclassification	As reclassified
Net (losses)/gains from derivatives revaluation	-	538	538
Net gains/(losses) from foreign exchange translation	-	(560)	(560)
Net gains from operations with foreign currencies	173	22	195

The effect of changes described above on the separate statement of cash flows for the year ended 31 December 2018 is as follows:

In millions of RR	As originally presented	Reclassification	As reclassified
Cash (paid)/received from operations with financial derivatives	-	342	342
Cash received from trading in foreign currencies	-	195	195
Cash received from trading in foreign currencies and operations with financial derivatives	537	(537)	-

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Company makes estimates and assumptions that affect the amounts recognised in the separate financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the separate financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Investments in subsidiaries. The estimated fair value of investments in subsidiaries recognises that the majority of the value of TCS Group Holding PLC resides in its main operating subsidiaries. Thus in estimating the fair value of the subsidiaries the primary input is the market quote of the Company's GDRs which are traded on the London Stock Exchange. Other inputs include the estimated fair value of the assets and liabilities held by the Company other than its investment in the subsidiaries. Refer to Note 21.

Perpetual subordinated bonds. The Company from time to time invests in perpetual subordinated bonds issued by third parties. The Company has taken into consideration that there are genuine contingent settlement provisions that could arise and as such has classified the investments in perpetual subordinated bonds as investments in debt securities on the basis of terms of issue which stipulate the possible redemption of the instrument in several cases other than liquidation of the issuer.

The investments in these instruments are classified as debt investment securities measured at FVTPL since the analysis of the contractual cash flow characteristics resulted in acquired perpetual bonds not passing SPPI test. If the Company had recognized this instrument as equity instrument, then it could have been measured at FVTPL or FVOCI as the Company does not hold it for trading purposes.

Initial recognition of related party transactions. In the normal course of business the Company enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 23.

Determination of functional currency. The Company follows the guidance of IAS 21 "The Effects of Changes in Foreign Exchange Rates" for the determination of the functional currency of the Company. The Company's functional currency is RR.

Tax legislation. Cypriot and Russian tax, currency and customs legislation are subject to varying interpretations. Refer to Note 20.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards, interpretations and amendments to the existing standards, as disclosed in the consolidated financial statements for the year ended 31 December 2018, became effective for the Company from 1 January 2019.

Adoption of IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The Company has adopted IFRS 16 with a date of transition of 1 January 2019 and applied the standard using the modified retrospective method, without restatement of comparatives (Note 3). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

On adoption of IFRS 16, the Company recognised a right of use asset of RR 6 million against a corresponding lease liability. Right-of-use assets are mainly represented by leases of office premises. A reconciliation of the operating lease commitments as of 31 December 2018 and the lease liability recognized at 1 January 2019 is as follows:

In millions of RR	1 January 2019
Lease payments under operating lease	7
Future lease payments under IFRS 16	**7**
Effect of discounting	(1)
Lease liabilities under IFRS 16	**6**
Right-of-use assets under IFRS 16	**6**

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Company:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

6 New Accounting Pronouncements

Certain new amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2020:

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

(a) IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)*.

(b) Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

(c) Amendments to IFRS 3: Definition of a business (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)*.

(d) Amendments to IAS 1 and IAS 8: Definition of materiality (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

(e) Amendments to IAS 1: Classification of liabilities as current or non-current (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022)*.

(f) Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an Investor and its associate or joint venture (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)*.

The Company is currently assessing the impact of the above standards on its separate financial statements.

* Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.

7 Cash and Cash Equivalents

In millions of RR	31 December 2019	31 December 2018
Placements with other banks with original maturities of less than three months		
- placements with UK Bank (A+ rated)	596	760
- placements with European bank (CCC+ rated)	2	-
- placements with European bank (B rated)	-	1
Total Cash and Cash Equivalents	**598**	**761**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019. The gross carrying amount of cash and cash equivalents at 31 December 2019 below also represents the Company's maximum exposure to credit risk on these assets:

In millions of RR	Total
Placements with other banks with original maturities of less than three months	
Excellent	596
Doubtful	2
Total cash and cash equivalents	**598**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018. The gross carrying amount of cash and cash equivalents at 31 December 2018 below also represents the Company's maximum exposure to credit risk on these assets:

In millions of RR	Total
Placements with other banks with original maturities of less than three months	
Excellent	760
Sub-standard	1
Total cash and cash equivalents	**761**

Refer to Note 19 for the description of the Company's credit risk grading system.

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an immaterial amount, therefore the Company did not recognise any credit loss allowance for cash and cash equivalents. Amounts of cash and cash equivalents are not collateralised. Refer to Note 19 for the ECL measurement approach. Interest rate, maturity and geographical risk concentration analysis of cash and cash equivalents is disclosed in Note 19. Information on related party balances is disclosed in Note 23. Refer to Note 21 for the disclosure of the fair value of cash and cash equivalents.

8 Loans and Deposit Placements with Related Parties

In millions of RR	31 December 2019	31 December 2018
Deposit placements with subsidiary Bank	5,594	379
Total loans and deposit placements with related parties	**5,594**	**379**

At 31 December 2019 the deposit placements with subsidiary Bank are represented by three deposits: deposit placement in USD with a nominal value of RR 2,114 million at 2.5% per annum maturing on 10 August 2020, deposit placement in EUR with a nominal value of RR 1,806 million at 0.35% per annum maturing on 7 February 2020, deposit placement in RR with a nominal value of RR 1,674 million at 7.5% per annum maturing on 25 December 2020.

At 31 December 2018 the deposit placements with subsidiary Bank are represented by a deposit with a nominal value of RR 379 million at 8.5% per annum maturing on 14 September 2019.

For the purpose of ECL measurement deposit placements with subsidiary Bank balances are included in Stage 1. The ECL for these balances represents an immaterial amount, therefore the Company did not create any credit loss allowance for deposit placements with subsidiary Bank. Refer to Note 19 for the ECL measurement approach.

As at 31 December 2019 for the purpose of credit risk measurement loans and deposit placements with related parties balances are included in "Monitor" credit risk grade based on credit risk grademaster scale (31 December 2018: same). Refer to Note 19 for the description of the credit risk grading system.

Refer to Note 21 for the disclosure of the fair value of loans and deposit placements with related parties. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 19. Information on related party balances is disclosed in Note 23.

* Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

9 Investments in Equity Securities

In millions of RR	31 December 2019	31 December 2018
Investments in subsidiaries, including:	256,443	218,818
- Investments in financial institutions	231,459	203,192
- Investments in non-financial institutions	24,984	15,626
Other investments in equity securities	850	431
Total investments in equity securities	**257,293**	**219,249**

As at 31 December 2019 investments in financial institutions include investments in share capital of JSC "Tinkoff Bank", JSC "Tinkoff Insurance", LLC "Microfinance company "T-Finans" (2018: same).

As at 31 December 2019 investments in non-financial institutions include investments in share capital of LLC "CloudPayments", LLC "Tinkoff Mobile", LLC "Phoenix", Tinkoff Software DC, LLC "TCS", LLC "Fintech DC", LLC "Tinkoff Capital" and ANO "Tinkoff Education" (2018: LLC LLC "CloudPayments", LLC "Tinkoff Mobile", LLC "Phoenix", Tinkoff Software DC, LLC TCS and Goward Group Limited). On 16 April 2019 Goward Group Limited was liquidated.

The Bank is registered in the Russian Federation and was purchased by the Company in November 2006 (Note 1). The Bank is 100% owned and controlled by the Company.

The Insurance Company is registered in the Russian Federation and was purchased by the Company in August 2013 (Note 1). In June 2019 the Company sold 10% in the Insurance Company for cash consideration of RR 206 million, there were no transfers of any cumulative gain or loss within equity relating to these changes. As at 31 December 2019 the Company owns 80.08% of the shares of the Insurance Company and controls it, the Bank owns 9.92% of the shares of the Insurance Company (2018: the Company owns 90.08%, the Bank owns 9.92%).

In October 2017 the Company acquired a 55% shareholding in LLC "CloudPayments". During 2019 the Bank acquired a 40% shareholding in LLC "CloudPayments", and thus the Company owns directly and indirectly a 95% holding in the shares of LLC "CloudPayments".

Investments in subsidiaries are stated at fair value at the end of each reporting period (Notes 3, 4 and 21).

The movements in investments in subsidiaries for the period ended 31 December 2019 are as follows:

In millions of RR	2019
Carrying amount at 1 January	**218,818**
Investments in subsidiaries	(206)
Revaluation of investment in subsidiaries	37,362
Share-based payment	469
Carrying amount at 31 December	**256,443**

The movements in investments in subsidiaries for the period ended 31 December 2018 are as follows:

In millions of RR	2018
Carrying amount at 1 January	**207,834**
Investments in subsidiaries	206
Revaluation of investment in subsidiaries	10,148
Share-based payment	630
Carrying amount at 31 December	**218,818**

Dividend income from investments in subsidiaries recognised during the year is as follows:

In millions of RR	2019	2018
Investment in JSC "Tinkoff Bank"	12,697	-
Investment in JSC "Tinkoff Insurance"	4,461	1,351
Total dividend income	**17,158**	**1,351**

Interest rate, maturity and geographical risk concentration analysis of investment in equity securities are disclosed in Note 19. Refer to Note 21 for the disclosure of the fair value of investments in equity securities.

10 Loans Received

In millions of RR	2019	2018
Loans from subsidiary Bank	-	20,655
Loans from subsidiary company	-	1,792
Loans from other companies	-	796
Total loans received	**-**	**23,243**

As at 31 December 2018 loans from subsidiary Bank had contractual maturities from 30 October 2019 to 29 October 2021 and nominal interest rate from 5.5% to 7%. In 2019 loans were repaid before maturity.

As at 31 December 2018 loans from a subsidiary company have a contractual maturity from 15 March 2020 and 6 June 2021 and nominal interest rate from 5.5% to 7%. In 2019 loans were repaid before maturity.

As at 31 December 2018 loans from other companies represent a loan from related party in the amount of RR 796 million, which has a contractual maturity 20 December 2019 and nominal interest rate 4%. The loan was repaid before maturity.

Loans received were unsecured (2018: unsecured).

Refer to Note 21 for the disclosure of the fair value of loans received. Interest rate, maturity and geographical risk concentration analyses of loans received is disclosed in Note 19. Information on related party balances is disclosed in Note 23. Reconciliation of liabilities arising from financing activities is disclosed in Note 18.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

11 Debt Securities in Issue

In millions of RR	Date of maturity	31 December 2019	31 December 2018
EUR denominated ECP issued in December 2019	20 November 2020	1,030	-
EUR denominated ECP issued in February 2019	18 February 2020	831	-
USD denominated ECP issued in December 2019	20 November 2020	599	-
EUR denominated ECP issued in December 2018	19 December 2019	-	2,392
USD denominated ECP issued in December 2018	19 December 2019	-	1,266
RR denominated ECP issued in December 2018	19 December 2019	-	96
Total Debt Securities in Issue		**2,460**	**3,754**

On 20 December 2019 the Company issued two tranches of Euro-Commercial Paper (ECP) denominated in USD and EUR maturing on 20 November 2020. USD denominated ECP has a nominal value of USD 10 million at 3.6% coupon rate. EUR denominated ECP has a nominal value of EUR 15 million at 1.0% coupon rate.

On 19 February 2019 the Company issued Euro-Commercial Paper (ECP) denominated in EUR maturing on 18 February 2020. EUR denominated ECP has a nominal value of EUR 12 million at 1.25% coupon rate.

On 20 December 2018 the Company issued three tranches of Euro-Commercial Paper (ECP) denominated in USD, EUR and RR maturing on 19 December 2019. USD denominated ECP has a nominal value of USD 19 million at 4.25% coupon rate. EUR denominated ECP has a nominal value of EUR 30.5 million at 1.25% coupon rate. RR denominated ECP has a nominal value of RR 105 million at 9.5% coupon rate. The Company redeemed all outstanding ECP of this issue at maturity.

Refer to Note 21 for the disclosure of the fair value of debt securities in issue. Maturity analysis of debt securities in issue are disclosed in Note 19. Reconciliation of liabilities arising from financing activities is disclosed in Note 18.

12 Other Financial and Non-financial Liabilities

In millions of RR	31 December 2019	31 December 2018
Other Financial Liabilities		
Advances payable	63	-
Accrued audit and accountancy fees	18	14
Enhanced exclusivity agreement payable	-	208
Total Other Financial Liabilities	**81**	**222**
Other Non-financial Liabilities		
Dividends payable under GDRs repurchased for MLTIP purposes	582	760
Other provision	3	3
Total Other Non-financial Liabilities	**585**	**763**

Interest rate, maturity and geographical risk concentration analysis of other financial liabilities are disclosed in Note 19. Refer to Note 21 for disclosure of fair value of other financial liabilities.

13 Share Capital

In millions of RR except for the number of shares	Number of authorized shares	Number of outstanding shares	Ordinary shares	Share premi-um	Treasury shares	Total
At 1 January 2018	**190,479,500**	**182,638,825**	**188**	**8,623**	**(1,587)**	**7,224**
Increase of number of autho-rized shares	1,291,266	-	-	-	-	-
GDRs buy-back	-	-	-	-	(2,455)	(2 455)
GDRs and shares transferred under MLTIP	-	-	-	-	372	372
At 31 December 2018	**191,770,766**	**182,638,825**	**188**	**8,623**	**(3,670)**	**5,141**
Shares issued	18,263,882	16,666,667	42	18,874	-	18,916
Secondary public offering costs	-	-	-	(499)	-	(499)
GDRs and shares transferred under MLTIP	-	-	-	-	506	506
At 31 December 2019	**210,034,648**	**199,305,492**	**230**	**26,998**	**(3,164)**	**24,064**

During three months ended 31 March 2019 Altoville Holdings Limited converted 6,385,310 "Class B" shares into "Class A" (on a one-to-one basis), which was 3.49% of its share, and then sold them to the market.

On 2 July 2019 the Company completed a SPO on the London Stock Exchange plc. and issued 16,666,667 "Class A" shares of the Company in the form of GDRs at a price of USD 18.00 per GDR (RR 1,135 per GDR), raising aggregate gross proceeds of USD 300 million (RR 18,916 million). All issued ordinary shares are fully paid.

All the incurred SPO costs were primary direct expenses accounted within share premium.

At 31 December 2019 the total number of outstanding shares is 199,305,492 shares (2018: 182,638,825 shares) with a par value of USD 0.04 per share (2018: USD 0.04 per share).

In June 2019 the Company's shareholders approved a resolution to increase authorised share capital to USD 8,401,385.92 by the creation of 18,263,882 new undesignated ordinary shares of nominal value USD 0.04 each.

In May 2018 the Company's shareholders approved a resolution to increase authorized share capital to USD 7,670,830.64 by the creation of 1,291,266 new undesignated ordinary shares of nominal value USD 0.04 each.

At 31 December 2019 the total number of authorised shares is 210,034,648 shares (2018: 191,770,766 shares) with a par value of USD 0.04 per share (2018: USD 0.04 per share).

At 31 December 2019 the total number of treasury shares is 4,185,166 (2018: 6,604,353).

As at 31 December 2019 and 2018 treasury shares represent GDRs of the Company repurchased from the market for the purposes permitted by Cyprus law including contribution to MLTIP. Refer to Note 23.

During the year ended 31 December 2019 no GDRs were repurchased by the Company (2018: 2,094,126 GDRs at market price for RR 2,455 million). Refer to Note 23. Information on dividends is disclosed in Note 17.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

14 Interest income and expense

In millions of RR	2019	2018
Interest income calculated using the effective interest rate method		
Loans and deposit placement with related parties, including:		
Deposit placement with subsidiary Bank	228	46
Subordinated loans to subsidiary Bank	-	32
Debt securities and repurchase receivables at FVOCI	44	29
Total Interest income calculated using the effective interest rate method	**272**	**107**
Other similar income		
Debt securities and repurchase receivables at FVTPL	28	84
Total Interest Income	**300**	**191**
Interest expense calculated using the effective interest rate method		
Loans from subsidiary Bank	536	1,161
Euro-Commercial Papers	100	124
Loans from subsidiary company	86	104
Other loans received	10	15
Total Interest expense calculated using the effective interest rate method	**732**	**1,404**
Net interest expense	**(432)**	**(1,213)**

15 Administrative and Other Operating Expenses

In millions of RR	2019	2018
Legal and consulting fees	110	92
Staff costs	99	10
Audit and accountancy fees	30	32
Taxes other than income tax	5	-
Depreciation of right-of-use assets	3	-
Depreciation of tangible fixed assets	1	-
Enhanced exclusivity agreement expense	-	208
Other administrative expenses	3	5
Total administrative and other operating expenses	**251**	**347**

The total fees charged by the Company's statutory auditor for the statutory audit of the annual consolidated and separate financial statements of the Company for the year ended 31 December 2019 amounted to RR 2.8 million (2018: RR 2.7 million). The total fees charged by the Company's statutory auditor for the year ended 31 December 2019 for other assurance services amounted to RR 3.8 million (2018: RR 4.7 million), for tax advisory services amounted to RR 2.3 million (2018: RR 5.7 million) and for other non-assurance services amounted to RR 2.2 million (2018: nil).

Included in staff costs are statutory social contributions to the non-budget funds and share-based remuneration:

In millions of RR	2019	2018
Statutory social contribution to the non-budget funds	12	2

At 31 December 2019 there are 63 employees employed by the Company (31 December 2018: 29). The average number of employees employed by the Company during the reporting year was 53 (2018: 23).

16 Income Taxes

Income tax expense comprises the following:

In millions of RR	2019	2018
Corporation tax	26	19
Overseas tax withheld at source	858	67
Total income tax expense	**884**	**86**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

In millions of RR	2019	2018
Profit/(Loss) before income tax	**16,700**	**63**
Theoretical tax charge at statutory rate of 12.5% (2018: 12.5%)	2,088	8
Tax effect of expenses not deductible for tax purposes	111	217
Tax effect of allowances and income not subject to tax	(2,191)	(214)
Overseas tax withheld at source	858	67
Under provision of tax for prior year	18	8
Income tax expenses for the year	**884**	**86**

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc.) are exempt from Cyprus income tax. At 31 December 2019 and 2018 the Company had no tax losses carried forward.

Differences between IFRS and statutory taxation regulations in Cyprus give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In millions of RR	31 December 2018	Credited to OCI	31 December 2019
Investments in subsidiaries	(1,187)	1,019	(168)
Net deferred tax liabilities	**(1,187)**	**1,019**	**(168)**

In millions of RR	31 December 2017	Charged to OCI	31 December 2018
Investments in subsidiaries	(565)	(622)	(1,187)
Net deferred tax liabilities	**(565)**	**(622)**	**(1,187)**

The Government of the Russian Federation requested Ministry of Finance of the Russian Federation to make review of existing double tax treaties and submit by 24 April to the Government the draft regulation approving the drafts of double tax treaties to increase tax rates on dividends to a level of at least 15% from 1 January 2021.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

17 Dividends

The movement in dividends during the year are as follows:

In millions of RR	2019	2018
Dividends payable at 1 January	**760**	**377**
Dividends declared during the year	5,856	12,265
Dividends paid during the year	(5,601)	(11,946)
Dividends paid under MLTIP after vesting date	(524)	(144)
Foreign exchange loss on dividends payable	91	208
Dividends payable at 31 December	**582**	**760**
Dividends per share declared during the year (in USD)	**0.49**	**1.07**
Dividends per share paid during the year (in USD)	**0.49**	**1.07**

Dividends declared in the table above represent dividends declared by the Board of Directors and are reduced by RR 25 million for the year ended 31 December 2019 due to dividends on GDRs acquired by the Company from the market not for the immediate purposes of the existing MLTIP.

On 13 May 2019 the Board of Directors declared an interim dividend of USD 0.17 (RR 11.09) per share/per GDR amounting to USD 31.05 million (RR 2,026 million). Declared dividends were paid in USD on 28 and 30 May 2019.

On 11 March 2019 the Board of Directors declared an interim dividend of USD 0.32 (RR 21.11) per share/per GDR amounting to USD 58.4 million (RR 3,855 million). Declared dividends were paid in USD on 25 and 27 March 2019.

On 25 November 2018 the Board of Directors declared an interim dividend of USD 0.28 (RR 18.39) per share/per GDR amounting to USD 51.1 million (RR 3,358 million). Declared dividends were paid in USD in December 2018.

On 27 August 2018 the Board of Directors declared a regular interim dividend of USD 0.24 (RR 16.27) per share/per GDR amounting to RR USD 43.9 million (2,972 million). Declared dividends were paid in USD on 24, 28 and 29 September 2018.

On 29 May 2018 the Board of Directors declared a regular interim dividend of USD 0.24 (RR 14.95) per share/per GDR amounting to USD 43.8 million (RR 2,730 million). Declared dividends were paid in USD on 21 and 27 June 2018.

On 9 March 2018 the Board of Directors declared a regular interim dividend of USD 0.31 (RR 17.61) per share/per GDR amounting to USD 56.6 million (RR 3,216 million). Declared dividends were paid in USD on 4 and 9 April 2018.

Dividends were declared and paid in USD throughout the years ended 31 December 2019 and 2018. Dividends payable at 31 December 2019 related to treasury shares acquired under MLTIP amounting to RR 582 million are included in other non-financial liabilities (31 December 2018: RR 760 million).

On 11 June 2019 the Company announced suspension of dividend payments for the three months ended 30 June and 30 September 2019 to ensure the Group will have the necessary capital to further support credit portfolio growth.

18 Reconciliation of Liabilities Arising from Financing Activities

The table below sets out an analysis of the Company's debt and the movements in the Company's debt for each of the periods presented. The debt items are those that are reported as financing in the separate statement of cash flows.

	Liabilities from financing activities		
In millions of RR	Debt securities in issue	Loans received	Total
Net debt at 1 January 2018	**2,769**	**7,833**	**10,602**
Cash flows	418	14,955	15,373
Realised foreign exchange adjustments	435	-	435
Unrealised foreign exchange adjustments	132	-	132
Other non-cash movements	-	455	455
Net debt at 31 December 2018	**3,754**	**23,243**	**26,997**
Cash flows	(891)	(23,092)	(23,983)
Realised foreign exchange adjustments	(336)	-	(336)
Unrealised foreign exchange adjustments	(67)	45	(22)
Other non-cash movements	-	(196)	(196)
Net debt at 31 December 2019	**2,460**	**-**	**2,460**

19 Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Company takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the debt financial instruments, cash and cash equivalents and Company's lending and other transactions with counterparties giving rise to financial assets.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the separate statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The credit risk is controlled by management of the Company, by approving limits on the level of credit risk by borrowers.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

19 Financial Risk Management (Continued)

Credit risk grading system. For measuring credit risk and grading financial instruments by the level of credit risk, the Company applies risk grades estimated by external international rating agencies in case these financial instruments have risk grades estimated by external international rating agencies (Fitch and in case of their absence - Moody's or Standard & Poor's ratings adjusting them to Fitch's categories using a reconciliation table):

Master scale credit risk grade	Corresponding ratings of external international rating agency (Fitch)
Excellent	AAA, AA+ to AA-, A+ to A-
Good	BBB+ to BBB-, BB+
Monitor	BB to B+
Sub-standard	B, B-
Doubtful	CCC+ to CC-
Default	C, D

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – high credit quality with lowest or very low expected credit risk;
- *Good* – good credit quality with currently low expected credit risk;
- *Monitor* – adequate credit quality with a moderate credit risk;
- *Sub-standard* – moderate credit quality with a satisfactory credit risk;
- *Doubtful* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

For measuring credit risk and grading those financial instruments which do not have risk grades estimated by external international rating agencies, the Company applies risk grades and the corresponding range of probabilities of default (PD):

Master scale credit risk grade	Corresponding interval
Excellent	non-overdue for the last 12 months with PD < 5% or with early repayments
Good	all other non-overdue loans
Monitor	1-30 days overdue
Sub-standard	31-90 days overdue
NPL	90+ days overdue

The condition of early repayments is satisfied, as described in the table above, if the cumulative amount of early repayments exceed 5% of the gross carrying amount at the date of recognition of the loan.

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with minimum expected credit risk;
- *Good* – adequate credit quality with low expected credit risk;
- *Monitor* – adequate credit quality with a moderate credit risk;
- *Sub-standard* – low credit quality with a substantial credit risk;
- *NPL* – financial instruments for which a default has occured.

The rating models are regularly reviewed by the Credit Risk Department, backtested on actual default data and updated if necessary.

Expected credit loss (ECL) measurement – definitions and description of estimation techniques. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e. the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). ECL measurement is based on the following components used by the Company:

Default occurs when a financial asset is 90 days past due.

Probability of Default (PD) – an estimate of the likelihood of default to occur over a given time period.

Exposure at Default (EAD) – an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Loss Given Default (LGD) – an estimate of the loss arising on default as a percentage of the EAD. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive.

Discount Rate – a rate to discount an expected loss to its present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Lifetime period – the maximum period over which ECL should be measured. For financial instruments held by the Company the lifetime period is equal to contractual maturity of the respective financial instruments.

Lifetime ECL – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL – the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument.

Credit Conversion Factor (CCF) – a coefficient that shows that the probability of conversion of an off-balance sheet amount to exposure on the statement of financial position within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Company considers that 12-month and lifetime CCFs are the same.

Default and credit-impaired assets – assets for which a default event has occurred.

The default definition stated above should be applied to all types of financial assets of the Company.

An instrument is considered to no longer be in default (i.e. to have "cured") when it no longer meets any of the default criteria.

Significant increase in credit risk (SICR) – the SICR assessment is performed on an individual basis for all financial assets by monitoring the triggers stated below. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Company's Risk Management Department.

The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met:

- 30 days past due;
- award of risk grade "Doubtful";
- decrease of assigned external rating by 2 notches, which corresponds to an approximate increase of PD by 2.5 times.

If the SICR criteria are no longer met, the instrument will be transferred back to Stage 1.

General principle of techniques applied

For financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether or not the credit risk of the borrower has increased significantly since initial recognition.

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

19 Financial Risk Management (Continued)

This approach can be summarised in a three-stage model for ECL measurement:

- Stage 1 – a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition, the loss allowance is based on 12-month ECLs;
- Stage 2 – if since the date, which was assumed to be the date of initial recognition has identified a SICR, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired, the loss allowance is based on lifetime ECLs;
- Stage 3 – if the financial instrument is credit-impaired or restructured, the financial instrument is then moved to Stage 3 and the loss allowance is based on lifetime ECLs.

The Group carries out the following approach for ECL measurement:

- For financial instruments which have external ratings – assessment based on external ratings;
- For financial instruments which do not have external ratings – assessment based on discounted cash flow technique.

Principles of assessment based on external ratings – the principles of ECL calculations based on external ratings are the same as for their assessment on a portfolio basis. Credit risk parameters (PD and LGD) are taken from the default and recovery statistics published by international rating agencies (Fitch and in case of their absence – Moody's or Standard & Poor's).

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which are monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, the management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2019				At 31 December 2018			
In millions of RR	Non-derivative monetary financial assets	Non-derivative monetary financial liabilities	Derivatives	Net balance sheet position	Non-derivative monetary financial assets	Non-derivative monetary financial liabilities	Derivatives	Net balance sheet position
RR	1,738	-	-	1,738	1,679	(22,557)	(4,258)	(25,136)
US Dollars	2,710	(677)	-	2,033	1,185	(2,062)	1,935	1,058
EUR	1,808	(1,864)	-	(56)	1	(2,600)	2,408	(191)
Total	**6,256**	**(2,541)**	**-**	**3,715**	**2,865**	**(27,219)**	**85**	**(24,269)**

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

	At 31 December 2019		At 31 December 2018	
In millions of RR	Impact on profit for the year	Impact on total equity	Impact on profit for the year	Impact on total equity
USD strengthening by 20% (2018: by 20%)	385	385	(77)	(77)
USD weakening by 20% (2018: by 20%)	(385)	(385)	77	77
EUR strengthening by 20% (2018: by 20%)	(11)	(11)	14	14
EUR weakening by 20% (2018: by 20%)	11	11	(14)	(14)

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event of unexpected movements. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The table below summarises the Company's exposure to interest rate risk. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In millions of RR	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing financial instruments	Total
31 December 2019						
Total financial assets	598	1,870	3,788	-	257,293	263,549
Total financial liabilities	-	(912)	(1,629)	-	-	(2,541)
Net interest sensitivity gap at 31 December 2019	**598**	**958**	**2,159**	**-**	**257,293**	**261,008**

At 31 December 2019 if interest rates at that date had been 200 basis points higher/lower (2018: 200 basis points higher/lower), with all other variables held constant, profit and equity would have been RR 72 million higher/lower (2018: RR 455 million higher/lower).

In millions of RR	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing financial instruments	Total
31 December 2018						
Total financial assets	2,147	-	379	425	219,249	222,200
Total financial liabilities	(15)	(208)	(4,643)	(22,354)	-	(27,220)
Net interest sensitivity gap at 31 December 2018	**2,132**	**(208)**	**(4,264)**	**(21,929)**	**219,249**	**194,980**

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

19 Financial Risk Management (Continued)

The Company monitors interest rates for its financial instruments. The table below summarises effective interest rates set as at 31 December 2019 and 2018 based on reports reviewed by key management personnel:

	2019			2018		
In % p.a.	**RR**	**USD**	**EUR**	**RR**	**USD**	**EUR**
Assets						
Cash and cash equivalents	-	-	-	-	-	-
Loans and deposit placements with related parties						
- Deposit placements with subsidiary Bank	7.5	2.5	0.4	8.5	-	-
Investments in debt securities	-	-	-	-	10.3	-
Liabilities						
Loans received	-	-	-	8.0	4.4	-
Debt securities in issue	-	3.8	1.2	9.8	4.4	1.4

The sign "-" in the table above means that the Company does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Company has exposure to equity price risk mainly as a result of a decrease in the fair value of investments in subsidiaries. Sensitivity analysis of investments in subsidiaries is disclosed in Note 21.

Geographical risk concentrations. The geographical concentration of the Company's financial assets and liabilities at 31 December 2019 is set out below:

In millions of RR	**Russian Federation**	**OECD**	**Other Non-OECD**	**Total**
Financial assets				
Cash and cash equivalents	-	596	2	598
Loans and deposit placements with related parties	5,594	-	-	5,594
Investments in equity securities	257,293	-	-	257,293
Other financial assets	-	-	64	64
Total financial assets	**262,887**	**596**	**66**	**263,549**
Financial liabilities				
Debt securities in issue	2,460	-	-	2,460
Other financial liabilities	15	63	3	81
Total financial liabilities	**2,475**	**63**	**3**	**2,541**
Net separate statement of financial position	**260,412**	**533**	**63**	**261,008**

The geographical concentration of the Company's financial assets and liabilities at 31 December 2018 is set out below:

In millions of RR	**Russian Federation**	**OECD**	**Other Non-OECD**	**Total**
Financial assets				
Cash and cash equivalents	1	760	-	761
Loans and deposit placements with related parties	379	-	-	379
Financial derivatives	-	86	-	86
Investments in debt securities	411	-	14	425
Investments in equity securities	219,249	-	-	219,249
Other financial assets	1,300	-	-	1,300
Total financial assets	**221,340**	**846**	**14**	**222,200**
Financial liabilities				
Loans received	22,447	-	796	23,243
Debt securities in issue	3,754	-	-	3,754
Financial derivatives	-	1	-	1
Other financial liabilities	14	-	208	222
Total financial liabilities	**26,215**	**1**	**1,004**	**27,220**
Net separate statement of financial position	**195,125**	**845**	**(990)**	**194,980**

Assets and liabilities have been based on the country in which the counterparty is located. Cash and cash equivalents have been allocated based on the country in which they are physically held.

Other risk concentrations. Most financial assets are due from the subsidiary Bank.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The table below shows liabilities at 31 December 2019 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the separate statement of financial position because the separate statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

In millions of RR	**On Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities					
Debt securities in issue	4	846	1,671	-	2,521
Other financial liabilities	-	81	-	-	81
Total potential future payments for financial obligations	**4**	**927**	**1,671**	**-**	**2,602**

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

19 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2018 is as follows:

In millions of RR	On Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Loans received	133	618	881	24,324	25,956
Debt securities in issue	8	40	3,895	-	3,943
Financial derivatives	4,258	-	-	-	4,258
Other financial liabilities	14	222	-	-	236
Total potential future payments for financial obligations	**4,413**	**880**	**4,776**	**24,324**	**34,393**

20 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of any current or potential claims and accordingly no provision has been made in these separate financial statements.

Taxation. Cypriot tax legislation is subject to varying interpretations. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. The Company is incorporated outside Russia. Tax liabilities of the Company are determined on the assumption that it is not subject to Russian profits tax because it does not have a permanent establishment in Russia. The Company is a tax resident of Cyprus only and full beneficial owner of the Bank and Insurance Company. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Company.

21 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the separate statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2019				31 December 2018			
In millions of RR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
Financial derivatives	-	-	-	-	-	86	-	86
Investments in debt securities	-	-	-	-	425	-	-	425
Investments in subsidiaries	-	256,443	-	256,443	-	218,818	-	218,818
Other investments in equity securities	-	-	850	850	-	-	431	431
Total assets recurring fair value measurements	**-**	**256,443**	**850**	**257,293**	**425**	**218,904**	**431**	**219,760**

Investments in subsidiaries are stated at fair value based on market valuation (2018: same).

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2019 are as follows:

In millions of RR	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Investments in subsidiaries	256,443	The estimated fair value of investments in subsidiaries recognises that the majority of the value of TCS Group Holding PLC resides in its main operating subsidiaries. Thus in estimating the fair value of the subsidiaries the primary input is the market quote of the Company's GDRs which are traded on the London Stock Exchange. Other inputs include the estimated fair value of the assets and liabilities held by the Company other than its investment in the subsidiaries	Market quote of USD 21.3 for 1 share at 31 December 2019; Market interest rates
Total recurring fair value measurements at level 2	**256,443**		

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

21 Fair Value of Financial Instruments (Continued)

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2018 are as follows:

In millions of RR	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Investments in subsidiaries	218,818	The estimated fair value of investments in subsidiaries recognises that the majority of the value of TCS Group Holding PLC resides in its main operating subsidiaries. Thus in estimating the fair value of the subsidiaries the primary input is the market quote of the Company's GDRs which are traded on the London Stock Exchange. Other inputs include the estimated fair value of the assets and liabilities held by the Company other than its investment in the subsidiaries	Market quote of USD 15.56 for 1 share at 31 December 2018; Market interest rates
Foreign exchange swaps	86	Discounted cash flows adjusted for counterparty credit risk	EUR curve. USD Dollar Swaps Curve
Total recurring fair value measurements at level 2	**218,904**		
LIABILITIES AT FAIR VALUE			
Foreign exchange swaps	1	Discounted cash flows adjusted for counterparty credit risk	EUR curve. USD Dollar Swaps Curve
Total recurring fair value measurements at level 2	**1**		

There were no changes in the valuation techniques for level 2 recurring fair value measurements during the years ended 31 December 2019 and 2018. Level 2 derivatives comprise foreign exchange forwards.

At 31 December 2019 if market quote of GDR of the Company at that date had been 60% higher/lower (2018: 39% higher/lower), with all other variables held constant, the fair value of the investments in equity securities would have been RR 154,370 million higher/lower (2018: RR 74,212 million higher/lower).

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 3 measurements at 31 December 2019 are as follows:

In millions of RR	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Other investments in equity securities	850	Cost approach	Cost of acquisition. Share in post-acquisition profit
Total recurring fair value measurements at level 3	**850**		

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 3 measurements at 31 December 2018 are as follows:

In millions of RR	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Other investments in equity securities	431	Cost approach	Cost of acquisition. Share in post-acquisition profit
Total recurring fair value measurements at level 3	**431**		

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	31 December 2019				31 December 2018			
In millions of RR	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS CARRIED AT AMORTISED COST								
Cash and cash equivalents								
Placements with Russian and UK banks	-	596	-	596	-	760	-	760
Placements with European banks	-	2	-	2	-	1	-	1
Loans and deposit placements with related parties								
Deposit placements with subsidiary Bank	-	-	5,774	5,594	-	-	411	379
Other financial assets	-	64	-	64	-	1,300	-	1,300
Total financial assets carried at amortised cost	**-**	**662**	**5,774**	**6,256**	**-**	**2,061**	**411**	**2,440**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST								
Loans received	-	-	-	-	-	-	22,362	23,243
Debt securities in issue	-	2,460	-	2,460	-	3,754	-	3,754
Other financial liabilities	-	81	-	81	-	222	-	222
Total financial liabilities carried at amortised cost	**-**	**2,541**	**-**	**2,541**	**-**	**3,976**	**22,362**	**27,219**

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

21 Fair Value of Financial Instruments (Continued)

Weighted average discount rates used in determining fair value as of 31 December 2019 and 31 December 2018 depend on currency:

In % p.a.	31 December 2019	31 December 2018
Assets		
Cash and cash equivalents	0.0	-
Loans and deposit placements with related parties		
- *Deposit placements with subsidiary Bank*	2.8	6.0
Investments in debt securities	-	10.3
Liabilities		
Loans received	-	7.0
Debt securities in issue	1.9	2.6

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

22 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) financial assets at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets measured at FVTPL mandatorily, and (ii) assets designated as such upon initial recognition.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2019:

In millions of RR	AC	FVTPL (manda-tory)	FVTPL (designa-ted)	FVOCI	Total
Cash and cash equivalents	598	-	-	-	598
Loans and deposit placements with related parties:					
Deposit placements with subsidiary Bank	5,594	-	-	-	5,594
Investment in equity securities	-	-	-	257,293	257,293
Other financial assets	64	-	-	-	64
TOTAL FINANCIAL ASSETS	**6,256**	**-**	**-**	**257,293**	**263,549**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2018:

In millions of RR	AC	FVTPL (manda-tory)	FVTPL (designa-ted)	FVOCI	Total
Cash and cash equivalents	761	-	-	-	761
Loans and deposit placements with related parties:					
Subordinated loan to subsidiary Bank	-	-	-	-	-
Deposit placements with subsidiary Bank	379	-	-	-	379
Loan to subsidiary	-	-	-	-	-
Financial derivatives	-	86	-	-	86
Investment in debt securities	-	411	-	14	425
Investment in equity securities	-	-	-	219,249	219,249
Other financial assets	1,300	-	-	-	1,300
TOTAL FINANCIAL ASSETS	**2,440**	**497**	**-**	**219,263**	**222,200**

As of 31 December 2019 and 2018 all of the Company's financial liabilities were carried at amortised cost.

23 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can 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. The outstanding balances with related parties were as follows:

	31 December 2019		31 December 2018	
In millions of RR	Subsidiaries	Other related parties	Subsidiaries	Other related parties
ASSETS				
Loans and deposit placement with related parties (contractual interest rate 2019: from 0.35% to 7.5%, 2018: from 0.1% to 14.4%)	5,594	-	379	-
Financial derivatives	-	-	86	-
Investments in equity securities	256,443	850	218,818	431
Other financial assets	64	-	1,300	-
TOTAL ASSETS	**262,101**	**850**	**220,583**	**431**
LIABILITIES				
Loans from related parties (contractual interest rate 2018: from 4% to 7% p.a.)	-	-	22,447	796
Debt securities in issue (discount: 4%)	-	2,460	-	3,754
Financial derivatives	-	-	1	-
Other financial liabilities	-	-	-	208
Other non-financial liabilities	-	582	-	680
TOTAL LIABILITIES	**-**	**3,042**	**22,448**	**5,438**

31 DECEMBER 2019

Notes to the Separate Financial Statements (Continued)

23 Related Party Transactions (Continued)

Other related parties in the tables above are represented by entities which are under control of the Company's ultimate controlling party Oleg Tinkov.

The income and expense items with related parties were as follows:

	2019		2018	
In millions of RR	**Subsidiaries**	**Other related parties**	**Subsidiaries**	**Other related parties**
Interest income calculated using the effective interest rate method	228	-	78	-
Interest expense calculated using the effective interest rate method	(622)	(110)	(1,265)	(139)
Enhanced exclusivity agreement expense	-	-	-	(208)
Credit loss allowance for loans	-	-	(19)	-
Dividend income	17,158	-	1,351	-
Net gains/(losses) from foreign exchange translation	(94)	403	68	(619)
Net gains from operations with foreign currencies	111	-	195	-
Net (losses)/gains from derivatives revaluation	(678)	-	538	-
Other comprehensive income:				
Revaluation of investments in subsidiaries	37,362	-	10,148	-

In 2019 the total remuneration of Directors listed in the Management Report amounted to RR 17,3 million (2018: RR 17,6 million).

Management long-term incentive program. On 31 March 2016 the Company introduced a MLTIP as both a long-term incentive and a retention tool for the management of the Company.

On 15 January 2019 the Company granted GDRs to new participants in MLTIP which resulted the total number of GDRs attributable to the Management of 9,940 thousand as at 31 December 2019 (31 December 2018: 9,849 thousand).

Participants of the program receive the vested parts of their grants provided that they are employed by the Group during the vesting period. Participants are entitled to the dividends, if any. Participants who leave the Group lose their right for the unvested parts of the grants.

The fair value of the awards as at grant dates (31 March 2016, 8 February 2017, 22 February 2018 and 15 January 2019) is determined on the basis of market quotes of GDRs as at those dates.

Each grant is divided into 4 equal awards, each award is vested during 4 years in delivered equal tranches. The delivery dates as of which the GDRs are allowed to be sold by the participants correspond to the vesting dates at 14 April 2016 and each subsequent 31 March (with exception of 2019 when the vesting date for all participants was 31 January 2019) until 2022 for participants joining in 2016, until 2023 for participants joining in 2017, then until 2024 for participants joining in 2018, and until 2025 for participants joining in 2019.

The following table disclose the changes in the numbers of GDRs attributable to the MLTIP between the beginning of the program and the end of the reporting period:

In thousands	**Number of GDRs attributable to the MLTIP**
Granted during the year	7,425
Vested during the year	(464)
At 31 December 2016	**6,961**
Granted during the year	2,270
Vested during the year	(1,326)
Forfeited during the year	(60)
At 31 December 2017	**7,845**
Granted during the year	154
Vested during the year	(1,805)
Forfeited during the year	(16)
At 31 December 2018	**6,178**
Granted during the year	91
Vested during the year	(2,419)
Forfeited during the year	(68)
At 31 December 2019	**3,782**

24 Events after the End of the Reporting Period

In February 2020 the Company announced plans to invest in a new venture project to set up a fintech company providing a range of services to retail customers in Europe (excluding CIS). The startup will offer non-credit financial products. The project is due to launch in 2020, with the Company as its key seed investor. The Company will have a controlling interest in the new venture. The Company's initial commitment is up to Euro 25 million and will be contributed in tranches as the venture develops.

On 10 March 2020 the Board of Directors declared an interim dividend in line with the current dividend policy of USD 0.21 per share/per GDR with a total amount allocated for dividend payment of around USD 41.9 million.

On 19 March 2020 Altoville Holdings Limited and Nemorenti Limited (companies under control of Mr. Oleg Tinkov) transferred all of the Company's Class B shares owned by them to two Tinkov family trusts. Mr. Oleg Tinkov remains the ultimate beneficiary of his holding, and thus his voting rights are unaffected by this change. This change also has no consequences for or impact on the operations of the Company and its subsidiaries.

The quoted market price of the Company's GDRs (Moscow Exchange) has decreased by approximately 41% at the date of approval of these separate financial statements as compared to the end of 2019. The market price of the GDRs directly impacts the carrying value of investments in subsidiaries in the Company's separate financial statements.

GLOSSARY

Active Users	AU	A performance metric for the success of an internet product commonly assessed per month (MAU), per week (WAU), or per day (DAU)
Artificial Intelligence	AI	n/a
Anti-money laundering	AML	Laws regulating money laundering and terrorist financing
Average cost of funding	n/a	Interest expense / Average IEL
Average interest rate on loans	n/a	Core revenue on loans / Average net loan portfolio
Capital adequacy ratio	CAR	Capital/RWA
CBRF	CBRF	Central Bank of the Russian Federation
Charge-off rate	n/a	Loan charge-off / Average gross loans
Charge-offs	n/a	Loans written off the balance
Class A share	n/a	One share in TCSGH PLC having one vote
Class B share	n/a	One share in TCSGH PLC having ten votes
Compound Annnual Growth Rate	CAGR	n/a
Compulsory car insurance programme	OSAGO	n/a
Corporate social responsibility	CSR	n/a
Cost of borrowing	n/a	Interest expense/interest bearing liabilities
Cost of risk	n/a	Loan loss provision / Average gross loans
Cost to income ratio	C/I	Operating and acquisition expense / Core revenue
Cost to income ratio (excl. acquisition costs)	n/a	Operating expense / Core revenue
Country by Country Reporting	CbCR	
CRM	n/a	Online customer relationship management system
Cyprus Securities and Exchange Commission	CySec	Cyprus regulator of financial markets
Days past due	dpd	n/a
Financial Conduct Authority	FCA	UK regulator of financial markets
GIBDD	GIBDD	Law enforcement agency responsible for traffic
Global depositary receipt	GDR	One TCS Group Holding PLC GDR represents an interest in one class A share
Gross portfolio yield	n/a	Core revenue on loans /Average gross loan portfolio
Interest-earning assets	IEA	Gross loans + interbank loans and accounts + securities + interest earning cash equivalents
Interest-earning liabilities	IEL	Deposits + interbank + debt securities + subordinated loans + syndicated loan
International financial reporting standards	IFRS	n/a
IPO	n/a	Initial public offering, in the case of TCSGH plc with listing on the London Stock Exchange in October 2013
KASKO	KASKO	Voluntary car insurance programme
Key performance indicators	KPI	n/a
Loan loss provision	LLP	Allowance for bad loans
London Stock Exchange	LSE	n/a
M&A	-	Mergers and acquisitions activity, consolidation of companies
Management report/consolidated management report	MR/CMR	n/a
Mobile virtual network operator	MVNO	n/a
N1.0	N1.0	Russian statutory capital adequacy ratio
Net charge-offs	n/a	Loan charge-offs less recoveries
Net interest margin	NIM	Net interest income / Average IEA
Net Promoter Score	NPS	n/a
NFC	NFC	Near Field Communication
Non-financial statement/consolidated non-financial statement	NFS/CFNS	n/a
Non-performing loans	NPLs	Loans 90+ days overdue
NPV	NPV	Net present value
Person discharging managerial responsibilities	PDMR	n/a
PIE	Public interest entity	n/a
POS	Point-of-Sale loans	Credit offering at merchant and retail points of sale
Revenue	n/a	Operating income
Return on average assets	ROAA	Net income / Average assets
Return on average equity	ROAE	Net income / Average equity
Risk-adjusted net interest margin	Risk-adjusted NIM	(Net interest income - PL provisions) / Average IEA
Risk-weighted assets	RWA	Assets weighted by risk as per the CBRF methodology
Russian accounting standards	RAS	n/a
Smart Couriers	n/a	The Group's courier network, completing KYC and delivering cards to customers
SMEs	n/a	Small and medium enterprises
The Group's management long term incentive plan	MLTIP	n/a
Treasury portfolio	n/a	Investment securities and repos

INVESTOR INFORMATION

Detailed below are contacts and various addresses investors may find useful.
More up to date investor information, including the Group's current and historic share prices, corporate news, latest operational and financial results, presentations and other updates, is available on the TCS Group corporate websites at www.tinkoff.ru/eng

More up to date information can be found at the TCS Group Holding corporate
website at www.tcsgh.com.cy
and www.tinkoff.ru/eng

TCS Group Holding PLC
(registered number HE107963)

Telephone: +357 2505 0668
Email: administration@tcsgh.com.cy

Registered office address: 5th floor
Berengaria 25
Spyrou Araouzou 25
Limassol 3036
Cyprus
Mail to: PO Box 56356, 3306 Limassol.

Principal business premises:
Office 403, Lophitis Business Centre
Corner of 28th October/Emiliou Chourmouziou Streets
Limassol 3035 Cyprus

Telephone: +357 25 35 88 35
administration@tcsgh.com.cy

Larisa Chernysheva, Head of Investor Relations
ir@tcsgh.com.cy
ir@tinkoff.ru
stakeholderengagement@tcsgh.com.cy

Artem Lebedev, Head of PR
pr@tcsgh.com.cy
pr@tinkoff.ru

Company Secretary

Caelion Secretarial Limited
(registered number HE351260)
4th floor
Berengaria 25
Spyrou Araouzou 25
Limassol 3036
Cyprus

Telephone: +357 2504 0404
Fax: +357 2504 0415

Depositary

Existing investors are encouraged in the first instance to speak to their brokers/custodians, and then direct queries and questions through the Depositary's contacts page on adr.com

https://adr.com/contact/jpmorgan

Custodian

HSBC Bank plc
(acting by way of its Athens branch)
HSBC Bank plc (Greece)
via its department
HSBC Securities Services, Greece
109–111, Messoghion Ave.
115 26 Athens
Greece

Auditors

PricewaterhouseCoopers Limited
City House, 6 Karaiskakis Street
CY-3032 Limassol
Cyprus

tinkoff.ru/eng

2019