# UNLOCKING THE POTENTIAL OF THE TINKOFF ECOSYSTEM: CUSTOMER BASE GROWTH AND CROSS-SELL

ANNUAL REPORT 2018
TCS GROUP HOLDING PLC

№1

# BEST IN MOBILE BANKING IN CENTRAL AND EASTERN EUROPE

* by Global Finance 2018

# CONTENTS

## TCS GROUP IS AN INNOVATIVE PROVIDER OF ONLINE RETAIL FINANCIAL SERVICES IN RUSSIA OPERATING THROUGH A HIGH-TECH BRANCHLESS PLATFORM.



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 2018 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.

# Tinkoff

## One-stop shop for all your daily financial needs

ONE CLICK

**Daily banking**
- Debit cards
- Credit products
- Payments
- P2P transfers
- Public services

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

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

**LIFESTYLE BANKING WITH YOUR MOBILE PHONE**

**Real Estate**
- Mortgage
- 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**
- Ticketing
- Restaurant reservations
- Stories
- Travel

**12mn** downloads

**1.1mn** daily active users

**#2 Top** Internet Project in Russia*

**62mn** sessions per month

**3.7mn** monthly active users

**4.0min** session length

*Source: Yandex Radar/Banks category/unique visitors

PROVEN TRACK RECORD OF DRIVING SUSTAINABLE GROWTH

# HIGHLIGHTS

## Growth

- Gross loans up 41% to RUB234.7bn in 2018
- More than 1.1 mn new credit customers acquired in 2018 and over 1.7mn new debit cards issued
- SME business developing rapidly, with over 422,000 SME customers acquired
- Customer accounts up 57% at RUB280.9bn

## Key events

- Ongoing focus on credit quality
- NPLs (90d+) dropped from 13.4% to 9.4% at YE2018
- Robust loan loss provision of 1.64x at YE2018

## Credit quality

- Ongoing focus on credit quality
- NPLs (90d+) dropped to 9.4% at YE2018

## Profitability

- FY2018 net income, a Group record at RUB27bn, with 3 consecutive years of record net income
- ROAE of 74.7% for FY2018

## Liquidity and capitalisation

- Total assets up by 44.8% over 2018 at RUB375.5bn, with cash and treasury portfolio up at RUB135.1bn
- Total equity up by 31.5% to RUB42.3bn at YE2018
- 31 December 2018 CBRF N1 statutory capital ratio of 13.9% and Tier 1 at 14.9%
- Treasury portfolio of RUB100.1bn of highly liquid CBRF repoable bonds

2018

**Customer accounts**
280.9
RUBbn

**Total assets**
375.5
RUBbn

**ROE 2018**
74.7
%

**Net profit**
27.1
RUBbn

**N1.0 at the end of 2018**
13.9
%

**New credit customers**
+1.1
mn



# OUR HISTORY

| Highlights of TCS Group's innovative development | | Net profit (RUBbn) |
|---|---|---|
| 2017–2018 | • Acquisition of a stake in Kassir.ru to enrich our lifestyle offering<br>• A multi-currency platform launched accommodating up to 30 currencies<br>• Full brokerage and depositary services license obtained<br>• Launch of Tinkoff Junior app, a service for children and teenagers<br>• Launched Cyprus-based home call centre<br>• Home equity loans pilot started<br>• Launch of a virtual development hub, eleventh IT-hub of Tinkoff<br>• Launch of Tinkoff Mobile<br>• Roll-out of own ATM's across Russia<br>• Acquisition of a 55% stake in CloudPayments<br>• Launch of Stories for mobile app<br>• Launch of Tinkoff Property<br>• A partnership with Skolkovo Innovation Center announced<br>• Tinkoff Bank was admitted to membership in the FinTech Association | 46.1 |
| 2014–2016 | • Launched a network of software development hubs countrywide, the first in St Petersburg<br>• Joined the Russian blockchain consortium<br>• Introduced a face recognition system for scoring<br>• Launched a new management long term incentive plan<br>• One of the first launching Apple Pay and Samsung Pay in Russia<br>• Acquired parts of Svyaznoy Bank's credit card portfolios<br>• Became Russia's second largest credit card provider<br>• Launched a range of new business lines, transitioning to online financial marketplace Tinkoff.ru<br>• Issued new co-branded cards<br>• New brand - Tinkoff Bank<br>• Launch of a series of co-branded cards<br>• Launch of a number of mono mobile applications | 16.3 |
| 2010–2013 | • TCS Group IPO on the London Stock Exchange Main Market<br>• Launch of Tinkoff Insurance<br>• Launch of cash loans<br>• Minority stakes sold to Baring Vostok and Horizon<br>• Launch of online POS loan programme<br>• Launch of mobile banking<br>• Launch of the mobile and telesales sub-channels of Tinkoff Bank online customer acquisition platform<br>• Launch of online acquisition channel for credit cards<br>• Launch of "smart courier" service | 11.8 |
| 2006–2009 | • Launch of the retail deposit programme<br>• First debit card issued<br>• Minority stakes sold to Goldman Sachs and Vostok Nafta<br>• Launch of internet bank<br>• First credit card issued<br>• **Tinkoff Credit Systems Bank was created by Oleg Tinkov** | –0.6 |

ALL KEY PERFORMANCE METRICS ACROSS THE ECOSYSTEM WERE UP IN FY2018, ROAE OF 74.7%, A RECORD NET INCOME OF RUB27.1 BLN FOR FY2018 AND AROUND 50% OF THAT PROFIT HAS ALREADY BEEN DISTRIBUTED TO OUR INVESTORS.

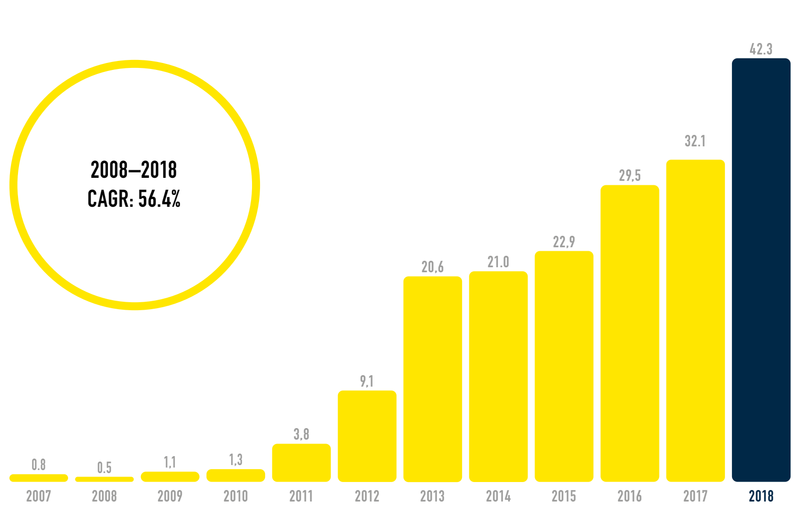
Oleg Tinkov
Founder and
Controlling Shareholder

# FOUNDER'S STATEMENT

**Dear Stakeholders**

It has become almost a ritual, and a most enjoyable one, to be writing to you at a time when the Group has just reported record high net income results. And so it is again for FY2018 (long may this continue); all key performance metrics across the Ecosystem up, ROAE of 74.7%, record 2018 net income of RUB27.1 bn and around 50% of that profit has already been distributed to our investors. 2019, though still in its early days, is shaping up nicely too, but one thing you can confidently expect in the Russian financial markets is the unexpected. For myself, I am very positive about Tinkoff in 2019.

Equity RUBbln



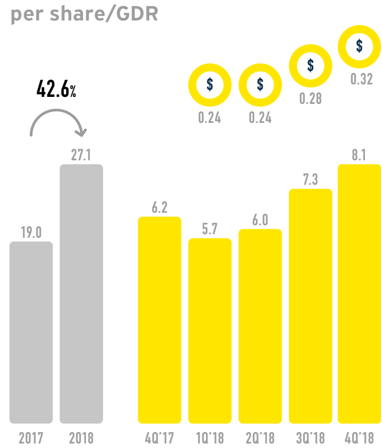

It is fascinating to see each year how the Group's various business lines thrive at different times, at different stages of their development and in an ever-changing business environment, but consistently capturing an increasing share of customer spend. 2018 saw the number of Tinkoff customers grow significantly to top 8.5 million and we believe we see a pathway to our medium-term ambition of over 20 million customers in our digital financial Ecosystem.

There are many highlights from Tinkoff's 2018. Some grab headlines like customer service and innovation awards won, exceeding our guidance to the markets, the highly successful launch of our new brokerage platform, and the extension our digital financial Ecosystem further into lifestyle choices, quasi-financial needs that are associated with transactions from a customer's card. Buying tickets, travelling, restaurants-all built around satisfying customer needs. But there are others with a lower external profile, worked on by the management team day after day after day- projecting the Tinkoff brand, motivating and incentivising staff, nurturing the Tinkoff entrepreneurial and innovative spirit and the Tinkoff culture, recruiting the ablest and most talented staff at every level against fierce hiring pressures in the fintech space and running unrivalled training and education programmes-equally vital all of them, top, top priority and we never lose sight of these.

It is this last point I want to say something more about, our people - Team Tinkoff and my philosophy.

At the end of 2013 the year of our IPO we had a total staff of 4,166. This had risen to over 11,600 by the end of 2016, to over 20,800 by the end of 2017, to over 24,500 by the end of 2018 (with an average age of 28) and now we project the total will be around, probably over, 29,500 by the end of this year.

Net income & dividend per share/GDR




This is impressive growth. And we can never onboard too many young, smart, aggressive, creative, dynamic people, to win, and provide the very best service to, the 20 million customers we aspire to have. We have a very American approach-we are about results. We expect full commitment and focus. For an intelligent, enterprising, responsible person wanting to make a career today, we are the best company in Russia. No question about it.

To close I would like to express my personal thanks to those who have made 2018 such a success, my management team for their ideas and brilliant execution of them, our partners and stakeholders all of whom have made vital contributions again in 2018, and most of all, to all our customers.

**Oleg Tinkov**

Founder and Controlling Shareholder

# 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 Bank'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. 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.

## 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 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.

## 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 where we started with mortgages and have more to come soon. 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.

## 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 Bank's free Internet, mobile and call centre service platforms.

**Tinkoff** is an online financial supermarket offering customers the full range of financial, insurance and quasi-financial services. Through the platform Tinkoff.ru 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 model starting with mortgages, non-Tinkoff insurance and a pipeline of other products coming soon. For small businesses, we offer current accounts, transactional services, 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.

# MARKET CONTEXT

## Retail lending

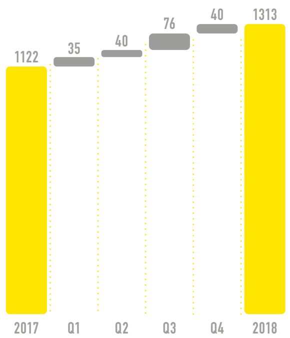
In 2018 the unsecured lending market continued to demonstrate high growth rates. At the same time, the pattern of growth was significantly different to what we observed in 2017. While the operating environment in Russia remained positive, the early signs of customer leveraging re-appeared on the market. The competition intensified and some players in attempts to meet pent-up customer demand demonstrated a kind of irrational behavior pouring into the market longer duration cash loans. This in turn caused an immediate reaction from the CBRF who introduced a series of risk-weight increases in May and September 2018 and in December announced another increase coming into force from 1 April 2019.

Despite the increased competition throughout 2018, it was still represented by just a few banks who managed to grow their loan books and increase their market share by the year end. Largely the growth came from the usual players - state banks and a few private players. Tinkoff was one of them.
In 2018 alongside credit cards, Tinkoff Bank successfully launched cash loans and POS loans for its customers as well as announcing it started to test home equity loans and car loans. Even taking into account the CBRF's increasing efforts to regulate the market, expectations are this sector has strong potential as in Russia it is still underpenetrated relative to the most developed economies as well as to certain high growth emerging economies.

Credit card market in Russia (RUBbn)

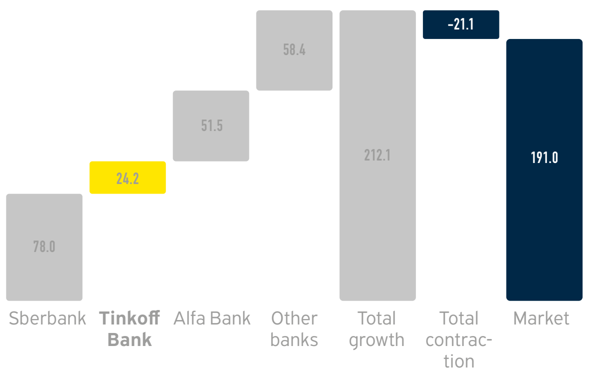
**In 2018 the credit card lending sector in Russia grew by**

**17.0%**




Source: CBRF

Market dynamics in 2018 (RUBbn)

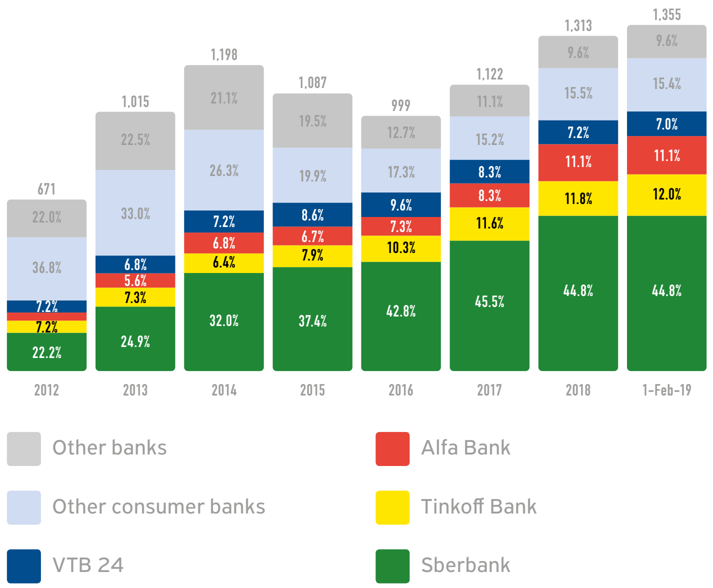



# MARKET POSITION

## Credit business

In 2018 Tinkoff Bank further cemented its position as the number 2 credit card player in Russia after Sberbank. As a result of credit portfolio diversification into cash and POS loans as well as home equity and car loans Tinkoff Bank managed to grab a share in retail loans up to 3 years and finished the year as the number 4 player after Sberbank, Alfa Bank and VTB.

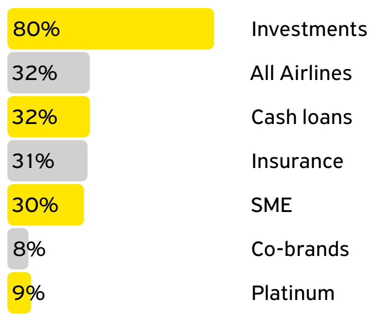
Russian credit card market



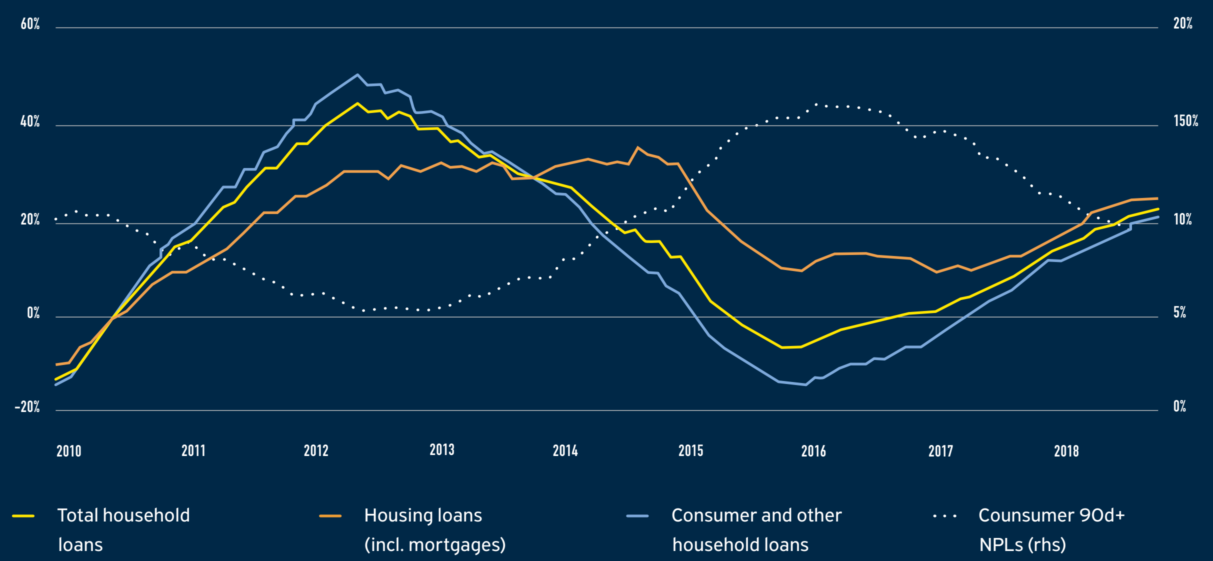

## Tinkoff Black debt card

In 2018 the number of accounts opened grew to over 4.5mn. Our Tinkoff Black product remains the main feeder for Tinkoff ecosystem growth and feeds cross-sell potential. At the end of 2018 the number of customers with more than one Tinkoff product reached 1.3 million. The average age of Tinkoff Black customers is 32. It is the product of choice for well-educated young professionals in its financial power sophisticated in financials and technology and offering the swift and easy access to either financial or lifestyle services.

Tinkoff Black is a major sale channel for other products



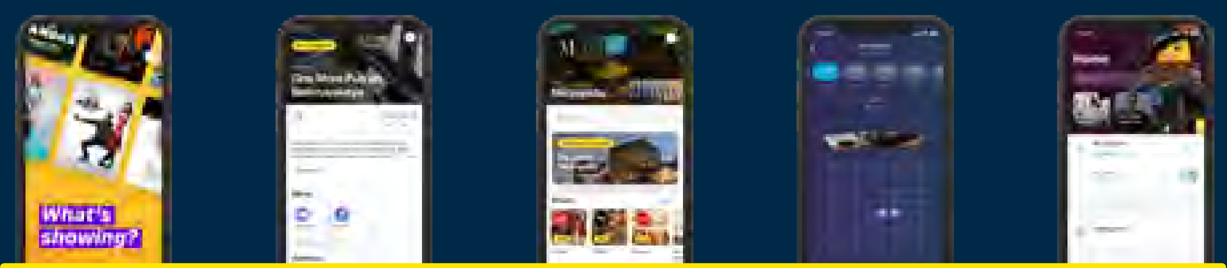

## Household debt continued to grow in 2018 while NPLs were improving




## 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 Bank 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. Over the last couple of years a number of different entertainment and lifestyle services have been launched such as Stories – a targeted AI based tips based on customer's transaction activity, restaurant reservations, shopping experience, cinema, theatre and concert tickets and travel.

**Stories 2017** | **Restaurants 2017** | **Shopping experience 2018** | **Tickets 2018** | **Tinkoff Junior 2018**




**#2 Top Internet Project in Russia***

* Source: YandexRadar/Banks category/unique visitors.

# STRATEGY

## TINKOFF'S STRATEGY IS TO EXPAND ITS CORE CREDIT OFFERING AND MOVE BEYOND ROUTINE TRANSACTIONAL AND SERVICING INTO LIFESTYLE AND ENTERTAINMENT

## 01.

### 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, 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.

### 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.

## 04.

### 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.

## 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.

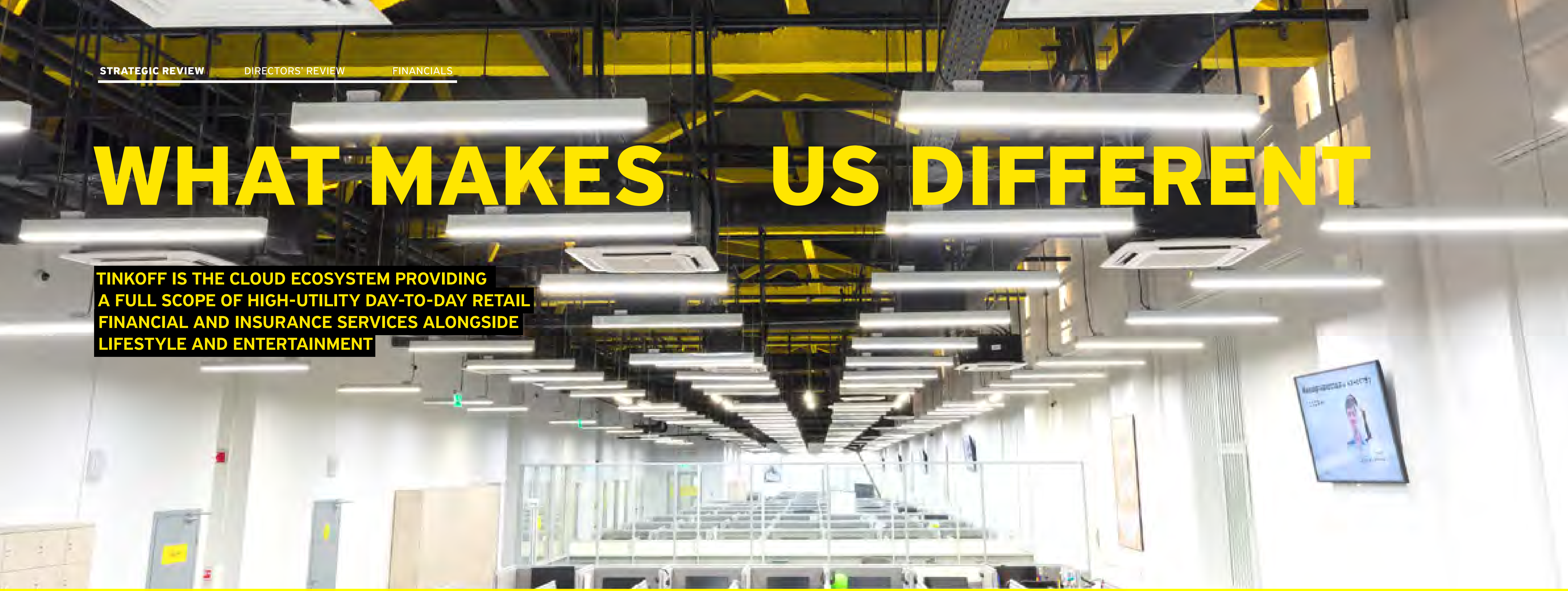
### DEVELOP THE HIGH-GROWTH CONCEPT OF THE FINANCIAL SUPERMARKET, A PLATFORM OFFERING A CHOICE OF CONSUMER LENDING, INSURANCE AND TRANSACTIONAL AND PAYMENT SERVICES OF TINKOFF BANK AS WELL AS LIFESTYLE, ENTERTAINMENT AND PARTNER PRODUCTS

Retail lending remains Tinkoff Bank's core business. In 2018 we significantly broadened the range of our credit products. Alongside credit cards we offer cash loans and POS loans. We also announced the launch of our collateralized loan programme where a loan can be secured with either an apartment or a car.

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 2018 we significantly improved our lifestyle and entertainment offering to the customers. In additional to Stories (AI*-based recommendations and user tips based on transactional activity) and restaurant reservations, we have enriched our banking mobile app with such new features as purchase of cinema, theatre and concert tickets and our guided shopping experience. Moreover, in October we launched the Tinkoff Junior app, offering banking services to children and teenagers, while providing their parents with all the requisite controls for their children's accounts.

In 2018 our Partners' family welcomed a new member. In July, Tinkoff acquired a stake in Kassir.ru, Russia's top online ticketing provider in a move to further develop the Tinkoff ecosystem and offer customers a wider choice of lifestyle services through the Tinkoff.ru platform.



# WHAT MAKES US DIFFERENT

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

## SINGLE POINT OF DESTINATION FOR DAILY BANKING

Tinkoff Bank is a top-2 credit card lender and top-4 in retail loans up to 3 years 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 Bank 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 Bank has been expanding to bring additional partners' products and services through its full-cycle brokerage platform so now we make available to Russian consumers mortgage programmes and further expanding our lifestyle and entertainment offering with travel, ticketing and shopping experience.

**2.3mn** applications per month on average during 2018

**8mn** customer issues solved via chat

**11.8%** Market Share*

* As of 31 December 2018 based on CBRF data.

## 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 internet bank, mobile bank, 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.

**>11.7mn** Credit cards issued

**over 372RUBbn** of customer credit card transactions in 2018

# WHAT MAKES US DIFFERENT


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

## POWERFUL DISTRIBUTION

Tinkoff Bank 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 Bank 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 Bank's online origination process makes extensive use of online data and behavioural profiles, and gives it clear advantages over competitors in terms of underwriting.

**47.3%**

Net loan portfolio CAGR 2008-2018

**15mn**

over 3mn inbound calls/around 15mn outbound calls per month on average in 2018

## 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 Bank to continue its success.

**87x**

Equity grew by 87x in 10 years (from 2008 to 2018)

**74.7%**

ROAE

**№1**

Best mobile banking app in Central and Eastern Europe*

* by Global Finance

**OUR EXCELLENT 2018 RESULTS GO TO SHOW THAT IF YOU HAVE THE RIGHT BUSINESS MODEL, THE RIGHT BRAND, THE RIGHT TEAM AND CAN EXECUTE, RUSSIA IS A GREAT MARKET TO BE IN DESPITE HOW IT MAY SOMETIMES LOOK FROM THE OUTSIDE.**

**Oliver Hughes**
Chief Executive Officer

# CEO STRATEGIC REVIEW

**Dear Investors**

2018 was a truly excellent year for Tinkoff. Not only did we start to see last year tangible results of the Tinkoff Ecosystem strategy coming through, the Group also had another set of record-breaking results.

I was pleased to announce a few weeks ago, alongside members of our management team, another outstanding set of results, by some margin surpassing the two preceding excellent years. While continuing investing into new business lines now well beyond financial services, even with our usual seasonally slower start to the year, the Group still managed to outperform expectations for 2018. This again goes to show that if you have the right business model, the right brand, the right team and can execute, Russia is a great market to be in despite how it may sometimes look from the outside.

ROAE IS 74.7% AND TOTAL EQUITY CLIMBED TO RUB42.3BN

ROAE
**74.7%**

Later on I will bring you my take on some other significant developments for Tinkoff in the year as well as update you on some themes I have raised in recent strategic reviews, themes such as our fantastic customer satisfaction awards, daily and monthly active user scores and Net Promoter (NPS) scoring, the Group's M+A policy and some possible regulatory developments out ahead. First though to our financial performance in FY2018.

## Overview of 2018 financial performance-financial highlights

Last year the Group's revenue grew by 42% from RUB79bn to nearly RUB113bn. This revenue growth came from many sources, which we at Tinkoff split out in two main streams:

- our consumer credit business lines; and
- our transactional and servicing business lines.Transactional and servicing business lines, with strong growth, made a meaningful contribution to Group operating income for the first time.

As a result, Net Income for 2018 grew by 43% year-on-year and reached a record RUB27.1bn. This gave the Group an impressive ROAE of almost 75%.

Other headline numbers for 2018 worth highlighting include:

- Net loans grew by almost 53%, well ahead of expectation;
- Fee and Commission income was up 77% year-on-year to RUB27.4bn and non-credit business lines produced 32% of total revenue in 2018;
- Our Cost-to-Income ratio declined to 42.2% from 43.2% a year ago and this is a trend we see continuing. Management have devoted considerable time and resources to develop momentum behind this trend and plan yet more, with a view to stabilising it at around the 40% level, or lower, over the coming quarters even as we continue to invest in growth and brand-building;
- Cost of Borrowing dropped to 6.1% and Cost of Risk stood at 6.0%.

Behind these numbers lies the story of the Tinkoff Ecosystem. The management team has put a huge amount of work into expanding the Tinkoff credit products range, scaling up non-credit business lines, building and integrating lifestyle services, enhancing our interfaces, continually improving the customer experience, and renewing our focus on efficiency. To unlock the potential in our Ecosystem, we have had to develop new cross-selling, data management, loyalty and infrastructural capabilities while ramping up our various customer acquisition channels to bring large numbers of customers into our sphere. We have also put a lot of effort and resources into building out our customer lifestyle platform to cement our position as the natural choice for the young, urban professional in Russia. These are ongoing processes-they did not start in 2018 and they most definitely did not stop at the end of 2018.

CONTINUED

# CEO STRATEGIC REVIEW

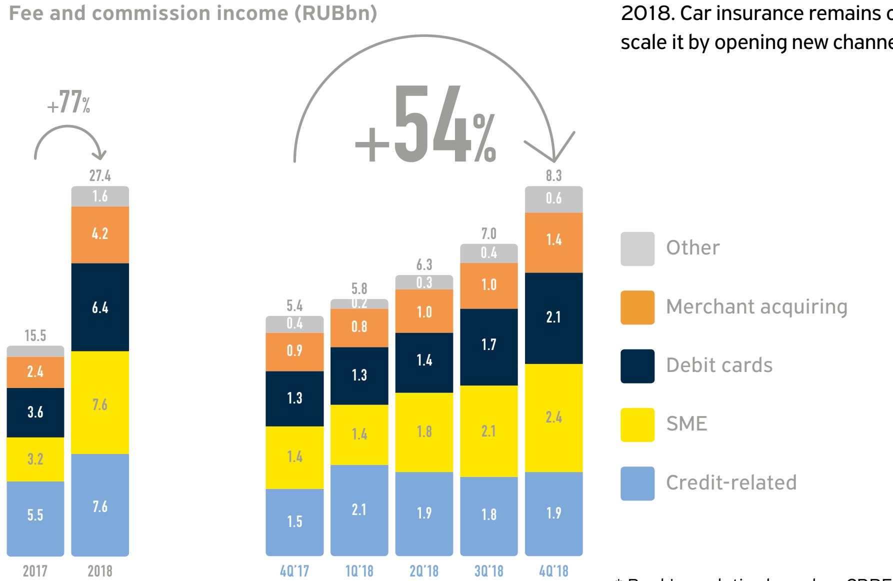
A look at the business lines' contributions
So, what drove the strong bottom line result in 2018?

## 1/ Consumer Credit business lines

We reached 5 million borrowers by the end of 2018. While credit cards continued to perform steadily with on average 200k cards issued per month, the share of other credit products - personal loans, POS loans, car loans and home equity loans - grew to 26.9% of the net loan book by Q42018 from 8.4% a year earlier. To give you some more colour on the credit business lines:

- By the end of 2018, the personal loan portfolio stood at RUB32.9bn. It grew 5x during the year. These loans are mainly cross-sold to our existing customer base.
- The POS loan book grew by 3.3x and stood at RUB14.8bn. This business line is mildly P&L negative and is basically the cost of acquiring customers for further cross-selling of credit cards and other loans. We aim to scale it up further.
- By year end 2018, the home equity book was RUB2.6bn. This business line is still in pilot – we will only have meaningful vintage data in late 2019.
- By the end of 2018, car loans accounted for RUB2.8bn with 5.5k loans issued. The Group is active in both the new and second-hand car segments. Most of our distribution is offline but we also launched online acquisition with a couple of major partners such as Auto.ru.

Fee and commission income (RUBbn)




## 2/ Transactional and servicing business lines

Here our hard work is producing significant payback. Our non-credit business lines income doubled, driven mainly by Tinkoff Business, Tinkoff Black and Tinkoff Insurance. A look at these in turn:

**Tinkoff Business (SME services):** Tinkoff Business remains one of the main locomotives of fee and commission fee generation. It showed steady growth in newly opened accounts, balances and revenues and the Group successfully navigated through the market turbulence caused by the CBRF's crack-down on the small business sector in H22018. The Group took fifth place by market share in the individual entrepreneur segment by year end 2018 and we see huge potential for growth as we move up through the small and medium business segments.

**Tinkoff Black:** Tinkoff Black is going from strength to strength. We attracted half a million new customers in Q4 and at year-end we hit 4.5 million accounts opened. Spend on Tinkoff Black grew from RUB 570bn in 2017 to RUB1.04tn in 2018, a growth of 83%. We plan to continue this major customer acquisition effort into 2019 – this is the main acquisition channel of mass-affluent and affluent customer segments and is one of the major feeders for cross-selling.

**Tinkoff Insurance:** Tinkoff Insurance has demonstrated a steady improvement over the last two years. It is a stable contributor to the Group's bottom line.
Its premiums grew by 2.4x y-o-y to RUB6.7bn at the end of 2018. Car insurance remains our priority and we plan to further scale it by opening new channels in 2019 and beyond.

* Bank's analytics based on CBRF 101 form

## Other business lines too are deserving of mention.

**Tinkoff Investments (retail brokerage):** Our award-winning Tinkoff Investments app took first place on the Moscow Stock Exchange by number of newly-opened brokerage accounts, widening the gap between us and Sberbank and BCS. We saw a quantum leap to over 300k accounts opened by the end of 2018 with half of this number opened in Q42018 alone. We significantly expanded our product range, introducing solutions for the mass affluent customer segment, wealth management and high-frequency traders. Tinkoff Investments Premium offers access to over 10k global securities as well as providing personal manager services directly in the Investments app. We also optimised tariff plans and customer service approaches to cater to the needs of the different investor categories. We will continue to promote this business line heavily as we not only disrupt the existing market but create a brand new one. We expect Tinkoff Investments to break even before the end of 2019.

**Online Merchant Acquiring:** Online Merchant Acquiring had a very good year in 2018 with growth of 72% from RUB 2.4bn to RUB4.2bn giving us a market share of around 15%. This business line makes a healthy contribution to the bottom line and we know how to grow it further.

**Tinkoff Mortgage platform (mortgage broker):** The Tinkoff Mortgage platform grew its origination volume to RUB25bn in 2018 and operates at around break-even. We have been unable to scale this business line up profitably due to the structure of the market and the dominance of the Russian state banks in mortgage lending. Even so, the Tinkoff Mortgage platform continues to be an important Ecosystem service for our customers.

My review I believe gives you a sense of the great successes of Tinkoff in 2018 as well as a feel for its awesome potential going forward.

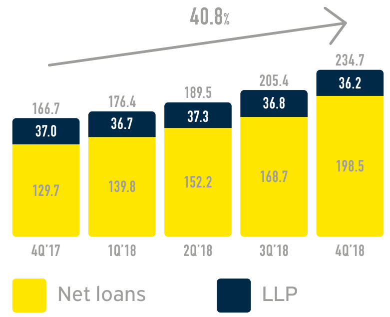
## 2018 highlights

I will pick a few of my favourites out of the many- these are just a part of the picture. Others you will find in our CFO Ilya Pisemsky's Financial Review and elsewhere ('Our Awards') in this Report:

- the Group's acquisition of a stake in Kassir.ru to enrich our mobile app functionality and customer engagement-Kassir is the largest online ticket operator in Russia;
- Tinkoff Investments came Number 1 on the Moscow Stock Exchange by number of newly opened brokerage accounts in 2018;
- The launch of the Tinkoff Junior app; and
- We scooped a number of awards from Banki.ru. By far the most important one is that we topped 'The People's Rating' of Russian banks. This reflects the ratings of quality and service that consumers themselves post on this internet forum.

These all contributed to making 2018 a memorable year in the history of Tinkoff.

Gross loans




## What do we see ahead-more of the same?

There are some other themes I touched on last year in my strategic review and where I can offer now some more up to the moment insights. These include increased regulation of our industry, increasing the Tinkoff customer base, our transition to different measures of customer satisfaction and our M+A policy.

In December 2018, the CBRF announced yet another potentially significant increase in risk-weights for unsecured consumer loans; these will take effect from 1 April 2019 and increase banks' capital needs. After detailed evaluation of the Group's capital needs, our Board of Directors took swift action and announced late last year a new dividend policy effective 1st April 2019 under which we would reduce the dividend ratio to target up to 30% of net income of the previous quarter. Our robust financial position allowed us to maintain the 50% net income target for Q42018 (our first 2019 dividend) while giving investors time to adjust to the new policy.

CONTINUED

# CEO STRATEGIC REVIEW

We have always said that if we have an opportunity to capture stronger loan growth whilst maintaining good credit quality, then we would reduce dividends to maintain capital levels. The move by the CBRF was not unexpected – their instrument of choice to combat 'overheating' is change to asset risk weightings and they have not hesitated to use it. They may well use it again. You should expect more regulation-we do and it is factored into our plans. Tinkoff though is focused on building a sustainable business based on long-term relationships with our customers; we grow our loan book by growing our customer base and by diversifying our product range, not by issuing larger and longer loans to the same customers. It is that malpractice which worries the CBRF: it worries us too. We hope that the markets will help the CBRF find a mechanism that will protect consumers and the banking sector as a whole from a repeat of the over-leveraging issues that we saw in the last cycle. So we see opportunity here, not threat. The PTI regulation (intended to tackle over-indebtedness among Russian consumers by linking risk weights for retail loans to a borrower's debt service to income ratio) that comes into force in October 2019 should also help make the market safer. We would welcome that.

As a result of the many initiatives and growth efforts I have described in this and previous strategic reviews, Tinkoff's customer base grew significantly last year to well over 8.5 million customers, and we believe we know how to achieve our medium term ambition of a base of 20m customers. To retain customers and increase their activity with Tinkoff, we are driving customer engagement through new services, new content and cross-selling. The main measurements of our progress in this area are DAU (daily active users) which in March 2019 stood at 1.1 million and MAU (monthly active users) which stood at 3.7 million. The number of Tinkoff customers with more than one account at Tinkoff has at the time of writing this strategic review reached 1.3 million. We continue to use NPS too as a customer servicing and satisfaction metric, with NPS for Tinkoff Business at nearly 55% and many others at or around the 50% level. We now have close to 1.1 mn daily users of our app. These customer satisfaction levels are reflected in the Banki.ru awards I mentioned before, but are driven by the innovations we make and our best-in-class customer servicing and satisfaction skills we are constantly upgrading. Our customers mean everything to us.

In this context I should mention some of the very many innovations we have made in our app over the course of 2018.

- We launched one-click purchase of cinema tickets in November 2018. The service took off and in February 2019 alone we sold over 230k tickets;
- We integrated Kassir, the largest online ticket operator in Russia, a company in which we have now made two minority investments. Tinkoff sold around 20k concert and theatre tickets in February 2019; we have huge plans for this service;
- Our customers made close to 8k restaurant and taxi bookings through the Tinkoff app in February 2019. They also on average bought around 50k airline tickets and made around 15k hotel bookings in both January and February 2019 through Tinkoff Travel;
- We launched the first version of our voice assistant in the mobile app in December 2018 – the working name is 'Oleg' !

Watch this space as we add more and more interesting lifestyle services to our app.

We have invested recently in ramping up our corporate finance capability. One of the aims of this, alongside building content, is to accelerate a significant increase in our active customer base in the near term. We have now completed two significant, but small scale, share acquisitions- CloudPayments in 2017 and Kassir.ru in 2018- in different spheres of the Ecosystem markets to enhance our payment systems and lifestyle offerings, and are committed to integrating them further and maximizing their potential. In both cases the talented team of co-founders and managers are incentivized to develop the businesses they are committed to, within or alongside the Tinkoff Ecosystem. Both bring a lot to the Tinkoff Ecosystem, with much more to come. And we envisage that in building out our Ecosystem further, many more such M+A opportunities will be identified and pursued. There is no shortage of opportunities and I believe Tinkoff has the team to take most advantage of them.

Finally, it is my pleasure to thank all those who made 2018 such a truly excellent year for Tinkoff. It is difficult to imagine a better starting point going into 2019.

**Oliver Hughes**
Chief Executive Officer

# OUR RECENT AWARDS

**Global Finance**

- Best Consumer Digital Bank in Russia
- The World's Best Investment Service among Digital Banks
- Best Bill Payment & Presentment in Central and Eastern Europe
- Best in Mobile Banking in Central and Eastern Europe
- Best Mobile Banking App in Central and Eastern Europe
- Best Digital Mortgage Service in Central and Eastern Europe
- Best Information Security and Fraud Management in Central and Eastern Europe

**Markswebb Rank&Report**

- Best Mobile Bank
- Best Internet Bank
- Best in Terms of the Number of Loyalty Programs among Russian Banks

**USABILITYLAB**

- Best Mobile Bank
- Best Internet Bank for Individuals

**banki.ru**

- Tinkoff Bank – Best Bank in the People's Rating
- Tinkoff Mobile – Best Mobile Operator in the People's Rating
- Tinkoff Mortgage – Best Digital Mortgage Solution
- Tinkoff Investment – Best Investment Company

**FRANK RG**

- Best Line of Co-branding Cards

LAST YEAR I ENDED MY FINANCIAL REVIEW, COVERING A YEAR IN WHICH WE POSTED THE STRONGEST SET OF RESULTS IN TINKOFF GROUP'S HISTORY, WITH THE COMMENT THAT WE GO INTO 2018 WITH A LOT OF FORWARD MOMENTUM.

ONE YEAR ON, THE GROUP HAS AGAIN POSTED THE STRONGEST SET OF RESULTS IN ITS HISTORY.

Ilya Pisemsky
Chief Financial Officer

# FINANCIAL REVIEW

**Dear Investors**

Last year I ended my financial review, covering a year in which we posted the strongest set of results in Tinkoff Group's history, with the comment that we go into 2018 with a lot of forward momentum.

One year on, the Group has again posted the strongest set of results in its history. These results secure the Group's place in the Russian credit card market, with a market share of 11.8% at the close of 2018. Of course it is a pleasure to present such a set of results. We are not complacent though by any means. Such results are the culmination of hard work and commitment, of many contributions, of many investment decisions made, opportunities identified in some cases long ago, and the Group's successful navigation of the many, varied and unpredictable challenges which are such a part of operating in the Russian markets.

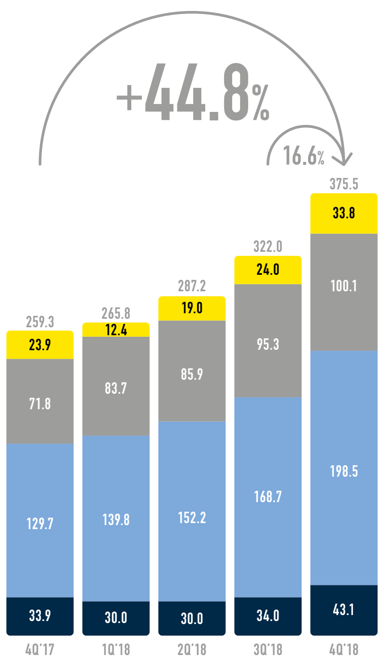
As in the past I would like to pick out some particular highlights of 2018 from the financial perspective before turning to the 2018 results:

- Successful transition to IFRS9, from late 2017;
- Dividend payments of USD1.07 from FY2018 profits;
- In June 2018 Tinkoff piloted home equity loans;
- In July, Tinkoff and Sberbank launched joint P2P money transfers using just a mobile phone number;
- In October, the Bank expanded its banking platform for children and teenagers with the launch of Tinkoff Junior, a mobile app that gives young customers an easy-to-use and robust tool to manage their personal finances;
- In October Fitch Ratings affirmed our 'BB-' local currency credit rating, revising the outlook from stable to positive (in February 2019 Moody's upgraded the Bank's long-term deposit ratings and senior unsecured local currency debt from B1 to Ba3).
- We launched a multi-currency platform for customers, accommodating up to 30 currencies.

One development to watch out for is Russia's FPS. In March 2018 Tinkoff was one of a few banks invited by the CBR to participate in the pilot phase of Russia's Faster Payments System (FPS). Tinkoff believes the introduction of FPS (SBP (Faster Payments System in Russia)) will cause seismic changes in the payments landscape in the long run and perhaps sooner than widely anticipated. Tinkoff is one of the pioneers of the SBP and very well placed to gain most from these changes.

So turning to the results, first the balance sheet, then profit and loss statement. I will also describe some of the main trends and patterns that can be observed in our business throughout 2018. I also form time to time refer to the performance in Q4: this might be regarded as the most up to date indicator of trends going into this year.

Assets growth RUBmn




## The Group's balance sheet

i will start with the Balance Sheet composition.

Total Assets of the Group grew by 44.8% year-on-year and by 16.6% in Q4. It is the highest quarterly growth we have observed since Q2 2017. This strong growth shows every sign of continuing into Q1 growth this year.

Substantial growth in cash balances and the investment portfolio during 2018 was a result of the rapid development of our SME and current account business lines. This growth was in line with the credit business and allowed us to keep the balance sheet proportions constant through the year with net loans slightly above 50% of total assets.

CONTINUED

# FINANCIAL REVIEW

Our loan portfolio showed an impressive 40.8% growth for the year on a gross basis and 53.0% growth for the year on the net basis which exceeded our expectations. This growth was driven not only by the credit cards part of the portfolio, but by cash loans, POS loans and collateralized loans. In Q4 the growth in these sub segments was very strong indeed from 19.6% to 26.9% of total net loans. We are very pleased with the profitable performance of the cash loan business, and the POS loan business which has enormous cross sell potential. As for car loans and home equity loans, these are still pilots which we should be able to discuss in detail later in 2019.

The quality of loans continued to improve. Our non-performing loans (NPL) ratio dropped to below 10% at year-end 2018 showing a decline of 400 basis points through the year. Our NPL coverage ratio is stable above 160%.

Our funding base is growing strongly, mirroring the growth in assets. The total funding balance of the Group grew by 47.7% year-on-year and by 18.5% in Q4 alone. Current account funds from retail and SME customers grew by 80% and 70% respectively during the year while term deposits of individuals grew, though at a slower pace. Most of the current account money funds the Group's treasury portfolio or is held in cash, while term deposits together with bonds and most of the equity fund the loan portfolio. There is an increasing overlap in this fund distribution as we use current account money to fund shorter duration loans such as POS loans and credit cards in the grace period. At year end 2018 this overlap constituted 20% of the gross loan portfolio compared to 7% at the end of 2017.

Equity of the Group grew by 31.5% year-on-year (by 12.4% in Q42018), which allowed the Group to maintain its dividend policy until 1 April 2019.

The Basel total and Tier I capital adequacy ratios went down to 14.9%. Our statutory capital adequacy ratios are lower than Basel ratios due to the heavy risk weights assigned to retail lending by the CBRF.

## Profit and loss statement

Now I will turn to the Income Statement and the distribution of our revenue by major types and the growth dynamic. Compared to 2017 our revenue grew by 42% to RUB112.6 bln, while the share of income from the loan portfolio went down in the revenue composition from 77% in 2017 to 68% in 2018. This trajectory we expect will continue in 2019.

We have also started to track the coverage of administrative costs by net fee and commission income as an indicator of the robustness of Tinkoff's business model in a potential downturn scenario. Net fee and commission income to administrative expense grew from 38% to 46% year-on-year.

In 2018 year the Group showed a 27% growth in interest income. Our headline gross interest yield on the credit portfolio decreased from 39.6% to 35.4%, mostly due to the more rapidly growing part of non-credit card loan portfolio. I am confident that during 2019 the gross yield will continue to gradually move down to the 30-32% area as a result of the changing client and product mix.

Interest expense demonstrated a growth of 18% year-on-year compared to 47% growth of the average funding base. The cost of borrowing went down from 7.6% to 6.1% on a blended basis as our cheaper funding from retail and SME grew faster.

Net interest income increased by 29% in 2018, which is slightly higher than the gross interest income growth rate, because interest expense is growing much slower than the top line.

Interest margin went down from 25.3% to 23.2% due to the reduction of the blended gross yield. Risk-adjusted margin also went down from 21.1% to 18.6% due to the introduction of IFRS9.

Our cost of risk edged up 50bp from 5.5% to 6.0% including a seasonal decrease in Q42018 to 4.2%. Taking into account that we are comparing IAS 39 percentages and IFRS 9 percentages that means that in reality risks have improved. The average write-off rate for the year went up from 6.9% to 9.1% which is again the result of the introduction of IFRS9 last year.

Now some comments on our fee and commission business. In 2018 our fee and commission income demonstrated significant growth of 77%. Credit related fees are not growing especially and their impact on our business will reduce in the next few years. Insurance premiums earned more than doubled in 2018, showing steady growth in the auto segment.

BY THE END OF 2018 TINKOFF BANK HAD ISSUED OVER 11.7MN CREDIT CARDS

CREDIT CARDS

**11,7mn**

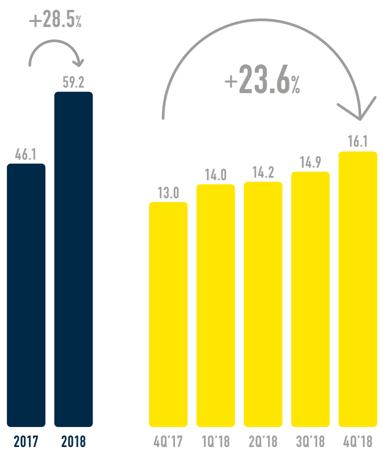
With around 4.5 million customers our current accounts business contributed RUB6.4bn in fee and commission income in the previous year. We continue to develop our product seeing it as a potential for subsequent cross-sell opportunities. I would like to reiterate that we are deliberately keeping our bottom-line result for this business line at break-even. We see more value in growing the customer base and in the potential synergetic effects with other business lines than as a source of pure net income.

Our SME business line is now a solid contributor to the bottom line. As at 2018 year end we are serving over 400k customers. The SME business line contributed RUB7.6bn in 2018 fee and commission income and over RUB2.6bn in net segment income.

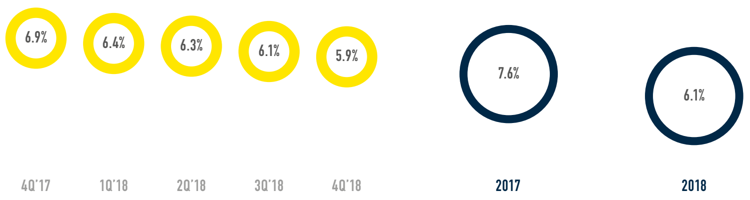
Our investment business is gearing up. Over 300k customers use our Tinkoff Investments platform for buying or selling securities. In Q42018 the volume of deals exceeded RUB77bn with the total balances held on accounts growing to over RUB17bn. In 2018 we developed and launched our own brokerage solution which pushed the total business line into a small minus for the year.

The volume of loans originated through our mortgage broker platform exceeded RUB25bn in 2018 compared to RUB10bn in 2017. After a difficult 1H2018, this business line became break-even in Q42018. Currently, we have 11 partners and continue to optimize business processes for customers.

Net interest income RUBbn




Cost of Borrowing




Now some comments regarding operating expenses.

In Q42018 operating costs might be considered a little elevated in comparison to Q32018, due to high-season advertising activity and an annual salary increase in November of approximately 6%. Overall, there is a positive declining trend year on year with cost-to-income ratio going down from 43.2% to 42.2% on an overall basis coming mostly from our core credit business where the cost to income ratio improved from 27.0% to 23.7%.

Now to profits. The Group achieved a quarterly record profit of RUB8.1bn in Q42018 and RUB27.1bn for 2018 as a whole which is 43% higher than for FY 2017. Return on equity stayed at over 80% for two quarters in a row and 74.7% for the full year. This allowed us to distribute around half of our Q4 profits according to the Group's dividend policy adopted in 2017, although we announced late last year a new dividend policy effective from 1 April 2019.

TINKOFF BANK ISSUED OVER 4.5MN DEBIT CARDS AT YE2018

DEBIT CARDS

**>4.5mn**

So to wrap up, as I mentioned at the start of my financial review, 2018 was 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 believe has the potential to be even better than 2018.

**Ilya Pisemsky**

Chief Financial Officer

# ASSET, LIABILITY AND RISK MANAGEMENT

**THE GROUP'S RISK MANAGEMENT STRATEGY PROVIDES A STRUCTURED AND COHERENT APPROACH TO IDENTIFYING, ASSESSING AND MANAGING RISK. IT BUILDS IN PROCESSES FOR REGULARLY UPDATING AND REVIEWING THE ASSESSMENT BASED ON NEW DEVELOPMENTS OR ACTIONS TAKEN.**

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.

### 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.

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# ASSET, LIABILITY AND RISK MANAGEMENT

## 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.

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.

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# ASSET, LIABILITY AND RISK MANAGEMENT

## Credit Line Management Procedures

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

| Initial Credit Line Calculation | Regular Update of Credit Line | Loan Collection |
|---|---|---|
| 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. | 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. | 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.

**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.

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# ASSET, LIABILITY AND RISK MANAGEMENT

## Provisioning Policy

Provisioning policy falls under the responsibility of Tinkoff Bank's Management Board that approves internal documents regulating the determination of delinquency groups and creation of allowances for potential losses in connection with the Group's loan portfolio.

**IFRS Credit loss allowance**

From 2018 credit loss allowance is measured in accordance with expected loss (ECL) model under IFRS 9. The Group has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

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) and loss given default ("LGD"). he 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.

Adoption of IFRS 9 resulted in an increase of gross carrying amounts of the financial assets as of 1 January 2018 because the gross carrying amounts according to the standard are calculated by discounting the contractual cash flows in relation to principal and all contractually due interest at the effective interest rate while previously under IAS 39 the gross carrying amounts were calculated by discounting the contractual cash flows in relation to principal and expected cash flows in relation to interest at the effective interest rate.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In accordance with internal methodology for the provision estimation, the Group uses all available loss statistics for the whole period of its operations. Starting from 2010, the Group's management uses a seven month horizon for assessment of probabilities of default in calculating the provision for impairment as these statistics provide better information to estimate and project loan losses.

**CBRF Provisioning**

For CBR regulatory purposes, the Group currently applies a methodology based on RAS to calculate loan provisioning and determine expected losses. Under CBR regulations, provisions for loan impairment are established following the borrower's default under the loan or where there is an objective evidence of potential inability of the borrower to repay the loan. In the case of consumer lending, the Group creates provisions by reference to homogenous loan portfolios including groups of loans consolidated on the basis of a certain credit risk criteria (such as type of loan product, region of residence, debt terms or month of issue) as well as individual loan products. Provisions with respect to individual loan products are calculated based on the borrower's financial condition and debt service quality.

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.

The Group monitors interest rates for its financial instruments.

## 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.

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# ASSET, LIABILITY AND RISK MANAGEMENT

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

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 12 to 14 per cent. of outstanding receivables, (ii) average utilisation of approximately 80 per cent. of the total portfolio limit, (iii) average utilisation of approximately 45 per cent. of the 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 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.

## 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 standby for critical systems such as processing and transaction authorisation. Data connections to the data centres are 100 per cent. reserved via separate physical lines.

### 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

## Corporate and Social Responsibility (CSR)

### Overview

2018 was another year of strong performance for TCS Group. We continued developing our Tinkoff.ru ecosystem, implementing a lifestyle banking strategy and integrating innovative technologies into our operational processes with the aim of continuous enhancement of operating efficiency.

We are always looking for ways to make our offering more inclusive.

In October 2018, we launched Tinkoff Junior, a mobile app enabling children and teenagers to use banking services while giving parents control of their children's accounts. Tens of thousands of children and teenagers have already downloaded the app. Tinkoff Junior's audience growth has been very fast and organic, without any promotion on our part. For now, thirteen-year-olds constitute the core of the teenager's mobile app audience.

As part of the efforts to enhance our Tinkoff Investments brokerage platform, we launched Tinkoff Investments Premium offering access to a global catalogue of over 10,000 securities.

In 2018, we released an iOS and Android enabled Tinkoff Mortgage mobile app, an easy-to-use way for our customers to apply for a mortgage right from their smartphones and for Tinkoff Mortgage partners (real estate agents, brokers and developers) to submit a mortgage application on behalf of their customers and choose the best mortgage offer with the help of a mortgage calculator.

Tinkoff is always looking to innovate: these innovations save time, enhance the customer experience and in most cases reduce the environmental impact of the business.

In October 2018, Tinkoff Bank launched a nationwide biometric data collection initiative and became an official vendor for the Unified Biometric System (UBS) offering voice recognition technology. The voice biometrics algorithm used in the UBS is Tinkoff's proprietary technological solution. We have been using our voice biometric data in our call centre since 2017 and achieved a 4-fold reduction in the customer identification time, from 60 to just 15 seconds. To achieve integration with the UBS, we re-trained the biometric algorithm and improved its performance.

By the end of 2018, TCS Group's headcount totalled more than 24,000 people

Two photos: during the FinTech Youth Day, Tinkoff Bank conducted master classes and workshops for attendees of Finopolis 2018

In February 2019, Tinkoff Bank was among the first Russian banks to connect its customers to the Faster Payment System (FPS). The system was developed with support from the Central Bank of Russia to enable instant transfers between individuals across Russia using only a mobile phone number. Just a month after the FPS was launched, Tinkoff Bank's share in FPS transfers reached 70%.

In 2018, Tinkoff Bank and the National Payment Card System (NSPK) developed a unique solution unmatched in the Russian payment services market. It allows Tinkoff customers to view cash receipts in their user accounts at Tinkoff.ru and in the Tinkoff mobile app. The joint project of Tinkoff Bank and NSPK has improved user experience. To access the receipt information in the user account, card holders no longer need to give the merchant their phone number, e-mail, or make a photo of the receipt as it is processed automatically.

TCS Group is also making great strides in machine learning development and artificial intelligence. Starting from March 2018, we have been steadily reducing the number of outgoing operator calls and launched our own call bot which makes automatic calls and talks with customers using pre-recorded phrases. During the testing of the technology, not a single person noticed they were speaking with a bot.

Tinkoff Bank uses chat bots in all of its customer communications. No operator is involved in 30% of all dialogues, and only one question is answered by humans in 35% of dialogues. These responses are personalized as we do not use scripts and respond based on the customer data we have. In the remaining cases, bots forward the call to an operator.

In December 2018, Tinkoff Bank announced the beta-testing of its voice assistant Oleg in the Tinkoff mobile app. The voice assistant will help customers in everyday finance and lifestyle banking tasks. As of today, communication scenarios available to customers include cash transfers (between Tinkoff customer accounts), booking a table at a restaurant, making an appointment with a beauty salon, buying a cinema ticket, booking a taxi, as well as small talk. The voice assistant accomplishes 90% of user tasks automatically using a dialogue system technology. The remaining 10% of calls are forwarded by the assistant to Tinkoff's remote call centre. The voice assistant is not just another customer communication channel within Tinkoff's ecosystem, but also an effective tool to streamline business processes. It will improve our capabilities in this field and minimise the time needed to accomplish user tasks, while offering even more personalised solutions.

CONTINUED

# EMPLOYEES AND CORPORATE SOCIAL RESPONSIBILITY

## Tinkoff Team

All these enhancements of the ecosystem were made possible only through the efforts of our talented team. Throughout 2018, we were hiring the best professionals on the market to support our new lines of business. By the end of 2018, the Group's headcount totalled more than 24,500 people, with 12,320 being permanent office-based employees and 12,200 employees working remotely. Mathematicians and IT specialists account for 60% of the total headcount at the company's headquarters.

TCS Group average employment term is more than three years, with 15% of employees working 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 seven 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 27 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 people 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.

The average age of employees TCS Group - wide stands at 27 years

## Recruitment and training

We seek to recruit the best talent on the market using various tools to motivate and retain people. TCS Group recruits new team members 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 contests in mathematics, physics and programming. We offer career growth and training opportunities for professionals at every level.


During the FinTech Youth Day Tinkoff Bank conducted master classes and workshops for attendees of Finopolis 2018

## Compensation and incentives

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 the employees' performance against their 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 5.6% of the Group's issued share capital.

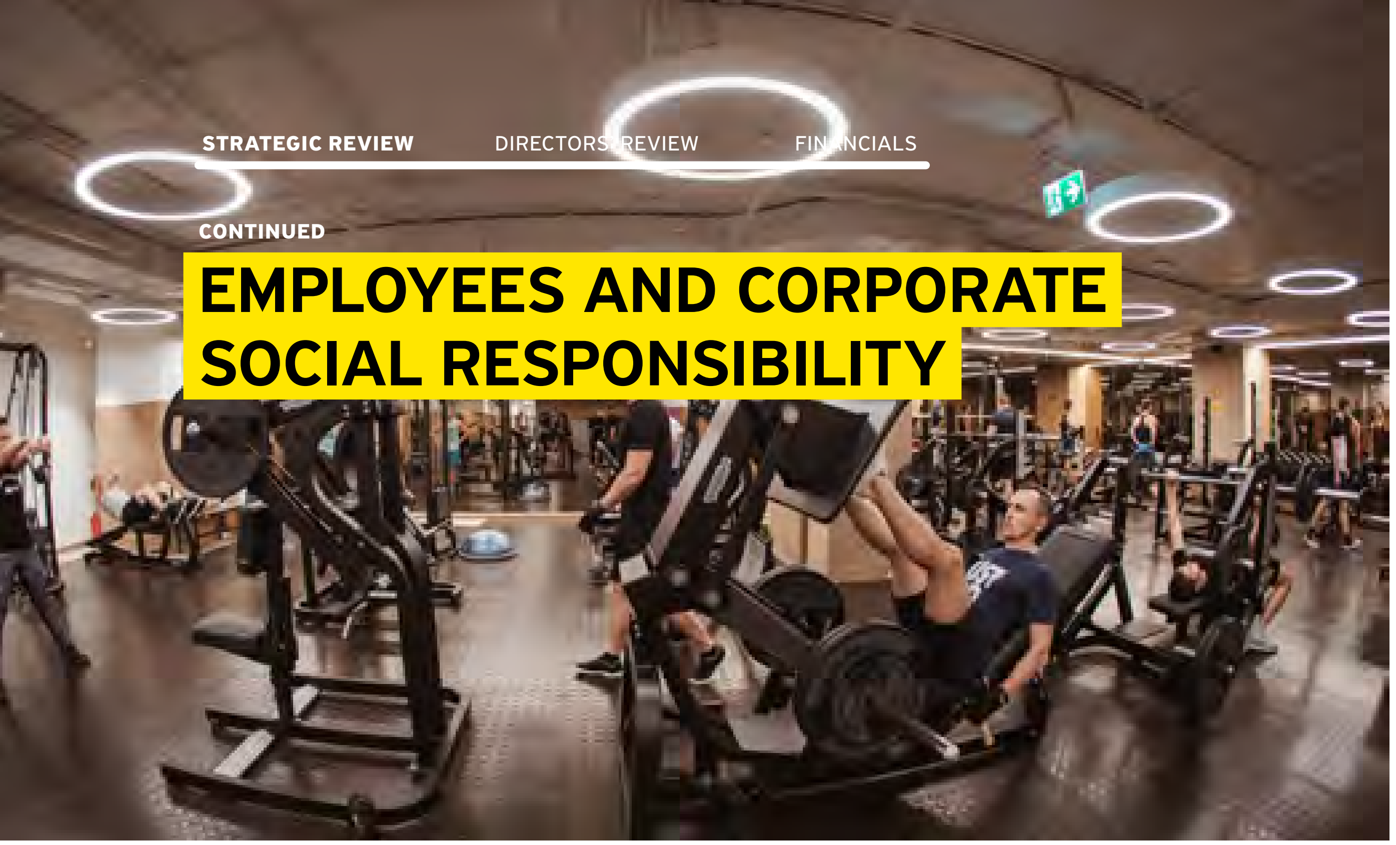
Each MLTIP wave is awarded over six years and is subject to meeting annual KPIs. All programme participants are the Group's permanent employees based in Russia. As the Group continues to grow and diversify, the aim of the expanded long-term management incentive plan is to better align the interests of the management with those of the shareholders in order to increase the Group's value.

## 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 2018, 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). Such employees are trained online, and all the necessary corporate tools and materials are stored in a special cloud environment. 12,200 people throughout the country worked at our home call centre as at the end of 2018. They also include individuals with disabilities who are free to work at any hours and locations they find suitable. Such employees are trained online, and all the necessary corporate tools and materials are stored in a special cloud environment.

TCS Group actively looks for the best students at the top national and global universities including winners of contests in mathematics and programming



CONTINUED

# EMPLOYEES AND CORPORATE SOCIAL RESPONSIBILITY

TCS Group offers for its employees free membership in our in-house fitness gym located at Tinkoff Bank's headquarters

## 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 initiatives. TCS Group encourages a healthy lifestyle and regularly holds corporate competitions in football, volleyball, basketball, alpine skiing and chess.

## Environmental protection

In March 2018, Tinkoff Bank launched a joint payroll programme with the Russian branch of the World Wildlife Fund (WWF) which provides an opportunity for the Russian business community to show greater commitment to corporate social responsibility and help the environment.

Employees joining the Tinkoff Bank – WWF payroll project will enjoy a number of financial benefits, while making a meaningful contribution to saving the environment by simply using the card in daily shopping.

Each participating employee can choose one of two products – a Tinkoff Black or a Tinkoff WWF card. 1% of each transaction carried out with these cards will be automatically transferred to support the WWF's conservation programmes, while the cost of purchased items will remain unchanged. In addition, the Tinkoff WWF card is manufactured from a corn-based biodegradable material which can be easily processed and does not pollute the environment.

## CSR

We are committed to supporting sustainable social development, and encourage our employees and customers to contribute to improving the quality of life of vulnerable groups in Russia.

These values underpin the development of our products and services. According to the DisQuestion inclusivity research conducted by Everland in the summer of 2018, Tinkoff Bank was named the most convenient Russian bank for the disabled. The research team (27 people representing various foundations, including individuals with various forms of disabilities) assessed the availability of remote and specialised services, the maturity and consistency of the approach applied to servicing this category of clients, the availability of special and customised tariffs and offers, corporate policies and personnel training.

We seek to promote various charitable foundations among our customers, who can donate money to 168 charities via Tinkoff.ru or our mobile app, both as regular payments effected throughout the year or a one-time fixed contribution. In 2018, Tinkoff Bank's customers made more than 34,000 cash transfers to charitable foundations.



TCS Group and its employees provide not only financial support but also practical assistance to several non-profit entities, including assisted-care facilities and orphanages, as well as projects for homeless people and those in need of medical care. Acting as volunteers, our employees raised funds that were spent on repair and maintenance of facilities and purchase of food, essentials and medications: one such project was a charity fair arranged in partnership with the Connection Foundation to assist deaf-blind people.

TCS Group also supports a number of other foundations. Among them are the Zhuravlik Foundation that protects children from abuse and violence in orphanages and families, and helps promote equal educational opportunities for children with special needs; the Joy of Old Age that helps the elderly, supervises over 150 assisted-care facilities and arranges the work of services that help the elderly at home; the Mercy Foundation that specialises in rehabilitation and adaptation of children with neuromuscular diseases and provides palliative aid to terminally ill children at home; and the Curative Education Centre that helps children with various developmental challenges, including autism spectrum disorders, epilepsy, genetic syndromes, mental disabilities, learning difficulties and other problems.


Tinkoff employees have access to a free cafe with a healthy meal

In 2018, TCS Group donated over 7 million roubles to charitable foundations.

# Educational projects

## Tinkoff Generation – an educational project for teenagers

In August 2018, Tinkoff Bank expanded its educational programme by launching a special Tinkoff Generation project intended for pupils of the 8th to 11th grades, who can receive free training in three areas: Algorithms and Data Structures, Machine and Deep Learning, and Olympiad Mathematics. Schoolchildren may study multiple areas simultaneously.

The Tinkoff Generation courses are free of charge. The lectures are delivered by Tinkoff Bank experts, students of the Moscow Institute of Physics and Technology and the Higher School of Economics. The 3–5 hour sessions are conducted 1–2 times per week at the Tinkoff Bank headquarters in Moscow and in development hubs in Nizhny Novgorod and Ryazan. As of April 2019, there are more than 400 schoolchildren participating in the Tinkoff Generation project.

In 2018, over 400 schoolchildren joined Tinkoff Generation.

CONTINUED

# EMPLOYEES AND CORPORATE SOCIAL RESPONSIBILITY

## Tinkoff Fintech School

Three times a year we recruit students and graduates of top-ranking universities for our Tinkoff Fintech School (since 2016), where lectures and hands-on seminars are delivered by the Bank's VPs and leading experts. They explain modern technology in the banking industry, mobile banking, social media, artificial intelligence, blockchain and cryptocurrencies.

Education at the Tinkof Fintech School is provided free of charge. All applicants take online exams. The educational course including practical sessions is 2–3 months long. In 2018, the Tinkof Fintech School launched some completely new programmes, such as Product Design, Java to Scala, Infrastructure Development and Building Analytics Platforms.

As of April 2019, 1,200 people had completed the training. Currently the Fintech School is training 656 students across Russia (Moscow, Saint Petersburg, Nizhny Novgorod, Novosibirsk, Ryazan, Izhevsk, Yekaterinburg, and Rostov-on-Don). The most promising graduates are invited for a job interview at Tinkoff Bank. Since the opening of the Fintech School, over 120 graduates have joined Tinkoff Bank's team.

Lectures at the Tinkoff Fintech School are delivered by the Bank's VPs and leading experts. Pictured here is Oliver Hughes, Tinkoff CEO and Chairman of the Management Board.

120 graduates have been hired by Tinkoff Bank.

## Financial Technology Laboratory in MIPT

In September 2018, Tinkoff Bank launched a FinTech Lab at the Moscow Institute of Physics and Technology (MIPT). The laboratory focuses on artificial intelligence, including behavioural analysis, guidelines, chatbots and scoring models, training algorithms, and other applications.

Earlier, Tinkoff had opened a basic Financial Technologies Department at MIPT. Tinkoff Bank founder Oleg Tinkov and the Bank's top management donated RUB 100 million to the MIPT Endowment Fund. The fund supports AI and machine learning research and has become MIPT's largest specialised endowment.

The MIPT Master's programme is run through the basic Financial Technologies Department in the Phystech School of Applied Mathematics and Informatics at the Moscow Institute of Physics and Technology (MIPT). Key Tinkoff Bank employees hold professorial positions at the department. To be admitted to the Master's programme, an internal examination and an interview at Tinkoff Bank, together with MIPT admission exams, should be passed.

The department provides 2 years of education free of charge. Department graduates earn a state-recognized degree from MIPT. The course schedule allows students to combine work and studies. The lectures are delivered at Tinkoff Bank offices. In 2018, the second round of admission took place. At the end of the last year the department had a total of 36 students.

## Specialised courses at the Moscow State University's Department of Mechanics and Mathematics (MSU Mech-Maths)

In December 2017, Tinkoff Bank began collaborating with the MSU Mech-Maths corporate Department of Mathematical and Computer Methods of Analysis. Tinkoff Bank's senior executives and analysts developed specialised courses for the university's curriculum incorporating real-life business cases from Tinkoff Bank.

The course curriculum allows students to receive advanced training in programming, machine learning, business analytics, big data fundamentals, and other related areas. In 2018, the first specialised course on Big Data Handling and hands-on training in Python basics were delivered. Currently, Tinkoff lecturers are leading a dedicated course on Data Operation in the Industry, which is attended by 120 people.

## Career opportunities for students and graduates

Analysts, developers and other IT experts, first to fifth–year students and recent graduates, are welcome to enrol in the paid Tinkoff Summer Internship and work on real-life projects. The duration of the programme is 1–2 months. During this period, the students get familiarised with the industry and choose their future career path. In summer 2018, the programme was attended by 110 students in the Moscow office and more than 80 students in the regional development hubs in Saint Petersburg, Yekaterinburg, Novosibirsk, Nizhny Novgorod, Izhevsk, Ryazan and Innopolis.

190 students from across Russia joined Tinkoff Summer Internship in 2018.

CONTINUED

# EMPLOYEES AND CORPORATE SOCIAL RESPONSIBILITY

## FinTech Youth Day at Finopolis Forum 2018

In October 2018, Tinkoff became an official partner of Finopolis 2018, a forum of financial innovations, one of the nation's major platforms for discussing the use of modern digital technologies in the financial sector and analysing trends and opportunities of their application. This year, the event again gathered more than 1,500 attendees, including representatives of major Russian and foreign companies, IT experts and government officials.

During the FinTech Youth Day, Tinkoff Bank conducted master classes and workshops for attendees of Finopolis 2018. Tinkoff employees discussed the skills a modern business analyst needs, described popular design patterns, delved into arrangement of data storage on mobile devices, designed an application interface and explained how to exchange messages in an offline mobile chat.

## Tinkoff Bank development hubs

In autumn 2018, Tinkoff became the first Russian bank to open a virtual Tinkoff Development Hub, a cloud office bringing together employees from different locations for banking product development. To date, Tinkoff Bank has 11 operating Tinkoff development hubs (new TDH offices opened in Ryazan, Sochi, Kazan and Novosibirsk in 2018). The virtual Tinkoff Development Hub is the 12th. All cloud office employees have been integrated in mixed teams working with developers from the Moscow and regional development hubs.

The virtual Tinkoff Development Hub has helped the Bank significantly expand the geography of personnel and reduce the time needed to find developers with relevant competencies. A special candidate interviewing procedure was created to address the specifics of remote working. At the first stage, candidates undergo preliminary technical screening followed by a designated soft skills test to assess their ability to work remotely, communicate, take initiative, and so forth. If this stage is successfully completed, the candidate is then invited for an interview on professional skills.

The Tinkoff Development Hub operates as a standalone business unit of the Bank with a dedicated head, HR team and other components integral to functional centres. Tinkoff sees cloud office developers as full-fledged team members, planning for long-term collaboration and is committed to integrating the virtual Tinkoff Development Hub employees into its in-house team through corporate meetings and joint events at its Moscow headquarters and Sirius-based Development Hub in Sochi as well as the Bank's other regional hubs. Employees from the virtual development hub enjoy all social benefits of a regular developer at the Bank, including English language courses, free business trips to dedicated forums and conferences, and more.

Hub employees work on developing a universal financial platform and financial services such as online banking, personal investment management, insurance, etc. The hub is also tasked with developing mobile apps for individuals and expanding the ecosystem of SME applications.

## Sports, musical and other events


TCS Group encourages a healthy lifestyle and supports the cultural development of its employees and society as a whole. Tinkoff Bank regularly takes part in the largest and most culturally important national events related to music, sports, science and education in Russia.

Thousands of guests from across the globe receive best deals and prizes from Tinkoff Bank at Quiksilver New Star Camp, the nation's prime winter festival.



**Quiksilver New Star Camp**

Tinkoff Bank was a general partner of the Quiksilver New Star Camp held in March 2018, a sports and music festival held at the Rosa Khutor alpine resort in Sochi. This year, Tinkoff surprised participants with a modern high-tech lounge area at an altitude of 1,600 metres overlooking the largest snowpark in Russia and an impressive airplane-shaped jibbing zone. As part of the Quiksilver New Star Invitational by Tinkoff, viewers could witness stunts performed by the best Russian and international professional riders on a jump over 20 metres long.

At the festival, which annually brings together thousands of guests from all over the world, participants received special deals and offers from Tinkoff Bank at all stages of the sports camp. In addition to snowboarding competitions, the festival hosted multiple workshops with reputable speakers from the action sport industry, performances by famous Russian and international musicians, yoga classes, film shows and parties.

**Tinkoff RosaFest**

In January 2018, Tinkoff Bank held Tinkoff RosaFest 2018 The Game, the first winter festival arranged as a game, which drew more than 5,000 people. The mountain quest took place at the Rosa Khutor resort in Sochi. A dedicated web app with 125 ingenious tasks was developed for the festival. Upon arrival at the hotel, each guest received a card with a secret code to enter the game and compete for points. The entire territory of the festival was the gaming zone, with points to be collected on the slope, in hotels at the mountain village, in a noisy après-ski zone and even at night in the midst of a party. The special hint codes were hidden throughout the resort, e.g. in a cabin of the cable car, on a headliner's business card and on a famous athlete's jacket. Holders of Tinkoff All Airlines credit cards received additional bonuses, while the main prizes were airline miles, snowboards, and money certificates.

**Cycling parades and basketball tournaments**

Tinkoff continues to actively support and promote the cycling culture across Russia. In 2018, Tinkoff became a title partner of cycling parades in 25 Russian cities that welcomed more than 90,000 participants. On top of that, Tinkoff Bank was a title sponsor of the Tinkoff Moscow Open, a basketball tournament attended by global elite players from the 3x3 League, as well as 16 best Russian and international teams. The event also saw the first female basketball tournament staged by Tinkoff.


In 2018, the Nashestvie festival drew a record-breaking 200,000 attendees.

**Afisha Picnic, Dikaya Myata, Nashestvie, Stereoleto and Present Perfect Festival**

In July 2018, Tinkoff became the general sponsor of Afisha Picnic, a major summer open-air festival in Moscow. Thanks to Tinkoff, the main stage featured larger screens to enable even more people to see the performances in detail. In the run-up to the festival, Tinkoff Bank launched a ticket raffle based on the Find the Cat interactive online game which attracted 60,000 people. At the Afisha Picnic site, Tinkoff Bank set up its own entertainment venue — the Stories Park with plenty of ideal photo spots. There, the guests could enjoy refreshments and cool lemonade and "spin up" a cashback reward on a cycling machine. The total amount of cashback distributed exceeded several million roubles.

Among other headline national music events supported by Tinkoff were the 2018 Dikaya Myata (Wild Mint) indie festival and the Nashestvie rock festival. The latter brought together some 200,000 people who could enjoy a hot-air balloon flight and jumping on a giant trampoline, exercise at the Tinkoff climbing wall, and, on top of that, issue a dedicated Tinkoff Nashestvie co-branded card right on the spot.

Summer 2018 saw more than 11,000 people visit the Tinkoff Stereoleto festival hosted by Saint Petersburg. The Bank also built a colourful garden on the Gulf of Finland quayside for the Present Perfect Festival dedicated to electronic music and contemporary art. Importantly, this was a completely cash-free event: Tinkoff technology allowed the visitors to make online-only cashless purchases using the special branded Tinkoff cards.


5,000 people took part in the quest at Tinkoff RosaFest in 2018

# BOARD OF DIRECTORS

## Constantinos Economides (43)

**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 (42)

**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.

## Philippe Delpal (45)

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

Philippe Delpal has been a non-executive director of TCS Group Holding PLC since October 2013.

Mr. Delpal is an Operational Partner for Financial Services in Baring Vostok Capital Partners, one of the largest private equity businesses in Russia. He is also currently serving as a non-executive director of Orient Express Bank, First Collection Bureau and Renaissance Insurance Group (Russia). He has had a career in banking, most recently as chief executive at BNP Paribas in Moscow.

Mr. Delpal holds a degree in information technology, telecoms and economics from the Telecom Paris University, France.

## Martin Cocker (59)

**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.

## Jacques Der Megreditchian (59)

**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 (41)

**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).

Directors of the Company gathered at the offices of the Company in Limassol. Left to right: Martin Cocker, Philippe Delpal, Constantinos Economides (Chairman), Jacques Der Megreditchian, Alexios Ioannides and Maria Trimithiotou.

# CORPORATE GOVERNANCE

**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.**

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 and the Company is required to comply with its corporate governance regime to the extent it applies to foreign issuers of GDRs. No shares of TCS Group Holding PLC are listed on any 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.

The Company's Home State is Cyprus.

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.

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 that website, at 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 six strong Board of directors is comprised of three executive directors including the chairman, and three non-executive directors two of whom are independent. There was no change in the composition of the Board or status of the directors in 2018. 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 2018 are listed at pages 48-49. 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 2018, 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 2019 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 FY2018 was performed by the Chairman of the Audit Committee.

## 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. In May 2018 the two directors who retired by rotation were Mr Jacques Der Megreditchian and Mr Martin Cocker. Both were 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 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 FY2018

| Director | Board Attendance FY2018 | AC Attendance FY2018 | RC attendance FY2018 |
|---|---|---|---|
| Constantinos Economides (Chairman) | 4/4 | n/a | n/a |
| Maria Trimithiotou | 4/4 | n/a | n/a |
| Alexios Ioannides | 4/4 | n/a | n/a |
| Martin Cocker | 4/4 | 6/6 | 1/1 |
| Philippe Delpal | 4/4 | 6/6 | 1/1 |
| Jacques Der Megreditchian | 3/4 | 5/6 | 1/1 |

**Dear stakeholders**

I am delighted to report to you that FY2018 has been another highly successful year in the life of the Group as the financial supermarket branches out and investments made in it deliver results, partnering the hugely successful core credit card business. As I have mentioned before, outstanding financial performance such as the Group delivered in FY2016 and in FY2017 and again in FY2018 is the result of many years of very hard work, professionalism at all levels right across the Tinkoff Group, combined with a great passion for the business and helping our customers.

Tinkoff Bank (our main investment) CFO, Ilya Pisemsky's commentary on the Group's FY2018 operating and financial results is included earlier in this Report in his 'Financial review' as is Oliver Hughes our CEO's 'Strategic review' of 2018. Both share insights into key trends in the Russian market and how these might play out in the future. I urge you to read them; I believe they are worth investing your time on.

It is widely acknowledged that the Russian operating environment is not the easiest, but as Oliver Hughes points out earlier, the reality is our excellent 2018 results do go to show that if you have the right business model, the right brand, the right team and can execute, Russia is a great market to be in despite how it may sometimes look from the outside. The Group has been able to thrive whatever the challenges, whatever the environment, for the benefit of our customers.

Inside the Company, the work of the Board of Directors which I have had the privilege to chair since 2015, continues. Work on enhancing our corporate governance mechanisms and compliance processes is never-ending, accommodating increasing regulatory interventions in and supervision of the banking sector, trends for greater consumer protection and all the while preserving the essence of our entrepreneurial culture, what makes Tinkoff unique.

Our annual appraisal of the Board, both its committees and all our individual directors, their individual and collective strengths and weaknesses, performance and effectiveness, was conducted in-house. The recent appraisal in Q12019 for FY2018 I believe shows us heading firmly in the right direction- but we are not complacent nor standing still. It generated some interesting ideas; we will be looking at how to develop these in the near future as the business grows and evolves.

Finally, my thanks to our founder and controlling shareholder Oleg Tinkov for his ongoing inspiration to all of us and my congratulations to him and the rest of the Tinkoff Group management teams for an excellent 2018.

**I am confident 2019 will bring more of the same!**

**Constantinos Economides**

Chairman of the
Board of Directors

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 has two other members both non executive directors, one of whom is independent.

The Remuneration Committee is also chaired by an independent non executive director Mr Jacques Der Megreditchian, and has two other members both non executive directors, one of whom is independent. Details of the non executive and independent non executive directors are set out below.

The current terms of reference of both Committees are available to the public and can be found on the Group's websites. 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. Two such meetings were held in 2018 with further planned for 2019.

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 to support the Group's ever-increasing efforts to stay ahead of trends and threats in this sphere.



## Our 2018 tender for external auditor

**We indicated our intention last year to tender the external auditor role in Summer 2018 and have now conducted a robust, fair and transparent process which has resulted in the Audit Committee's recommendation to retain PwC. I am pleased this recommendation has been accepted by the Board and I would like to thank all the firms who took part in the tender. We look forward to continuing to work with PwC.**

**Martin Cocker**

Chair of the Company's Audit Committee
16 July 2018

Making a recommendation to the Board of Directors on the first and second choice of candidates for the Company's external auditor, and giving reasons for our choices and preference for first choice, was one of the key responsibilities of the AC last year.

The AC initiated scoping the process back in April 2017 and announced the Company's intentions soon after, recognizing that because the Company was an EU PIE, the EU Audit Reforms had introduced legally binding requirements for audit tendering and rotation and the ten year deadline to hold a tender would be upon us in FY2018.

Whilst there are legal parameters to the process, to ensure the process was open to more candidates than just the Big 4 firms, with non-discriminatory pre-determined evaluation criteria, we gave candidates a proper understanding of our business and above all was not just fair but demonstrably fair, we saw it as an opportunity to hear from the candidates, some of whom knew us well some less so, their ideas on among other things:

- improving audit quality
- hearing the views of various stakeholders on potential candidates
- practical issues of rotation off, transition/shadowing and handover
- coordinating auditor inputs across multiple jurisdictions
- the role of automation (sampling) and IT in auditing
- the developing tax, reporting and regulatory environment of the Group
- professional service firms' liability limits
- strengths and weaknesses in non-audit work
- the proposed audit fee and charging structure.

The Company early on settled the composition of the tender/selection Panel.

It had seven members:

- **Martin Cocker,** Chair of the Audit Committee INED and Chair of the Tender Panel
- **Constantinos Economides,** Chair of the Board of Directors
- **Philippe Delpal,** member of the Audit Committee NED
- **Jacques Der Megreditchian,** member of the Audit Committee, INED
- **Ilya Pisemsky,** CFO Tinkoff Bank
- **Pavel Tokarev,** Deputy CFO Tinkoff Bank
- **Anna Kuzina,** Head of IFRS Tinkoff Bank.

Following request for submissions of interest in April 2018 to check independence and objectivity, the formal invitations to tender were issued on 1 June, a Q+A session was held with participating applicants on 15 June, short written submissions from all candidates received by 27 June and on 3 July all candidates made their cases face to face to the Panel. It was a specific requirement of ours that the audit managers who day to day would be handling our case attended and met the Panel.

The candidates were scored, after closing off any open issues from 3 July 2018, by 13 July, two preferences were decided on by 13 July and put to a Board vote, all candidates were notified and debriefed in the w/c 16 July and the result announced on 26 July.

The Tender Panel rigorously tested all the candidates, and was able to make informed judgments on their organizational and cultural fit, their approach and resources, their commitment to us, and last but not least whether the CFO and key finance staff could have an enduring and positive working relationship with the external audit team.

As a result of this intensive 16 month process, we did end up retaining our then current external auditor PwC. True. But members of the Panel are unanimous in agreeing that the exercise was highly beneficial to the Company and they gained useful insights into the world of the elite group of external auditors.

I would like to stress my thanks to all the firms who took part, as well as pay tribute to the professionalism of fellow Panel members.

**Martin Cocker**

CONTINUED

# CORPORATE GOVERNANCE

## 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 2018 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.

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.

## Appointment, 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.

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.

**Martin Cocker**

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

**Philippe Delpal**

Non-Executive Director, Member 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.

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.

## Share capital

As at 31 December 2018, the Company's issued share capital is US$7,305,553 divided in to 182, 638, 825 shares, each of nominal value of US$0.04 per share and fully paid. Of these 96,239,291 are Class A Shares and 86,399,534 Class B Shares, each with a nominal value of US$0.04 per share and fully paid. As of 31 December 2018, the Company's authorized share capital was USD7,670,830.64 (with in addition to the stated Class A and Class B shares, 9,131,941 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.

CONTINUED

# CORPORATE GOVERNANCE

## 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 from the 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

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.)

## 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 (48)

**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 (43)

**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 (48)

**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 (37)

**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 (38)

**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 (35)

**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.

CONTINUED

# MANAGEMENT TEAM

## Anatoly Makeshin (46)

**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.

## Viacheslav Tsyganov (43)

**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.

## Evgeny Ivashkevich (48)

**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.

## George Chesakov (46)

**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.

## Natalia Izyumova (56)

**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.

## Darya Ermolina (31)

**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.

**31 DECEMBER 2018**

# 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
Philippe Delpal
Jacques Der Megreditchian
Martin Robert Cocker

All served throughout the year ended 2018 and through to the date of these consolidated financial statements.

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 2019 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

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# Consolidated Management Report

1. 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 2018.

## Principal activities and nature of operations of the Group

2. The Group's principal activities are undertaken within the Russian Federation being on-line retail banking operations through its subsidiary JSC "Tinkoff Bank" (the "Bank") and insurance operations through its subsidiary JSC "Tinkoff Insurance" (the "Insurance Company").

3. The Bank specialises in retail banking for individuals and small and medium-sized enterprises (SME) and brokerage services. The Bank which is fully licensed by the Central Bank of Russia and launched its operations in the Summer of 2007 is a member of the Russian Deposit Insurance System. The Insurance Company specialises in providing non-life insurance coverage such as accident, property, travelers', financial risks and auto insurance. The founder and controlling shareholder of the Company is Oleg Tinkov.

## Changes in group structure

4. During 2018 the Group acquired a minority stake in Kassir.ru, one of Russia's biggest ticket sales companies by the number of tickets sold. The acquisition is in line with the Group's strategy of developing its ecosystem to offer customers a greater choice of financial and related services through the Tinkoff.ru platform.

5. During 2018 the Bank founded the non-commercial organization ANO "Tinkoff Education" with no share capital. This entity is in the process of receiving an educational license and did not perform any activity during 2018.

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

6. 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.

7. During 2018 the Company was actively developing its operations in Cyprus connected with provision of call-center and software development services.

8. During 2018 the Bank started providing new types of loans: i) car loans, ii) secured loans which represent loans secured by cars or real estate, and iii) loans provided to individual entrepreneurs and small and medium businesses for the purpose of working capital management.

9. The key offerings of JSC "Tinkoff Insurance" are accident insurance, travel insurance, property insurance and voluntary insurance of vehicles (KASKO) and Obligatory Motor Third Party Liability (OMTPL). The Insurance Company focuses on online sales.

10. In terms of financial performance the profit of the Group for the year ended 31 December 2018 was RR 27,122 million (2017: RR 19,023 million). This result is driven by two major continuing trends: an ongoing quality growth of the Group's consumer finance business, a growing contribution from the non-credit fees-and-commission business lines. Net margin increased by 28.5% to RR 59,217 million (2017: by 37.3% to RR 46,076 million) on the back of credit and investment portfolio growth. The growth of the credit portfolio was driven not only by the credit cards part but also by other types of loans, such as, Cash and POS loans. Starting from the middle of 2018 the Bank introduced car and secured loans for its customers which accounted for about 3% of net Loans and advances to customers as at the year-end. The quality of loans continued to improve. The 90 days plus overdue loans ratio (NPL) reduced to 9.4% as at 31 December 2018 compared to 13.4% as at 1 January 2018 under IFRS 9 (2017: 8.8% under IAS 39). The NPL coverage ratio increased to 164% as at 31 December 2018 and to 166% as at 1 January 2018 under IFRS 9 (2017: 126% under IAS 39). The Investment in debt securities portfolio (according to IFRS 9) increased by 39.7% to RR 100,140 million (2017: the Investment Securities Available for Sale (according to IAS 39) portfolio increased by 115.3% to RR 71,676 million). The reason for these dynamics is the development of the debit cards and SME business lines. The Group continues to maintain a good quality and diversification of its securities portfolio. During the year the Bank launched its Tinkoff Investments product giving its customers a platform to buy and sell market securities. The Group's Insurance business continues to develop at a good pace. This year Insurance premiums earned increased by 144.0% to RR 6,674 million (2017: by 102.9% to RR 2,735 million). The reason behind the growth of insurance premiums is a continuous development of auto (including KASKO and OSAGO) and travel insurance, as well as the growth of personal accident insurance along with the credit portfolio.

11. The Group has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. The equity attributable to shareholders' of the Company decreased at 1 January 2018 by RR 9.8 billion as a result of adoption of IFRS 9. This impact primarily arises from an increase in credit loss allowance for loans and advances to customers less the related deferred tax credit. Other impacts of IFRS 9 adoption on the Group are disclosed in Note 5 of consolidated financial statements.

## Environmental matters

12. 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

13. The Group has a flat organizational culture. The Group practices delegation of decision making to the levels deep below the management team and actively promotes discussion and idea generation and exchange. The Group believes in creating an environment where highly talented people are empowered. Empowerment is an important ingredient in the success of our organization. It's also about the workplace environment – having an open leadership style where information can move freely – where ideas are constantly channeled up, down and sideways around the Group. The Group does not have 'a rule by committee' approach. The Group utilizes all types of forums to promote continual dialogue – using email, various online chat rooms, flash meetings, as well as formalized meeting structures. Anyone can talk to anyone and transparency is promoted. The Group offers a clear far-reaching career path for its employees, unique work environment and a fair and transparent compensation.

14. Clear performance evaluation process and fair compensation are essential. Compensation is a combination of fixed rate salary and bonuses and is based on employee performance. Employees are evaluated on a regular basis in order to monitor their achievement against KPIs, to determine incentive compensation, and to provide feedback which can be used for their career development.

15. Prior to its IPO in 2013, the Group set up share based long term incentive plans 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 and 2018, the Group announced the expansion of the plan. The number of participants increased to over 80. Total target size of the MLTIP pool is 5.6% of the Group's current share capital. 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.

## Non-Financial Information and Diversity Statement

16. The Group's policies and information for an understanding of the development, performance, position and impact of the activity of the Group in the spheres 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 2018, on the Company's website, www.tcsgh.com.cy (and www.tinkoff.ru/eng) by 30 June 2019, within six months of the reporting date.

## Principal risks and uncertainties

17. The Group's business and financial results are impacted by the uncertainties and volatility of the Russian economic environment. For example in April 2018 the Russian Rouble decreased by about 10% against the US Dollar and Euro in the space of a few days and international sanctions continue to impact Russia. With respect

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# Consolidated Management Report (Continued)

of Rouble interest rates, during 2018 the CBRF "key rate" fluctuated between 7.25% and 7.75%. It was at the top end of the range at both the beginning and the end of 2018.

18. 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.

19. The Board has adopted a formal process 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 directly with the Board of Directors in this area. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that the exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures to minimize operational and legal risks. 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 34 and 36 of the consolidated financial statements.

## Contingencies

20. The Group's contingencies are disclosed in Note 36 to the consolidated financial statements.

## Future developments

21. The Group's strategic objective is to be a full service, online financial supermarket 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

22. 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 31.

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

23. Important events for the Group that have occurred after the end of the financial year are presented in Note 42.

## Share capital

24. During 2018 the Company's shareholders approved a resolution to increase authorised 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. As at 31 December 2018 the total number of authorised shares is 191,770,766 shares (31 December 2017: 190,479,500 shares) with a par value of USD 0.04 per share (31 December 2017: USD 0.04 per share).

25. As at 31 December 2018 the issued share capital of the Company which remains unchanged from the prior year, comprised 96,239,291 "class A" ordinary shares and 86,399,534 "class B" ordinary shares with a par value of USD 0.04 per share.

## Research and development activities

26. During the year ended 31 December 2018 the Group has undertaken research and development activities related to software including greater use of biometrics.

## Treasury shares

27. At 31 December 2018 the Group held 6,604,353 (2017: 6,315,121) of its own GDRs that is equivalent of approximately RR 3,670 million (2017: RR 1,587 million) representing 3.6% (2017: 3.5%) of the issued share capital.

28. Treasury shares are GDRs of TCS Group Holding Plc that are held by the special purpose trust which has been specifically created for the long-term incentive programme for Management of the Group (MLTIP) (see Note 41 for further information).

29. In 2018 the Group repurchased 2,094,126 GDRs (2017: 602,148 GDRs) at market price for RR 2,455 million (2017: RR 397 million) representing 1.1% (2017: 0.3%) of the issued share capital.

30. During 2018 the Group transferred 1,804,894 GDRs (2017: 1,326,464 GDRs) out of treasury shares upon vesting under the MLTIP to retained earnings that is equivalent of RR 372 million (2017: RR 283 million) representing 1.0% (2017: 0.7%) of the issued share capital.

## Board of Directors

31. The members of the Board of Directors as of 31 December 2018 and at the date of this report are presented above.

32. There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

## Branches

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

## Independent auditor

34. The Board of Directors in accordance with the requirements of the EU introduced into Cypriot legislation undertook a mandatory audit tender in respect of the 2019 audit. Following this 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

35. 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 2019, 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

## Overview

GDRs of TCS Group Holding PLC (a Cyprus company), issued under a deposit agreement dated on or about 24th October 2013 with JPMorgan Chase Bank N.A. as depositary representing one class A share, are listed on the London Stock Exchange (LSE) and the Company is required to comply with its corporate governance regime to the extent it applies to foreign issuers of GDRs. No shares of TCS Group Holding PLC are listed on any exchange. As the class A shares themselves or the GDRs are not listed on the Cyprus Stock Exchange, the Cypriot corporate governance regime is not applicable for the Company and accordingly the Company does not monitor its compliance with that regime. The rights of shareholders include the right to vote on the appointment and removal of Directors and to amend the Articles of Association.

TCS Group Holding PLC has two classes of ordinary shares, Class B shares carry or confer enhanced voting rights (10 votes per class B share) as opposed to class A (one vote per class A share); a concise description of these is set out in the Company's most recent annual report: a detailed description of the Articles of Association, including the rights of shareholders, and the Terms and Conditions of the GDRs can be found in the Company's October 2013 Prospectus on the website at www.tinkoff.ru/eng.

## 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 authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The current six strong Board of directors is comprised of three executive directors including the chairman, and three non-executive directors two of whom are independent. There

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# Consolidated Management Report (Continued)

was no change in the composition of the Board in 2018. 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 2018 are listed above. 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 carried out, in-house, in relation to 2018, looking at overall performance but focused mainly on late 2017 and 2018. All directors completed detailed questionnaires on the Board's performance. Analysis of the resultant feedback 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, which was discussed at a meeting of the Board of Directors on 11 March 2019.

## Committees of the Board of directors

The Company has established two Committees of the Board of directors: the Audit Committee and the Remuneration Committee and their terms of reference are summarized below. Both Committees were constituted 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.

## Committee composition

The Audit Committee is chaired by an independent non-executive director Mr Martin Cocker, and has two other members both non-executive directors one of whom is independent.

The Remuneration Committee is also chaired by an independent non-executive director Mr Jacques Der Megreditchian, and has two other members both non-executive directors one of whom is independent.

## 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 consolidated 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 in two main ways, through members participating in the main Board review described above in the second half of 2017 and by arranging a complementary committee review on a rolling basis driven by the audit cycle March to March. After consideration of the Audit Committee's own review, no further changes to those adopted in the preceding year were proposed to the committee's terms of reference. During the second half of 2017 the Audit Committee determined to set a more structured framework around the extensive work it had been doing between its quarterly meetings to review the consolidated financial statements by adding at least two additional meetings to its annual schedule, 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 such as risk management issues including internal audit procedures, and the financial and reputational dimensions of cyber security measures put in place by the Group. Two such meetings were held in 2018 with a further two at least planned for 2019.

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.

## 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 work into 2018 on its ongoing review of the operation of the Group's equity based incentive and retention plan for key, senior and middle management (MLTIP) which launched and in considering additional awards to both existing and new participants for this and subsequent years.

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. Although earlier reviews had resulted in certain minor changes to the Remuneration Committee's terms of reference to clarify certain procedural matters and to align them more closely with how the committee operated in practice, no further changes were felt required in 2018 and 2019.

## 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

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# Consolidated Management Report (Continued)

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 2018 is set out below:

| Name | Age | Male/Female | Educational/professional background |
|---|---|---|---|
| Constantinos Economides | 43 | Male | ICAEW, MSc in Management Sciences, experience in 'Big Four' professional services firms |
| Alexios Ioannides | 42 | Male | ICAEW, ICPAC, BSc in Business Administration, experience in 'Big Four' professional services firms |
| Mary Trimithiotou | 41 | Female | ICPAC, FCCA, Licensed insolvency practitioner, experience in 'Big Four' professional services firms |
| Martin Robert Cocker | 59 | Male | ICAEW, BSc in Mathematics and Economics, experience in 'Big Four' professional services firms |
| Philippe Delpal | 45 | Male | BSc in IT, Telecoms and Economics, senior executive experience in banking industry |
| Jacques Der Megreditchian | 59 | 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

11 March 2019



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# *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 2018, 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 95 and comprise:

- the consolidated statement of financial position as at 31 December 2018;
- 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***

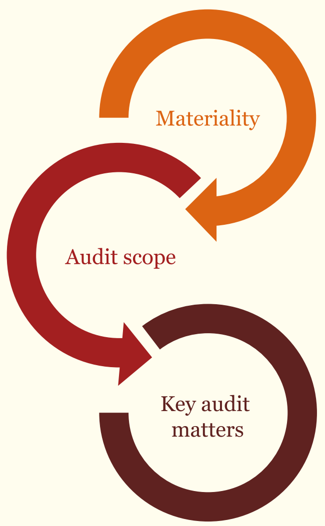
We remained independent of the Group throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated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

*PricewaterhouseCoopers Ltd, City House, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus*
*P O Box 53034, CY-3300 Limassol, Cyprus*
*T: +357 25 - 555 000, F:+357 - 25 555 001, 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") 1 760 million, which represents approximately 5% of profit before tax

- We planned and conducted our audit to cover the two most significant business components of the Group being the Banking and Insurance operations for which we performed an audit of their complete financial information.
- For the non-significant 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" including impact of adoption on 1 January 2018;
- 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 1 760 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 176 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 is structured into two significant 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 operations business component comprises a number of business reporting units being JSC Tinkoff Bank, LLC Microfinance company T-Finans and LLC Phoenix. The Insurance operations business component comprises one business reporting unit being JSC Tinkoff Insurance. Full scope audit procedures were performed in respect of the two significant business components.

Other Group business reporting units, such as TCS Group Holding PLC, TCS Finance D.A.C., Goward Group Ltd, 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 significant business components for audit purposes. Where necessary, additional substantive audit procedures were carried out across these non-significant 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 units.

We determined the level of involvement we needed to have in the audit work at the business reporting units 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 and Cyprus. 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" including impact of adoption on 1 January 2018.*<br><br>We focused on this area because this is a new and complex accounting standard for which new models have been developed by the Group to calculate expected credit losses ("ECL") on adoption of IFRS 9 as of 1 January 2018 and for the year ended 31 December 2018 and significant judgement and estimates are involved in estimating expected credit losses on loan and advances to customers.<br><br>The basis of credit loss allowance under IFRS 9 is significantly different from the impairment provision basis previously applied under IAS 39 and additional new enhanced disclosure requirements are also introduced together with the adoption of IFRS 9. Therefore we applied additional focus to the design and application of the new comprehensive "expected credit loss" models introduced 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 34 "Financial risk management" to the consolidated financial statements.<br><br>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 definition of significant increase in credit risk and the definition of default), the estimated recoveries from defaulted loans and lifetime period for revolving credit facilities.<br><br>Statistical models are used for the assessment of the probability of default, recovery rate and 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.<br><br>Note 3 "Significant Accounting Policies", Note 4 "Critical Accounting Estimates and Judgments in Applying Accounting Policies", Note 5 "Adoption of New or Revised Standards and Interpretations", Note 9 "Loans and Advances to Customers" and Note 34 "Financial Risk Management" to the consolidated financial statements provide detailed information on the credit loss allowance for loans | In relation to implementation of the new ECL models for measuring credit loss allowance both on adoption of IFRS 9 on 1 January 2018 and as at 31 December 2018, 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. We engaged our credit risk technical experts to assist us in undertaking this assessment.<br><br>We tested on a sample basis the design and operating effectiveness of the key controls over the implementation of the new credit loss allowance models in the systems.<br><br>For a sample of loans we recalculated probabilities of default on the basis of the new methodologies 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.<br><br>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 loan classification by type of loan portfolio, 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.<br><br>We determined that we could place reliance upon these key controls for the purposes of our audit.<br><br>In addition, we tested on a sample basis the correctness of loan classification by type of loan portfolio and performed testing on a sample basis of the statistical models used to calculate credit loss allowance. 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 extraction of data used in the models.<br><br>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 |
|---|---|
| and advances to customers and the effect of adoption of new credit loss allowance models. | We assessed the disclosures made against the relevant accounting standards for their completeness and accuracy.<br><br>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*<br><br>We focused on this area mainly because the calculation of interest income uses, in addition to relevant nominal interest rates, a number of different fees and costs, incorporates significant assumptions around expected lives of loans and involves judgement as to which fees and costs are included in interest income calculated using the effective interest rate method and which are included in net commission income.<br><br>As the Group has over ten year history of lending in different economic conditions, it has a significant amount of information from which to assess trends in payment, redemption and product transfers. These detailed patterns are used to obtain a more accurate estimate of future customer behaviour and performance, resulting in lower subjectivity of the assumptions around expected lives of loans.<br><br>Note 3 "Significant Accounting Policies", Note 4 "Critical Accounting Estimates and Judgments in Applying Accounting Policies", Note 23 "Net margin" and Note 34 "Financial 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, fee income and costs incurred all of 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 parts of interest income calculated using the effective interest rate method and the data transfer from the source system to the accounting system.<br><br>We determined that we could place reliance upon these key controls for the purposes of our audit.<br><br>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 models' key assumptions, 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 models through re-performance of the model calculations, which were tested substantively on a sample basis.<br><br>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.<br><br>We determined that the methodologies and models used are appropriate and the outputs are reasonable. |

## *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 Company'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 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 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 10 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 11 March 2019 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 Anna Loizou.

A Loizou

Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus

11 March 2019

**31 DECEMBER 2018**

# Consolidated Statement of Financial Position

| *In millions of RR* | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 33,802 | 23,850 |
| Mandatory cash balances with the CBRF | | 2,435 | 1,675 |
| Due from other banks | 8 | 776 | 777 |
| Loans and advances to customers | 9 | 198,489 | 140,245 |
| Financial derivatives | 38 | 1,710 | 2,424 |
| Investments in debt securities | 10 | 100,140 | - |
| Investment securities available for sale | 11 | - | 71,676 |
| Repurchase receivables | 12 | 1,182 | 798 |
| Guarantee deposits with payment systems | 13 | 4,603 | 3,660 |
| Current income tax assets | | 1,104 | 301 |
| Tangible fixed assets | 14 | 8,369 | 6,140 |
| Intangible assets | 14 | 4,223 | 3,056 |
| Other financial assets | 15 | 15,642 | 10,969 |
| Other non-financial assets | 15 | 3,024 | 3,257 |
| **TOTAL ASSETS** | | **375,499** | **268,828** |
| **LIABILITIES** | | | |
| Due to banks | 16 | 2,708 | 595 |
| Customer accounts | 17 | 280,916 | 179,045 |
| Debt securities in issue | 18 | 9,605 | 10,819 |
| Financial derivatives | 38 | 3 | 240 |
| Current income tax liabilities | | 51 | 25 |
| Deferred income tax liabilities | 30 | 1,821 | 1,479 |
| Subordinated debt | 19 | 20,644 | 22,001 |
| Insurance provisions | 20 | 2,859 | 1,840 |
| Other financial liabilities | 21 | 11,201 | 8,043 |
| Other non-financial liabilities | 21 | 3,441 | 2,796 |
| **TOTAL LIABILITIES** | | **333,249** | **226,883** |
| **EQUITY** | | | |
| Share capital | 22 | 188 | 188 |
| Share premium | 22 | 8,623 | 8,623 |
| Treasury shares | 22 | (3,670) | (1,587) |
| Share-based payment reserve | 41 | 1,232 | 1,286 |
| Retained earnings | | 36,785 | 31,797 |
| Revaluation reserve for investments in debt securities | | (1,144) | 1,436 |
| **Equity attributable to shareholders of the Company** | | **42,014** | **41,743** |
| **Non-controlling interest** | | **236** | **202** |
| **TOTAL EQUITY** | | **42,250** | **41,945** |
| **TOTAL LIABILITIES AND EQUITY** | | **375,499** | **268,828** |

Approved for issue and signed on behalf of the Board of Directors on 11 March 2019.

**Constantinos Economides**

Director

**Mary Trimithiotou**

Director

The notes № 1-43 are an integral part of these Consolidated Financial Statements.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

| *In millions of RR* | Note | 2018 | 2017 |
|---|---|---|---|
| Interest income calculated using the effective interest rate method | 23 | 75,041 | 59,317 |
| Other similar income | 23 | 456 | 224 |
| Interest expense calculated using the effective interest rate method | 23 | (15,106) | (12,824) |
| Expenses on deposit insurance | 23 | (1,174) | (641) |
| **Net margin** | | **59,217** | **46,076** |
| Credit loss allowance for loans and advances to customers | 9 | (11,607) | (7,614) |
| Credit loss allowance for debt securities at FVOCI | 10 | (192) | - |
| **Total credit loss allowance for debt financial instruments** | | **(11,799)** | **(7,614)** |
| **Net margin after credit loss allowance** | | **47,418** | **38,462** |
| Fee and commission income | 24 | 27,423 | 15,531 |
| Fee and commission expense | 24 | (10,751) | (5,618) |
| Customer acquisition expense | 25 | (13,100) | (9,719) |
| Net gains/(losses) from operations with foreign currencies | 26 | 10 | (256) |
| Net gains from disposals of debt securities at FVOCI | | 378 | - |
| Net gains from disposals of investment securities available for sale | | - | 270 |
| Net losses from debt instruments at FVTPL | | (808) | - |
| Insurance premiums earned | | 6,674 | 2,735 |
| Insurance claims incurred | 27 | (1,968) | (815) |
| Administrative and other operating expenses | 28 | (23,023) | (16,206) |
| Net gains/(losses) from repurchase of subordinated debt | 19 | 1 | (619) |
| Other operating income | 29 | 2,970 | 1,220 |
| **Profit before tax** | | **35,224** | **24,985** |
| Income tax expense | 30 | (8,102) | (5,962) |
| Profit for the year | | 27,122 | 19,023 |
| **Other comprehensive (loss)/income:** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Debt securities at FVOCI and Repurchase receivables: | | | |
| - Net losses arising during the year, net of tax | | (2,608) | - |
| - Net gains reclassified to profit or loss upon disposal, net of tax | | (303) | - |
| Investment securities available for sale and Repurchase receivables: | | | |
| - Net gains arising during the year, net of tax | | - | 1,061 |
| - Net gains reclassified to profit or loss upon disposal or impairment, net of tax | | - | (216) |
| **Other comprehensive (loss)/income for the year, net of tax** | | **(2,911)** | **845** |
| **Total comprehensive income for the year** | | **24,211** | **19,868** |
| **Profit is attributable to:** | | | |
| - Shareholders of the Company | | 27,088 | 19,019 |
| - Non-controlling interest | | 34 | 4 |
| **Total comprehensive income is attributable to:** | | | |
| - Shareholders of the Company | | 24,177 | 19,864 |
| - Non-controlling interest | | 34 | 4 |
| **Earnings per share for profit attributable to the Shareholders of the Company, basic (expressed in RR per share)** | **22** | **153.54** | **107.88** |
| **Earnings per share for profit attributable to the Shareholders of the Company, diluted (expressed in RR per share)** | **22** | **149.14** | **104.42** |

The notes № 1-43 are an integral part of these Consolidated Financial Statements.

**31 DECEMBER 2018**

# Consolidated Statement of Changes in Equity

| | | Attributable to shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *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 |
| Balance at 1 January 2017 | | 188 | 8,623 | 704 | 591 | (1,473) | 20,885 | 29,518 | - | 29,518 |
| Profit for the year | | - | - | - | - | - | 19,019 | 19,019 | 4 | 19,023 |
| Other comprehensive income: | | | | | | | | | | |
| Investment securities available for sale and Repurchase receivables | | - | - | - | 845 | - | - | 845 | - | 845 |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **845** | **-** | **19,019** | **19,864** | **4** | **19,868** |
| GDRs buy-back | 22 | - | - | - | - | (397) | - | (397) | - | (397) |
| Business combinations | | - | - | - | - | - | - | - | 198 | 198 |
| Share-based payment reserve | 22,41 | - | - | 582 | - | 283 | 172 | 1,037 | - | 1,037 |
| Dividends declared | 31 | - | - | - | - | - | (8,279) | (8,279) | - | (8,279) |
| **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 | 5 | - | - | - | 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 | 22 | - | - | - | - | (2,455) | - | (2,455) | - | (2,455) |
| Share-based payment reserve | 22,41 | - | - | (54) | - | 372 | 312 | 630 | - | 630 |
| Dividends declared | 31 | - | - | - | - | - | (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** |

The notes № 1-43 are an integral part of these Consolidated Financial Statements.



# Consolidated Statement of Cash Flows

| *In millions of RR* | Note | 2018 | 2017 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Interest income calculated using the effective interest rate method received | | 72,169 | 58,431 |
| Other similar income received | | 300 | 214 |
| Interest expense calculated using the effective interest rate method paid | | (14,240) | (12,159) |
| Recoveries from written-off loans | 9 | 4,083 | 1,991 |
| Expenses on deposits insurance paid | | (1,001) | (593) |
| Fees and commissions received | | 27,143 | 15,521 |
| Fees and commissions paid | | (10,569) | (6,099) |
| Customer acquisition expense paid | | (14,419) | (8,162) |
| Cash received/(paid) from trading in foreign currencies and operations with financial derivatives | | 2,962 | (267) |
| Cash received from insurance operations | | 5,152 | 2,603 |
| Other operating income received | | 1,597 | 940 |
| Administrative and other operating expenses paid | | (22,451) | (9,986) |
| Income tax paid | | (5,416) | (5,077) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **45,310** | **37,357** |
| Changes in operating assets and liabilities | | | |
| Net increase in CBRF mandatory reserves | | (760) | (457) |
| Net decrease/(increase) in due from banks | | 1 | (176) |
| Net increase in loans and advances to customers | | (78,453) | (44,256) |
| Net decrease in debt securities measured at FVTPL | | 469 | - |
| Net increase in guarantee deposits with payment systems | | (132) | (815) |
| Net increase in other financial assets | | (2,512) | (3,909) |
| Net increase in other non-financial assets | | (436) | (2,226) |
| Net increase in due to banks | | 2,113 | 106 |
| Net increase in customer accounts | | 97,263 | 50,307 |
| Net increase in other financial liabilities | | 177 | 3,488 |
| Net decrease in other non-financial liabilities | | (141) | (29) |
| **Net cash from operating activities** | | **62,899** | **39,390** |
| Cash flows used in investing activities | | | |
| Acquisition of tangible fixed assets | | (2,835) | (1,702) |
| Acquisition of intangible assets | | (1,859) | (1,744) |
| Acquisition of debt securities at FVOCI and repurchase receivables | 10,12 | (102,204) | - |
| Proceeds from sale and redemption of debt securities at FVOCI | 10 | 74,401 | - |
| Acquisition of investments available for sale | 11 | - | (67,814) |
| Proceeds from sale and redemption of investments available for sale | 11 | - | 29,610 |
| **Net cash used in investing activities** | | **(32,497)** | **(41,650)** |
| Cash flows (used in)/from financing activities | | | |
| Proceeds from debt securities in issue | 32 | 3,622 | 7,819 |
| Repayment of debt securities in issue | 32 | (5,425) | - |
| Repayment of subordinated debt | 32 | (5,209) | (6,623) |
| Repayment of perpetual loan participation notes | 32 | (49) | - |
| Dividends paid | 31 | (11,946) | (7,970) |
| GDR's buy-back | 22 | (2,455) | (397) |
| Proceeds from perpetual loan participation notes | 32 | - | 17,109 |
| Perpetual loan participation notes issue costs | 32 | - | (256) |
| **Net cash (used in)/from financing activities** | | **(21,462)** | **9,682** |
| Effect of exchange rate changes on cash and cash equivalents | | 1,012 | 231 |
| **Net increase in cash and cash equivalents** | | **9,952** | **7,653** |
| **Cash and cash equivalents at the beginning of the year** | **7** | **23,850** | **16,197** |
| **Cash and cash equivalents at the end of the year** | **7** | **33,802** | **23,850** |

The notes № 1-43 are an integral part of these Consolidated Financial Statements.

**31 DECEMBER 2018**

# 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 for the year ended 31 December 2018 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, Philippe Delpal, 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 2018 and 2017 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 2018 the number of issued "class A" shares is 96,239,291 and issued "class B" shares is 86,399,534 (31 December 2017: the same).

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.

As at 31 December 2018 and 2017 the entities and the individuals holding either Class A or Class B shares of the Company were:

| | Class of shares | 31 December 2018 | 31 December 2017 | Country of Incorporation |
|---|---|---|---|---|
| Guaranty Nominees Limited (JP Morgan Chase Bank NA) | Class A | 52.70% | 50.06% | United Kingdom |
| Altoville Holdings Limited | Class B | 23.65% | - | Cyprus |
| Nemorenti Limited | Class B | 23.65% | - | Cyprus |
| Ioanna Georgiou | Class A | 0.00% | - | Cyprus |
| Panagiota Charalambous | Class A | 0.00% | - | Cyprus |
| Maria Vyra | Class A | 0.00% | - | Cyprus |
| Marios Panayides | Class A | 0.00% | - | Cyprus |
| Chloi Panagiotou | Class A | 0.00% | - | Cyprus |
| Leonora Chagianni | Class A | 0.00% | - | Cyprus |
| Tadek Holding & Finance S.A. | Class B | - | 47.31% | British Virgin Islands |
| Vostok Emerging Finance Limited | Class A | - | 1.64% | Cyprus |
| Rousse Nominees Limited | Class A | - | 0.99% | Guernsey |
| Tasos Invest & Finance Inc. | Class B | - | 0.00% | British Virgin Islands |
| Vizer Limited | Class B | - | 0.00% | British Virgin Islands |
| Maitland Commercial Inc. | Class B | - | 0.00% | British Virgin Islands |
| Norman Legal S.A. | Class B | - | 0.00% | British Virgin Islands |
| **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.

On 24 January 2018 Tadek Holding & Finance SA transferred its entire holding of B class shares (86,399,534 B class shares) to Altoville Holdings Limited. On 18 December 2018 Altoville Holdings Limited transferred 50% of its holding of B class shares (43,199,767 B class shares) to Nemorenti Limited. As at 31 December 2018 the beneficial owner of Altoville Holdings Limited and Nemorenti Limited was Russian entrepreneur Mr. Oleg Tinkov.

In September 2018, 6 A class shares were transferred to the individuals listed above. The individuals hold them as nominees of Altoville Holdings Limited.

As at 31 December 2017 the beneficial owner of Tadek Holding & Finance S.A., Tasos Invest & Finance Inc., Vizer Limited, Maitland Commercial Inc and Norman Legal S.A. was Mr. Oleg Tinkov and the beneficial owner of Rousse Nominees Limited was Baring Vostok Private Equity Fund IV, L.P.

As at 31 December 2018 and 2017 the ultimate controlling party of the Company is Mr. Oleg Tinkov. Mr. Oleg Tinkov controls approximately 89.98% of the aggregated voting rights attaching to the Class A and B shares as at 31 December 2018 (2017: 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 2018 and 2017.

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

JSC "Tinkoff Insurance" (the "Insurance Company") provides insurance services such as accident, property, travelers', 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 and distribution services to the Group.

Goward Group Ltd is an investment holding company which manages part of the Group's assets. Since February 2018 Goward Group Ltd is in liquidation process.

LLC "Phoenix" is a debt collection agency.

Tinkoff Software DC provides software development services to the Group.

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. The Group owns a 55% shareholding in LLC CloudPayments.

ANO "Tinkoff Education" is a non-commercial organization set up by the Bank with no share capital. This entity is in the process of receiving of educational license.

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.

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# Notes to the Consolidated Financial Statements (Continued)

## 1 Introduction (Continued)

***Principal activity.*** The Group's principal business activities are retail banking to private individuals, 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 of individuals insurance in the Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1.4 million per individual 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, 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).

## 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 36).

In recent year, 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. For example in April 2018 the Russian Rouble decreased by about 10% against the US Dollar and Euro in the space of a few days. 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 of Rouble interest rates, since 1 January 2017 the CBRF "key rate" has decreased by 2.25% to 7.75% per annum as at 31 December 2018.

The Group actively monitors the situation in the Russian banking sector, and the activity of CBRF in response to current and newly developed requirements and any sanctions against the participants who breach them. 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.

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 34 provides more information of how the Group incorporated 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") (2017: the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by revaluation of derivatives, investment securities available for sale, securities at fair value through profit or loss, and repurchase receivables carried at fair value). 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 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Notes 5 and 43. 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.

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# Notes to the Consolidated Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

***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.

***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.

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.

***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 39.

*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 such as fee and commission. 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.

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# Notes to the Consolidated Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

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. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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 34 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 34 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 34 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.

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# 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. Gains or losses on disposal of credit-impaired loans are recognized directly to the credit loss allowance line in the consolidated statement of profit or loss and other comprehensive income in the period when sale occurred. The Group writes-off financial assets that are mostly still subject to enforcement activity, however, there is no reasonable expectation of recovery.

***Repayments of written-off loans.*** Recovery of amounts previously written-off as uncollectible are 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 (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

***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 items which 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 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.

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# 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 are measured at FVTPL (mandatory FVTPL).

Impairment allowances of the loans measured at AC are determined based on the forward-looking ECL model. Note 34 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.

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.

***Operating leases.*** 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.

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# Notes to the Consolidated Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

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 within losses less gains from operations with foreign currencies. 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.

***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.

***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 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 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.

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# Notes to the Consolidated Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

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 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.

All other income and 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.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

***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.

***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 credit protection fee, 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.

***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 agency fee.*** In cases when the Group acts as an agent and attracts clients for the third-party insurance companies, the Bank receives commission income, which is recognised within Fee and commission income in the consolidated statement of profit or loss and other comprehensive income in full amount.

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# Notes to the Consolidated Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

***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.*** 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 settlement of transactions and 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 foreign exchange translation gains less losses, 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 2018 the rate of exchange used for translating foreign currency balances was USD 1 = RR 69.4706 (31 December 2017: USD 1 = RR 57.6002), and the average rate of exchange was USD 1 = RR 62.7078 (2017: USD 1 = RR 58.3529).

***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.

***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.

***Changes in presentation.*** Starting from 1 January 2018 the Group changed presentation of interest income and expense following the application of IFRS 9 and the consequential amendment of IAS 1. In these consolidated financial statements the Group changed presentation of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017. These changes were implemented to increase comparability of the financial information for 2017 with the respective information for 2018.

The effect of changes on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

| *In millions of RR* | As originally presented | Reclassification | As reclassified |
|---|---|---|---|
| Interest income | 59,541 | (59,541) | - |
| Interest expense | (12,824) | 12,824 | - |
| Interest income calculated using the effective interest rate method | - | 59,317 | 59,317 |
| Other similar income | - | 224 | 224 |
| Interest expense calculated using the effective interest rate method | - | (12,824) | (12,824) |

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# Notes to the Consolidated Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

The effect of changes on the consolidated statement of cash flows for the year ended 31 December 2017 is as follows:

| *In millions of RR* | As originally presented | Reclassification | As reclassified |
|---|---|---|---|
| Interest received | 60,636 | (60,636) | - |
| Interest paid | (12,159) | 12,159 | - |
| Interest income calculated using the effective interest rate method received | - | 60,422 | 60,422 |
| Other similar income received | - | 214 | 214 |
| Interest expense calculated using the effective interest rate method paid | - | (12,159) | (12,159) |

From 1 January 2018 the management of the Group refined the approach to the presentation of cash flows related to the salaries and other contributions paid to employees of the Group in the consolidated statement of cash flows. The management concluded it was appropriate to reclassify these cash flows from Net increase in customer accounts to Administrative and other operating expenses paid and Customers acquisition expenses paid in the consolidated statement of cash flows. The effect of reclassifications was as follows on amounts in the consolidated statement of cash flows for the year ended 31 December 2017:

| *In millions of RR* | As originally presented | Reclassification | As reclassified |
|---|---|---|---|
| Administrative and other operating expenses paid | (6,230) | (3,756) | (9,986) |
| Customer acquisition expense paid | (5,860) | (2,302) | (8,162) |
| Net increase in customer accounts | 44,249 | 6,058 | 50,307 |

From 1 January 2018 the management of the Group refined the approach to the presentation of cash flows related to the recovery of amounts of loans previously written-off as uncollectible in the consolidated statement of cash flows. The management concluded it was appropriate to reclassify these cash flows from Interest income calculated using the effective interest rate method received to the separate line Recoveries from written-off loans in the consolidated statement of cash flows.

The effect of reclassifications was as follows on amounts in the consolidated statement of cash flows for the year ended 31 December 2017:

| *In millions of RR* | As originally presented | Reclassification | As reclassified |
|---|---|---|---|
| Interest income calculated using the effective interest rate method received | 60,422 | (1,991) | 58,431 |
| Recoveries from written-off loans | - | 1,991 | 1,991 |

* Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.

## 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) and loss given default ("LGD"). Refer to Note 34 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 34 for further information on ECL measurement.

An increase or decrease in PDs by 1% compared to PDs used in the ECL estimates calculated at 31 December 2018 would result in an increase or decrease in credit loss allowances of RR 1,598 million.

An increase or decrease in LGDs by 1% compared to LGDs used in the ECL estimates calculated at 31 December 2018 would result in an increase or decrease in credit loss allowances of RR 372 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 34.

***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 reclassifed to equity. Foreign exchange translation gains and losses on the bond are recognised in profit or loss for the period. 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 has also invested 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.

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# Notes to the Consolidated Financial Statements (Continued)

## 4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

***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.

***Tax legislation.*** Russian and Cypriot tax, currency and customs legislation are subject to varying interpretations. Refer to Note 36.

## 5 Adoption of New or Revised Standards and Interpretations

***Adoption of IFRS 9 – Financial Instruments (IFRS 9) (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018).*** The Group has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities at the date of initial application in the opening retained earnings and other reserves of the current period. The comparative period disclosures repeat those disclosures made in the prior period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 – Financial Instruments: Disclosures (IFRS 7) disclosures have also only been applied to the current period.

Details of the specific IFRS 9 accounting policies applied in the current period are described in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 43. The impact of the IFRS 9 adoption on the Group is disclosed below.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

| | **Measurement category** | | **Carrying value per IAS 39 (closing balance at 31 December 2017)** | **Effect** | | | | **Carrying value per IFRS 9 (opening balance at 1 January 2018)** |
|---|---|---|---|---|---|---|---|---|
| | | | | **Remeasurement** | | **Reclassification** | | |
| *In millions of RR* | **IAS 39** | **IFRS 9** | | **ECL** | **Other** | **Mandatory** | **Voluntary** | |
| Cash and cash equivalents | L&R (loans and receivables) | AC | 23,850 | - | - | - | - | 23,850 |
| Mandatory cash balances with the Central Bank of Russian Federation | L&R | AC | 1,675 | - | - | - | - | 1,675 |
| Due from other banks | L&R | AC | 777 | - | - | - | - | 777 |
| Loans and advances to customers | L&R | AC | 140,245 | (10,546) | - | - | - | 129,699 |
| Financial derivatives | FVTPL | FVTPL | 2,424 | - | - | - | - | 2,424 |
| Investments in debt securities | AFS (available for sale) | FVOCI | 66,606 | (292) | 292 | - | 166 | 66,772 |
| Investments in debt securities | AFS | FVTPL (mandatory) | 5,070 | - | - | - | - | 5,070 |
| **Total Investment in debt securities** | | | **71,676** | **(292)** | **292** | **-** | **166** | **71,842** |
| Repurchase receivables | AFS | FVTPL (man-da-tory) | 798 | - | - | - | - | 798 |
| Guarantee deposits with payment systems | L&R | AC | 3,660 | - | - | - | - | 3,660 |
| Other Financial Assets | L&R, FVTPL | AC | 10,969 | - | - | - | (166) | 10,803 |

All classes of cash and cash equivalents disclosed in Note 7 were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9 at adoption of the standard. The ECL for cash and cash equivalents balances was immaterial.

Due from other banks and mandatory reserves with the Central Bank were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9 at adoption of the standard. The ECL for due from other banks balances was immaterial.

At 31 December 2017, all of the Group's financial liabilities except for derivatives were carried at AC. The derivatives belonged to the FVTPL measurement category under IAS 39. Starting from 1 January 2018 the Group's financial liabilities except for derivatives continued to be classified at AC. The derivatives were reclassified from FVTPL measurement category under IAS 39 to FVTPL (mandatory) measurement category under IFRS 9.

The below disclosure provides reconciliation of the carrying amounts of financial instruments by classes from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018 as well as describes the reasons for such reclassifications for loans and advances to customers and other assets:

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# Notes to the Consolidated Financial Statements (Continued)

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

***a. Loans and advances to customers***

New classification requirements of IFRS 9 led to changes in classification of loans and advances to customers as follows:

| | Measurement category | | Carrying value per IAS 39 (closing balance at 31 December 2017) | Effect | | | | Carrying valueper IFRS 9 (opening balance at 1 January 2018) |
|---|---|---|---|---|---|---|---|---|
| | | | | Remeasurement | | Reclassification | | |
| *In millions of RR* | IAS 39 | IFRS 9 | | ECL | Other | Mandatory | Voluntary | |
| Credit card loans | L&R | AC | 125,818 | (8,638) | - | - | 1,568 | 118,748 |
| Instalments | L&R | - | 3,235 | (1,667) | - | - | (1,568) | - |
| Cash loans | L&R | AC | 6,663 | (161) | - | - | - | 6,502 |
| POS loans | L&R | AC | 4,529 | (80) | - | - | - | 4,449 |
| **Total Loans and advances to customers** | | | **140,245** | **(10,546)** | **-** | **-** | **-** | **129,699** |

The main reason for reclassification of instalments to credit card loans is that such reclassification results in more relevant presentation of classes of loans and advances to customers as instalments represent restructured, stage 3, credit cards loans to delinquent borrowers.

The effect of reclassification was as follows in the analysis of loans by credit quality:

| | 31 December 2017 (as originally presented) | | | | 31 December 2017 (as reclassified) | | |
|---|---|---|---|---|---|---|---|
| *In millions of RR* | Credit card loans | Instalment loans | Cash loans | POS loans | Credit card loans | Cash loans | POS loans |
| Neither past due nor impaired: | | | | | | | |
| - new | 3,824 | - | 1,595 | 1,234 | 3,824 | 1,595 | 1,234 |
| Loans collectively assessed for impairment (gross): | | | | | | | |
| - non-overdue | 118,193 | 4,016 | 5,051 | 3,304 | 122,209 | 5,051 | 3,304 |
| - less than 30 days overdue | 3,097 | 360 | 73 | 37 | 3,457 | 73 | 37 |
| - 30 to 90 days overdue | 2,682 | 302 | 70 | 25 | 2,984 | 70 | 25 |
| - 90 to 180 days overdue | 2,340 | 239 | 66 | 24 | 2,579 | 66 | 24 |
| - 180 to 360 days overdue | 941 | 543 | 64 | 42 | 1,484 | 64 | 42 |
| - over 360 days overdue | 1,189 | 447 | 81 | 18 | 1,636 | 81 | 18 |
| - loans in courts | 7,924 | - | - | - | 7,924 | - | - |
| Less: Provision for loan impairment | (14,372) | (2,672) | (337) | (155) | (17,044) | (337) | (155) |
| **Total loans** | **125,818** | **3,235** | **6,663** | **4,529** | **129,053** | **6,663** | **4,529** |

***b. Investments in debt securities***

New classification requirements of IFRS 9 led to changes in classification of investments in debt securities as follows:

| | Measurement category | | Carrying value per IAS 39 (closing balance at 31 December 2017) | Effect | | | | Carrying value per IFRS 9 (opening balance at 1 January 2018) |
|---|---|---|---|---|---|---|---|---|
| | | | | Remeasurement | | Reclassification | | |
| *In millions of RR* | IAS 39 | IFRS 9 | | ECL | Other | Mandatory | Voluntary | |
| Corporate bonds | AFS | FVOCI | 48,328 | (233) | 233 | - | 166 | 48,494 |
| Russian government bonds | AFS | FVOCI | 13,904 | (36) | 36 | - | - | 13,904 |
| Municipal bonds | AFS | FVOCI | 4,374 | (23) | 23 | - | - | 4,374 |
| Perpetual corporate bonds | AFS | FVTPL | 5,070 | - | - | - | - | 5,070 |
| **Total Investments in debt securities** | | | **71,676** | **(292)** | **292** | **-** | **166** | **71,842** |

Since the Investments in debt securities are measured at fair value under IFRS 9 and were measured at fair value under IAS 39, the effect of remeasurement and ECL does not impact the carrying value of Investments in debt securities. The effect of ECL impacts the revaluation gains/losses of debt securities measured at FVOCI (the ECL amount was reclassified from the revaluation gains/losses to retained earnings).

Having performed the business model assessment, the Group classified some of the other financial assets previously measured at FVTPL to FVOCI measurement category, business model "hold to collect and sell".

***c. Repurchase receivables***

| | Measurement category | | Carrying value per IAS 39 (closing balance at 31 December 2017) | Effect | | | | Carrying value per IFRS 9 (opening balance at 1 January 2018) |
|---|---|---|---|---|---|---|---|---|
| | | | | Remeasurement | | Reclassification | | |
| *In millions of RR* | IAS 39 | IFRS 9 | | ECL | Other | Mandatory | Voluntary | |
| Perpetual corporate bonds | AFS | FVTPL | 798 | - | - | - | - | 798 |
| Total Repurchase receivables | | | 798 | - | - | - | - | 798 |

The main reasons for reclassifications of investments in debt securities and repurchase receivables were as follows:

- *Perpetual corporate bonds with interest payments that are not mandatory.* The Group has invested in perpetual corporate bonds where the interest payments can be cancelled at the option of the issuer. Interest payments are not cumulative. The Group has concluded that its contractual cash flows are not consistent with the basic lending arrangement. Hence the investments in perpetual debt securities are measured at FVTPL. Refer to Note 4.

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# Notes to the Consolidated Financial Statements (Continued)

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

*Reclassification from retired categories with no change in measurement.* In addition to the above, the debt instruments previously classified as AFS have been reclassified as measured at FVOCI under IFRS 9, as their previous category under IAS 39 was 'retired', with no changes to their measurement basis (except for perpetual corporate bonds as described above). The business model for these debt financial instruments (except for perpetual corporate bonds) was determined to be hold to collect contractual cash flows and sell since the Group holds these assets to collect both the contractual cash flows and the cash flows arising from the sale of assets.

***d. Other financial assets***

| | Measurement category | | Carrying value per IAS 39 (opening balance at 31 December 2017) | Effect | | | | Carrying value per IFRS 9 (closing balance at 1 January 2018) |
|---|---|---|---|---|---|---|---|---|
| | | | | Remeasurement | | Reclassification | | |
| *In millions of RR* | IAS 39 | IFRS 9 | | ECL | Other | Mandatory | Voluntary | |
| ***Other financial assets at AC*** | ***L&R*** | ***AC*** | | | | | | |
| - Settlement of operations with plastic cards | | | 10,280 | - | - | - | - | 10,280 |
| - Other receivables | | | 523 | - | - | - | - | 523 |
| ***Other financial assets at FVTPL*** | ***FVTPL*** | - | 166 | - | - | - | (166) | - |

***e. Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018***

The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

| | Measurement category | | Provision for impairment under IAS 39 or IAS 37 at 31 December 2017 | Effect | | | Credit loss allowance under IFRS 9 at 1 January 2018 |
|---|---|---|---|---|---|---|---|
| *In millions of RR* | IAS 39 | IFRS 9 | | Remeasurement | Reclassification | Gross up of ECL and gross carrying amount | |
| ***Loans and advances to customers*** | | | | | | | |
| - Credit card loans | L&R | AC | 14,372 | 8,638 | 4,339 | 8,723 | 36,072 |
| - Instalments | L&R | - | 2,672 | 1,667 | (4,339) | - | - |
| - Cash loans | L&R | AC | 337 | 161 | - | 77 | 575 |
| - POS loans | L&R | AC | 155 | 80 | - | 69 | 304 |
| **Credit related commitments:** | | | | | | | |
| - Unused limits on credit card loans | | | - | 1,723 | - | - | 1,723 |
| **Total** | | | **17,536** | **12,269** | **-** | **8,869** | **38,674** |
| ***Investments in debt securities*** | | | | | | | |
| - Corporate bonds | AFS | FVOCI | - | - | 233 | - | 233 |
| - Russian government bonds | AFS | FVOCI | - | - | 36 | - | 36 |
| - Municipal bonds | AFS | FVOCI | - | - | 23 | - | 23 |
| **Total** | | | **-** | **-** | **292** | **-** | **292** |

Adoption of IFRS 9 resulted in an increase of gross carrying amounts of the financial assets as of 1 January 2018 because the gross carrying amounts according to the standard are calculated by discounting the contractual cash flows in relation to principal and all contractually due interest at the effective interest rate while previously under IAS 39 the gross carrying amounts were calculated by discounting the contractual cash flows in relation to principal and expected cash flows in relation to interest at the effective interest rate.

Further information on the measurement of the credit loss allowance under IFRS 9 is disclosed in respective notes.

***Adoption of IFRS 15 (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).*** The Group has adopted IFRS 15, Revenue from Contracts with Customers, with the date of initial application of 1 January 2018, which resulted in recognition of fee and commission income related to the loans and advances to customers but which does not form a part of effective interest rate, on an accrual basis (not taking into account expected credit losses) over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits provided by the Group's performance, usually on a straight- line basis or at a point in time when the Group satisfies its performance obligation. In prior periods some commission income was only recognised at its recoverable amount. The new standard was applied using the modified retrospective method, with cumulative effect recognised in retained earnings on 1 January 2018. The standard did not have a material impact on the Group.

The following amended standards became effective for the Group from 1 January 2018, but did not have a material impact on the Group:

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).

## 6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

***IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).*** 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. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Group recognised a right of use asset of RR 1,684 million against a corresponding lease liability on 1 January 2019. A reconciliation of the operating lease commitments disclosed in Note 36 to this liability is as follows:

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# Notes to the Consolidated Financial Statements (Continued)

## 6 New Accounting Pronouncements (Continued)

| *In millions of RR* | 1 January 2019 |
|---|---|
| Total future minimum lease payments for non-cancellable operating leases (Note 36) | 829 |
| - Future lease payments that are due in periods after the end of non-cancellable operating lease period | 1,072 |
| - Effect of discounting to present value | (217) |
| **Total lease liabilities** | **1,684** |

***IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).*** IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation.

The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

***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 recognise the loss immediately.

The Group is currently assessing the impact of the above standards on its consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

(a) Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*.

(b) 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)*.

(c) Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019)*.

(d) 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).

(e) Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)*.

(f) Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)*.

(g) Amendment to IFRS 3 Business Combinations (issued on 22 October 2018 and effective for annual periods beginning on or after 1 January 2020)*.

* 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 2018 | 31 December 2017 |
|---|---|---|
| Cash on hand | 5,839 | 2,941 |
| Cash balances with the CBRF (other than mandatory reserve deposits) | 11,158 | 11,201 |
| Placements with other banks with original maturities of less than three months: | | |
| - AA- to AA+ rated | 1,130 | 856 |
| - A- to A+ rated | 761 | 377 |
| - BBB- to BBB+ rated | 13,454 | 7,051 |
| - BB- to BB+ rated | 360 | 867 |
| - B- to B+ rated | 114 | 351 |
| Non-bank credit organizations | 986 | 206 |
| **Total Cash and Cash Equivalents** | **33,802** | **23,850** |

Cash on hand includes cash balances in ATMs and cash balances in transit. Placements with other banks with original maturities of less than three months include placements under reverse sale and repurchase agreements in the amount of RR 11,147 million as at 31 December 2018 (31 December 2017: RR 6,607 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 2018. Refer to Note 34 for the description of the Group's credit risk grading system. The carrying amount of cash and cash equivalents at 31 December 2018 below also represents the Group's maximum exposure to credit risk on these assets:

| *In millions of RR* | Cash balances with the CBRF | Placements with other banks and non-bank credit organizations | Total |
|---|---|---|---|
| Current | 11,158 | 16,664 | 27,822 |
| Monitor | - | 34 | 34 |
| Sub-standard | - | 107 | 107 |
| **Total cash and cash equivalents, excluding cash on hand** | **11,158** | **16,805** | **27,963** |

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 2018 the fair value of collateral under reverse sale and repurchase agreements was RR 12,389 (31 December 2017: RR 7,304). There is no material impact of collateral on credit loss allowance for cash and cash equivalents. Refer to Note 34 for the ECL measurement approach.

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# Notes to the Consolidated Financial Statements (Continued)

## 7 Cash and Cash Equivalents (Continued)

Cash and cash equivalents are neither impaired nor past due as at 31 December 2017. Refer to Note 39 for the disclosure of the fair value of cash and cash equivalents. Interest rate, maturity and geographical risk concentration analysis of cash and cash equivalents are disclosed in Note 34.

## 8 Due from Banks

| *In millions of RR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Placements with other banks with original maturities of more than three months: | | |
| - BBB- rated | 210 | 255 |
| - BB- to BB+ rated | 128 | 121 |
| - B- to B+ rated | 438 | 401 |
| **Total due from other banks** | **776** | **777** |

The table below discloses the credit quality of due from banks balances based on credit risk grades at 31 December 2018. Refer to Note 34 for the description of credit risk grading system used by the Group. The carrying amount of due from banks at 31 December 2018 below also represents the Group's maximum exposure to credit risk on these assets:

| *In millions of RR* | 31 December 2018 |
|---|---|
| Current | 338 |
| Monitor | 438 |
| **Total due from other banks** | **776** |

For the purpose of ECL measurement due from 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 banks. Refer to Note 34 for the ECL measurement approach.

Due from banks are neither impaired nor past due as at 31 December 2017. Refer to Note 39 for the disclosure of the fair value of due from banks. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 34.

## 9 Loans and Advances to Customers

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| *In millions of RR* | Gross carrying amount | Credit loss allowance | Carrying amount | Gross carrying amount | Provision for loan impairment | Carrying amount |
| Credit card loans | 178,396 | (33,296) | 145,100 | 146,097 | (17,044) | 129,053 |
| Cash loans | 35,194 | (2,331) | 32,863 | 7,000 | (337) | 6,663 |
| POS loans | 15,275 | (460) | 14,815 | 4,684 | (155) | 4,529 |
| Car loans | 2,838 | (85) | 2,753 | - | - | - |
| Secured loans | 2,644 | (16) | 2,628 | - | - | - |
| Loans to SME | 363 | (33) | 330 | - | - | - |
| **Total loans and advances to customers at AC** | **234,710** | **(36,221)** | **198,489** | **157,781** | **(17,536)** | **140,245** |

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" (KupiVKredit). This programme funds online and offline purchases through internet and offline shops for individual borrowers.

Car loans represent loans for the purchase of a vehicle which is used as collateral under the loan.

Secured loans represent loans secured with a car or real estate.

Loans to SME represent loans provided by 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, details of ECL measurement are provided in Note 34. The main movements in the tables presented below are described as follows:

- new originated or purchased category represents the gross carrying amounts of purchased loans and loans to new borrowers (for this particular product) before their first repayment became due. The related ECL represents the day one ECL on the purchase or origination of these loans;
- 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;
- movements other than transfers and new originated or purchased loans category represents 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.

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# Notes to the Consolidated Financial Statements (Continued)

## 9 Loans and Advances to Customers (Continued)

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers 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 im-paired)** | **Total** | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL for SICR)** | **Stage 3 (lifetime ECL for credit im-paired)** | **Total** |
| **Credit card loans** | | | | | | | | |
| **At 1 January 2018** | **9,064** | **5,319** | **21,689** | **36,072** | **121,988** | **6,958** | **25,874** | **154,820** |
| Movements with impact on credit loss allowance charge for the year | | | | | | | | |
| New originated or purchased | 2,884 | - | - | 2,884 | 34,791 | - | - | 34,791 |
| 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) | - |
| Movements other than transfers and new originated or purchased loans | 1,733 | 636 | (3,502) | (1,133) | 8,135 | (16) | (3,665) | 4,454 |
| **Total movements with impact on credit loss allowance charge for the year** | **202** | **(611)** | **13,273** | **12,864** | **23,744** | **(304)** | **15,805** | **39,245** |
| 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** | **26,010** | **178,396** |

| *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 im-paired)** | **Total** | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL for SICR)** | **Stage 3 (lifetime ECL for credit im-paired)** | **Total** |
| **Cash loans** | | | | | | | | |
| **At 1 January 2018** | **268** | **151** | **156** | **575** | **6,478** | **438** | **161** | **7,077** |
| Movements with impact on credit loss allowance charge for the year | | | | | | | | |
| New originated or purchased loans | 1,255 | - | - | 1,255 | 32,010 | - | - | 32,010 |
| 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) | - | - |
| Movements other than transfers and new originated or purchased loans | (102) | (422) | 154 | (370) | (3,431) | (363) | 214 | (3,580) |
| **Total movements with impact on credit loss allowance charge for the year** | **848** | **394** | **827** | **2,069** | **26,173** | **1,338** | **919** | **28,430** |
| 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** | **35,194** |

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# 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 im-paired) | Total |
|---|---|---|---|---|---|---|---|---|
| **POS loans** | | | | | | | | |
| **At 1 January 2018** | **133** | **46** | **125** | **304** | **4,462** | **162** | **129** | **4,753** |
| Movements with impact on credit loss allowance charge for the year | | | | | | | | |
| New originated or pur-chased | 217 | - | - | 217 | 14,620 | - | - | 14,620 |
| 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) | - | - |
| Movements other than transfers and new origi-nated or purchased loans | (100) | (156) | 17 | (239) | (3,689) | (283) | 23 | (3,949) |
| **Total movements with impact on credit loss allowance charge for the year** | **57** | **35** | **213** | **305** | **10,098** | **343** | **230** | **10,671** |
| 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 origi-nal cash flows without derecognition | - | - | (8) | (8) | - | - | (8) | (8) |
| **At 31 December 2018** | **190** | **81** | **189** | **460** | **14,560** | **505** | **210** | **15,275** |

| *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 pur-chased | 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 transfers and new origi-nated or purchased loans | - | (6) | - | (6) | 1 | (2) | - | (1) |
| **Total movements with impact on credit loss allowance 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** |
| Secured loans | | | | | | | | |
| At 1 January 2018 | - | - | - | - | - | - | - | - |
| Movements with impact on credit loss allowance charge for the year | | | | | | | | |
| New originated or pur-chased | 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** |

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# 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 im-paired) | Total |
|---|---|---|---|---|---|---|---|---|
| **Loans to 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 2018 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 4,083 million recovery of amounts previously written-off as uncollectible, and due to RR 318 million charge of ECL for credit related commitments.

The amount of the recovery 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 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.

Movements in the provision for loan impairment for the year ended 31 December 2017 are as follows:

| *In millions of RR* | As at 31 December 2016 | Sales of impaired loans | Amounts written-off during the year | Provision for impairment during the year | As at 31 December 2017 |
|---|---|---|---|---|---|
| **Loans to individuals:** | | | | | |
| Credit card loans | 16,976 | (431) | (8,966) | 9,465 | 17,044 |
| Cash loans | 429 | (7) | (108) | 23 | 337 |
| POS loans | 118 | (25) | (55) | 117 | 155 |
| Total provision for loan impairment | 17,523 | (463) | (9,129) | 9,605 | **17,536** |

The provision for impairment during the year ended 31 December 2017 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 1,991 million, recovery of amounts previously written-off as uncollectible. The amount of the recovery received during the year was credited directly to the provisions line in the consolidated statement of profit or loss and other comprehensive income.

During the year ended 31 December 2018 the Group sold credit-impaired loans to third parties (external debt collection agencies) with a gross amount of RR 454 million (2017: RR 500 million) and credit loss allowance of RR 425 million (2017: provision for impairment RR 463 million). The difference between the carrying amount of these loans and the consideration received was recognised as losses in the amount of RR 7 million within credit loss allowance for loans and advances to customers for the year ended 31 December 2018 (2017: as a gain in the amount of RR 26 million).

Presented below is an analysis of issued, activated and utilised cards based on their credit card limits as at the end of the year:

| *In units* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Credit card limits** | | |
| Up to 20 RR thousand | 651,290 | 631,207 |
| 20-40 RR thousand | 443,659 | 458,058 |
| 40-60 RR thousand | 423,030 | 394,543 |
| 60-80 RR thousand | 427,986 | 361,117 |
| 80-100 RR thousand | 361,803 | 293,372 |
| 100-120 RR thousand | 285,574 | 252,135 |
| 120-140 RR thousand | 341,017 | 377,207 |
| 140-200 RR thousand | 402,002 | 155,902 |
| More than 200 RR thousand | 109,482 | 61,761 |
| **Total cards** | **3,445,843** | **2,985,302** |

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# Notes to the Consolidated Financial Statements (Continued)

## 9 Loans and Advances to Customers (Continued)

Table above only includes credit cards less than 180 days overdue.

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 carrying value of loans was allocated based on liquidity of the assets taken as 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 2018 is as follows.

| | Over-collateralised assets | | Under-collateralised assets | |
|---|---|---|---|---|
| *In millions of RR* | Carrying value of the assets | Value of collateral | Carrying value 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% for residential real estate and 30% for cars applied to consider liquidity and quality of the pledged assets.

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.

Loans to individuals 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 im-paired) | Total |
|---|---|---|---|---|
| Credit card loans | | | | |
| - Current | 138,466 | 974 | - | 139,440 |
| - Monitor | 7,266 | 2,212 | - | 9,478 |
| - Sub-standard | - | 3,468 | 4,774 | 8,242 |
| - NPL | - | - | 21,236 | 21,236 |
| **Gross carrying amount** | **145,732** | **6,654** | **26,010** | **178,396** |
| **Credit loss allowance** | **(9,266)** | **(4,708)** | **(19,322)** | **(33,296)** |
| **Carrying amount** | **136,466** | **1,946** | **6,688** | **145,100** |
| ***Cash loans*** | | | | |
| - Current | 32,504 | 1,274 | - | 33,778 |
| - Monitor | 147 | 207 | - | 354 |
| - Sub-standard | - | 295 | 72 | 367 |
| - NPL | - | - | 695 | 695 |
| **Gross carrying amount** | **32,651** | **1,776** | **767** | **35,194** |
| Credit loss allowance | (1,116) | (545) | (670) | (2,331) |
| **Carrying amount** | **31,535** | **1,231** | **97** | **32,863** |
| ***POS loans*** | | | | |
| - Current | 14,499 | 385 | - | 14,884 |
| - Monitor | 61 | 60 | - | 121 |
| - Sub-standard | - | 60 | 6 | 66 |
| - NPL | - | - | 204 | 204 |
| **Gross carrying amount** | **14,560** | **505** | **210** | **15,275** |
| Credit loss allowance | (190) | (81) | (189) | (460) |
| **Carrying amount** | **14,370** | **424** | **21** | **14,815** |
| ***Car loans*** | | | | |
| - Current | 2,742 | 42 | - | 2,784 |
| - 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** |

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# Notes to the Consolidated Financial Statements (Continued)

## 9 Loans and Advances to Customers (Continued)

| *In millions of RR* | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL for SICR) | Stage 3 (lifetime ECL for credit im-paired) | Total |
|---|---|---|---|---|
| ***Secured loans*** | | | | |
| - Current | 2,638 | 1 | - | 2,639 |
| - 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 SME*** | | | | |
| - Current | 327 | 6 | - | 333 |
| - 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 34 for the description of credit risk grading system used by the Group.

Analysis of loans by credit quality at 31 December 2017 is disclosed as follows (refer to Note 5):

| | 31 December 2017 | | |
|---|---|---|---|
| *In millions of RR* | Credit card loans | Cash loans | POS loans |
| Neither past due nor impaired: | | | |
| *- new* | 3,824 | 1,595 | 1,234 |
| Loans collectively assessed for impairment (gross): | | | |
| *- non-overdue* | 122,209 | 5,051 | 3,304 |
| *- less than 30 days overdue* | 3,457 | 73 | 37 |
| *- 30 to 90 days overdue* | 2,984 | 70 | 25 |
| *- 90 to 180 days overdue* | 2,579 | 66 | 24 |
| *- 180 to 360 days overdue* | 1,484 | 64 | 42 |
| *- over 360 days overdue* | 1,636 | 81 | 18 |
| *- loans in courts* | 7,924 | - | - |
| Less: Provision for loan impairment | (17,044) | (337) | (155) |
| **Total loans** | **129,053** | **6,663** | **4,529** |

Loans in category "new" represent loans provided to borrowers for which the date of the first payment did not occur before the reporting date and thus no impairment provision is considered necessary.

Loans in courts are loans to delinquent borrowers, against which the Group has filed claims to courts in order to recover outstanding balances. As at 31 December 2018 the gross carrying amount of the loans in courts was RR 15,390 million (1 January 2018 in accordance with IFRS 9: RR 14,059 million).

Information about modifications of loans that have not resulted in derecognition is as follows:

| *In millions of RR* | Loans and advances to customers |
|---|---|
| **Year ended 31 December 2018** | |
| Amortised cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event | 2,607 |
| Gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition | 665 |

Refer to Note 39 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 34. Information on related party balances is disclosed in Note 41.

## 10 Investments in Debt Securities

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

| *In millions of RR* | Debt securities at FVOCI | Debt securities measured at FVTPL | Total |
|---|---|---|---|
| Corporate bonds | 65,140 | - | 65,140 |
| Russian government bonds | 23,560 | - | 23,560 |
| Municipal bonds | 5,774 | - | 5,774 |
| Perpetual corporate bonds | - | 5,666 | 5,666 |
| **Total investments in debt securities at 31 December 2018 (fair value/carrying value)** | **94,474** | **5,666** | **100,140** |
| Including Credit loss allowance | 481 | - | 481 |

**1) Investments in debt securities at FVTPL**

Debt securities mandatorily classified as at FVTPL by the Group represent perpetual corporate bonds. Debt securities 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 debt securities at FVTPL are not collateralised.

The table below contains an analysis of the credit risk grades of debt securities measured at FVTPL at 31 December 2018 estimated by external international rating agencies:

| *In millions of RR* | Corporate bonds |
|---|---|
| - Current | 4,169 |
| - Sub-standard | 1,497 |
| **Carrying value (fair value)** | **5,666** |

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# Notes to the Consolidated Financial Statements (Continued)

## 10 Investments in Debt Securities (Continued)

**2) Investments in debt securities at FVOCI**

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. Refer to Note 34 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:

| *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** | | | | |
| - Current | 54,560 | - | - | 54,560 |
| - 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 |
| Less credit loss allowance | (255) | (128) | - | (383) |
| Less fair value adjustment from AC to FV | (511) | (451) | - | (962) |
| **Carrying value (fair value)** | **64,112** | **1,028** | **-** | **65,140** |
| **Russian government bonds** | | | | |
| - Current | 24,021 | - | - | 24,021 |
| Total AC gross carrying amount | 24,021 | - | - | 24,021 |
| Less credit loss allowance | (63) | - | - | (63) |
| Less fair value adjustment from AC to FV | (398) | - | - | (398) |
| **Carrying value (fair value)** | **23,560** | **-** | **-** | **23,560** |
| **Municipal bonds** | | | | |
| - Current | 4,325 | - | - | 4,325 |
| - Monitor | 1,508 | - | - | 1,508 |
| Total AC gross carrying amount | 5,833 | - | - | 5,833 |
| Less credit loss allowance | (35) | - | - | (35) |
| Less fair value adjustment from AC to FV | (24) | - | - | (24) |
| **Carrying value (fair value)** | **5,774** | **-** | **-** | **5,774** |

The debt securities at FVOCI are not collateralised.

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:

| | 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 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 | (10) | - | 174 | 27,174 | - | - | 27,174 |
| Transfers: | | | | | | | | |
| - to lifetime (from Stage 1 to Stage 2) | (71) | 71 | - | - | (1,082) | 1,082 | - | - |
| Foreign exchange gains | 12 | 17 | - | 29 | 3,027 | 228 | - | 3,255 |
| 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 | 3,890 | 80 | - | 3,970 |
| Interest received | (16) | (7) | - | (23) | (3,898) | (53) | - | (3,951) |
| Other movements | (38) | 31 | - | (7) | - | - | - | - |
| **Total movements with impact on credit loss allowance charge** | **39** | **111** | **-** | **150** | **18,215** | **1,337** | **-** | **19,552** |
| **At 31 December 2018** | **255** | **128** | **-** | **383** | **64,878** | **1,607** | **-** | **66,485** |
| **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 | 186 | - | - | 186 | 72,235 | - | - | 72,235 |
| Foreign exchange gains | 3 | - | - | 3 | 918 | - | - | 918 |
| 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 | 1,352 | - | - | 1,352 |
| Interest received | (5) | - | - | (5) | (1,692) | - | - | (1,692) |
| **Total movements with impact on credit loss allowance charge** | **27** | **-** | **-** | **27** | **10,335** | **-** | **-** | **10,335** |
| **At 31 December 2018** | **63** | **-** | **-** | **63** | **24,021** | **-** | **-** | **24,021** |

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# Notes to the Consolidated Financial Statements (Continued)

## 10 Investments in Debt Securities (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** |

Interest rate, maturity and geographical risk concentration analysis of investment in debt securities are disclosed in Note 34.

## 11 Investment Securities Available for Sale

| *In millions of RR* | 31 December 2017 |
|---|---|
| Corporate bonds | 48,328 |
| Russian government bonds | 13,904 |
| Perpetual corporate bonds | 5,070 |
| Municipal bonds | 4,374 |
| **Total investment securities available for sale** | **71,676** |

Analysis by credit quality of debt securities outstanding at 31 December 2017 is as follows:

| *In millions of RR* | Corporate bonds | Russian government bonds | Perpetual corporate bonds | Municipal bonds | Total |
|---|---|---|---|---|---|
| *Neither past due nor impaired* | | | | | |
| BBB- to BBB+ rated | 22,158 | 13,904 | - | 1,862 | 37,924 |
| BB- to BB+ rated | 25,955 | - | 3,959 | 2,512 | 32,426 |
| B- to B+ rated | 215 | - | 1,111 | - | 1,326 |
| **Total neither past due nor impaired investment securities available for sale** | **48,328** | **13,904** | **5,070** | **4,374** | **71,676** |

The movements in investment securities available for sale for the year ended 31 December 2017 are as follows:

| *In millions of RR* | 2017 |
|---|---|
| Carrying amount at 1 January | 33,286 |
| Purchases | 67,814 |
| Redemption of investment securities available for sale | (12,882) |
| Disposal of investment securities available for sale | (16,728) |
| Interest income accrued on investment securities available for sale (Note 23) | 3,491 |
| Interest received | (3,434) |
| Reclassification from investment securities available for sale to Repurchase receivables | (798) |
| Foreign exchange loss on investment securities available for sale in foreign currency | (399) |
| Revaluation through other comprehensive income | 1,326 |
| **Carrying amount at 31 December** | **71,676** |

Interest rate, maturity and geographical risk concentration analysis of investment securities available for sale are disclosed in Note 34.

## 12 Repurchase Receivables

Repurchase receivables represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge. As at 31 December 2018 the sale and repurchase agreements are short-term and mature in January 2019 (2017: January 2018) .

| *In millions of RR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Securities at FVOCI sold under sale and repurchase agreements | 1,182 | - |
| AFS securities sold under sale and repurchase agreements | - | 798 |
| **Total repurchase receivables** | **1,182** | **798** |

Securities sold under sale and repurchase agreements at 31 December 2018:

| *In millions of RR* | Securities at FVOCI sold under sale and repurchase agreements |
|---|---|
| Corporate bonds | 72 |
| Russian government bonds | 1,110 |
| **Total debt securities (fair value/carrying value)** | **1,182** |
| Including Credit loss allowance | 3 |

Securities sold under sale and repurchase agreements at 31 December 2017:

| *In millions of RR* | Investment securities available for sale |
|---|---|
| Perpetual corporate bonds | 798 |
| **Total securities classified as repurchase receivables** | **798** |

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# Notes to the Consolidated Financial Statements (Continued)

## 12 Repurchase Receivables (Continued)

The following table contains an analysis of debt securities measured at FVOCI classified as repurchase receivables, for which an ECL allowance is recognised, by the credit quality at 31 December 2018 based on credit risk grades and discloses balances by three stages for the purpose of ECL measurement.

Refer to Note 34 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 the debt securities:

| *In millions of RR* | **Stage 1 (12-months ECL)** |
|---|---|
| ***Corporate bonds*** | |
| - Current | 73 |
| Total AC gross carrying amount | 73 |
| Less credit loss allowance | - |
| Less fair value adjustment from AC to FV | (1) |
| **Carrying value (fair value)** | **72** |
| ***Russian government bonds*** | |
| - Current | 1,169 |
| Total AC gross carrying amount | 1,169 |
| Less credit loss allowance | (3) |
| Less fair value adjustment from AC to FV | (56) |
| **Carrying value (fair value)** | **1,110** |

The credit quality of repurchase receivables balances at 31 December 2017 is as follows:

| *In millions of RR* | **Perpetual corporate bonds** |
|---|---|
| Neither past due nor impaired | |
| B- rated | 798 |
| **Total neither past due nor impaired debt securities classified as repurchase receivables** | **798** |

The following table explains the changes in the credit loss allowance and gross carrying amount for securities at FVOCI classified as repurchase receivables for the year ended 31 December 2018:

| | **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 impaired)** | **Total** | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL for SICR)** | **Stage 3 (lifetime ECL for credit impaired)** | **Total** |
| At 1 January 2018 | - | - | - | - | - | - | - | - |
| *Movements with impact on credit loss allowance charge:* | | | | | | | | |
| New originated or purchased | 3 | - | - | 3 | 1,043 | - | - | 1,043 |
| Foreign exchange gains | - | - | - | - | 202 | - | - | 202 |
| Interest income accrued | - | - | - | - | 49 | - | - | 49 |
| Interest received | - | - | - | - | (52) | - | - | (52) |
| **Total movements with impact on credit loss allowance charge** | **3** | **-** | **-** | **3** | **1,242** | **-** | **-** | **1,242** |
| **At 31 December 2018** | **3** | **-** | **-** | **3** | **1,242** | **-** | **-** | **1,242** |

Refer to Note 16 for the related liabilities. Interest rate, maturity and geographical risk concentration analysis of repurchase receivables is disclosed in Note 34.

Refer to Note 39 for the disclosure of the fair value of each class of repurchase receivables. Securities at FVTPL and securities at FVOCI reclassified to repurchase receivables continue to be carried at fair value in accordance with accounting policies for these categories of assets.

## 13 Guarantee Deposits with Payment Systems

Guarantee deposits with payment systems represent funds put aside by the Group. As at 31 December 2018 and 2017 a guarantee deposit in favour of MasterCard was placed with Barclays Bank Plc London (A rated) and in favour of Visa was placed with United Overseas Bank Ltd. Singapore (AA - rated). As at 31 December 2018 the carrying value of guarantee deposits with payment systems was RR 4,603 million (2017: RR 3,660 million).

For the purpose of credit risk measurement guarantee deposits with payment systems balances are included in current based on credit risk grades as at 31 December 2018. Refer to Note 34 for the description of the Group's credit risk grading system.

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 34 for the ECL measurement approach. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 34.

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# Notes to the Consolidated Financial Statements (Continued)

## 14 Tangible Fixed and Intangible Assets

| *In millions of RR* | Building | Equipment | Leasehold improve-ments | Vehicles | Total tan-gible fixed assets | Intangible assets, including goodwill |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 31 December 2016** | **4,016** | **1,285** | **458** | **39** | **5,798** | **2,848** |
| Additions | 473 | 1,151 | 289 | 2 | 1,915 | 1,720 |
| Disposals | (5) | (16) | - | - | (21) | (9) |
| **At 31 December 2017** | **4,484** | **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** | **4,615** | **4,341** | **1,536** | **42** | **10,534** | **6,625** |
| **Depreciation and amortisation** | | | | | | |
| **At 31 December 2016** | **(10)** | **(741)** | **(368)** | **(23)** | **(1,142)** | **(1,028)** |
| Charge for the year (Note 28) | (38) | (311) | (66) | (5) | (420) | (476) |
| Disposals | - | 10 | - | - | 10 | 1 |
| **At 31 December 2017** | **(48)** | **(1,042)** | **(434)** | **(28)** | **(1,552)** | **(1,503)** |
| Charge for the year (Note 28) | (42) | (695) | (81) | (5) | (823) | (899) |
| Disposals | - | 210 | - | - | 210 | - |
| **At 31 December 2018** | **(90)** | **(1,527)** | **(515)** | **(33)** | **(2,165)** | **(2,402)** |
| **Net book value** | | | | | | |
| **At 31 December 2017** | **4,436** | **1,378** | **313** | **13** | **6,140** | **3,056** |
| **At 31 December 2018** | **4,525** | **2,814** | **1,021** | **9** | **8,369** | **4,223** |

Intangible assets in the amount of RR 774 million related to the software developments made by Tinkoff Software DC during the year ended 31 December 2018 (2017: RR 333 million).

Other intangible assets acquired during the year ended 31 December 2018 and 2017 mainly represent accounting software, retail banking software, insurance software, licenses and development of software including the license for insurance operations.

During 2018 the Group acquired more office building space for its own use for RR 131 million (2017: RR 473 million), VAT included.

## 15 Other Financial and Non-financial Assets

| *In millions of RR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Other Financial Assets** | | |
| Settlement of operations with plastic cards | 12,694 | 10,280 |
| Other receivables | 2,948 | 689 |
| **Total Other Financial Assets** | **15,642** | **10,969** |
| **Other Non-Financial Assets** | | |
| Prepaid expenses | 2,360 | 3,089 |
| Other | 664 | 168 |
| **Total Other Non-Financial Assets** | **3,024** | **3,257** |

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, therefore the Group did not recognise any credit loss allowance for settlement of operations with plastic cards. This amount includes prepayment to the payment systems for operations during Holiday period. Settlement of operations with plastic cards balances and other receivables are included in current risk grade as at 31 December 2018. Refer to Note 34 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 34 for the ECL measurement approach.

As at 31 December 2018 prepaid expenses consist of prepayments for marketing, IT support, security, TV advertising and ATM-service (2017: TV advertising, IT support, office rent). Other financial assets are not impaired and not past due as at 31 December 2017. Refer to Note 39 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 34.

## 16 Due to Banks

| *In millions of RR* | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| Correspondent accounts and overnight placements of other banks | | 1,597 | 4 |
| Sale and repurchase agreements with other banks | 12 | 1,111 | 591 |
| **Total due to banks** | | **2,708** | **595** |

Refer to Note 39 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 34.

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# Notes to the Consolidated Financial Statements (Continued)

## 17 Customer Accounts

| *In millions of* RR | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **Individuals** | | | |
| - Current/demand accounts | | 137,637 | 76,318 |
| - Term deposits | | 100,227 | 77,377 |
| **SME** | | | |
| - Current/demand accounts | 33 | 41,702 | 23,705 |
| **Other legal entities** | | | |
| - Current/demand accounts | | 552 | 533 |
| - Term deposits | | 798 | 1,112 |
| **Total Customer Accounts** | | **280,916** | **179,045** |

Refer to Note 39 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 34. Information on related party balances is disclosed in Note 41.

## 18 Debt Securities in Issue

| *In millions of RR* | Date of maturity | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| RR denominated bonds issued in April 2017 | 22 April 2022 | 5,067 | 5,061 |
| 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 bonds issued in June 2016 | 24 June 2021 | 784 | 2,989 |
| RR denominated ECP issued in December 2018 | 19 December 2019 | 96 | - |
| USD denominated ECP issued in December 2017 | 19 December 2018 | - | 2,769 |
| **Total Debt Securities in Issue** | | **9,605** | **10,819** |

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 at 4.25% coupon rate. EUR denominated ECP has a nominal value of USD 30.5 million at 1.25% coupon rate. RR denominated ECP has a nominal value of RR 105 million at 9.5% coupon rate.

On 20 December 2017 the Group issued USD denominated ECP with a nominal value of USD 50 million with a discount of 4% maturing on 19 December 2018. The Group redeemed all outstanding ECP of this issue at maturity.

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.

In January and December 2018 the Bank repurchased RR 2,214 million of outstanding RR denominated bonds issued in June 2016 at nominal value as part of the buy-back offers.

All RR denominated bonds issued by the Bank are traded on OJSC Moscow Exchange. Refer to Note 39 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 34.

## 19 Subordinated Debt

As at 31 December 2018 the carrying value of the subordinated debt was RR 20,644 million (31 December 2017: RR 22,001 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.

On 6 December 2012 and 18 February 2013 the Group issued USD denominated subordinated bonds with a nominal value of USD 125 million with zero premium and USD 75 million at a premium of 7.0% respectively, at 14.0% coupon rate (applicable to both tranches) maturing on 6 June 2018. The Group redeemed all outstanding bonds of these issues at maturity.

During the year ended 31 December 2018 and before the maturity date the Bank repurchased USD 1.3 million outstanding principal amount at an average purchase price 101.63% of the bonds nominal value.

During the year ended 31 December 2017 the Bank repurchased USD 105 million outstanding principal amount at an average purchase price 110.32% of the bonds nominal value. As at 31 December 2017 USD 84 million outstanding principal amount remains in issue.

The net gains from repurchase of subordinated bonds for the year ended 31 December 2018 in the amount of RR 1 million are recognised in the consolidated statement of profit or loss and other comprehensive income (2017: losses in the amount of RR 619 million).

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 and subordinated bonds are traded on the Global Exchange Market. Interest rate, maturity and geographical risk concentration analysis of subordinated debt is disclosed in Note 34. Refer to Note 39 for the disclosure of the fair value of financial instruments.

## 20 Insurance Provisions

| *In millions of RR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Insurance Provisions** | | |
| Provision for unearned premiums | 1,760 | 1,117 |
| Loss provisions | 1,099 | 723 |
| **Total Insurance Provisions** | **2,859** | **1,840** |

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# Notes to the Consolidated Financial Statements (Continued)

## 20 Insurance Provisions (Continued)

Movements in provision for unearned premiums for the year ended 31 December 2018 and 2017 are as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| *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** | **1,117** | **(1)** | **1,116** | **300** | **-** | **300** |
| Change in provision, gross | 643 | - | 643 | 817 | - | 817 |
| Change in reinsurers' share of provision | - | (2) | (2) | - | (1) | (1) |
| **Provision for unearned premiums as at 31 December** | **1,760** | **(3)** | **1,757** | **1,117** | **(1)** | **1,116** |

Movements in loss provisions for the year ended 31 December 2018 and 2017 are as follows:

| *In millions of RR* | OCP and IBNR | URP | Provision for claims handling expenses | Total loss provisions |
|---|---|---|---|---|
| **Loss provisions as at 1 January 2017** | **368** | **40** | **59** | **467** |
| Change in provision | 150 | 115 | 63 | 328 |
| Netting with deferred acquisition costs | - | (72) | - | (72) |
| **Loss provisions as at 31 December 2017** | **518** | **83** | **122** | **723** |
| Change in provision | 447 | (65) | 3 | 385 |
| Netting with deferred acquisition costs | - | (9) | - | (9) |
| **Loss provisions as at 31 December 2018** | **965** | **9** | **125** | **1,099** |

## 21 Other Financial and Non-financial Liabilities

| **In millions of RR** | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Other Financial Liabilities** | | |
| Settlement of operations with plastic cards | 4,904 | 5,271 |
| Trade payables | 3,189 | 2,538 |
| Credit related commitments | 2,041 | - |
| Other | 1,067 | 234 |
| **Total Other Financial Liabilities** | **11,201** | **8,043** |
| **Other Non-financial Liabilities** | | |
| Accrued administrative expenses | 1,438 | 1,283 |
| Taxes payable other than income tax | 1,212 | 1,008 |
| Other | 791 | 505 |
| **Total Other Non-financial Liabilities** | **3,441** | **2,796** |

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.

Movements in the credit loss allowance for credit related commitments were as follows:

| *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 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 34. Refer to Note 39 for disclosure of fair value of other financial liabilities. Refer to Note 36 for analysis of loan commitments by credit risk grades.

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# Notes to the Consolidated Financial Statements (Continued)

## 22 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 2017** | **190,479,500** | **182,638,825** | **188** | **8,623** | **(1,473)** | **7,338** |
| GDRs buy-back | - | - | - | - | (397) | (397) |
| GDRs and shares transferred under MLTIP | - | - | - | - | 283 | 283 |
| **At 31 December 2017** | **190,479,500** | **182,638,825** | **188** | **8,623** | **(1,587)** | **7,224** |
| Increase of number of authorised 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** |

In May 2018 the Company's shareholders approved a resolution to increase authorised 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. As at 31 December 2018 the total number of authorised shares is 191,770,766 shares (31 December 2017: 190,479,500 shares) with a par value of USD 0.04 per share (31 December 2017: USD 0.04 per share).

As at 31 December 2018 and 2017 treasury shares represent GDRs of the Group repurchased from the market for the purposes permitted by Cyprus law including contribution to MLTIP.

During the year ended 31 December 2018 the Group purchased 2,094,126 GDRs at market price for RR 2,455 million (2017: 602,148 GDRs at market price for RR 397 million). Refer to Note 41.

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. Refer to Note 41.

Earnings per share are calculated as follows:

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Profit for the year attributable to ordinary shareholders of the Company | 27,088 | 19,019 |
| Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation (thousands) | 176,425 | 176,303 |
| Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation (thousands) | 181,631 | 182,140 |
| **Basic earnings per ordinary share (expressed in RR per share)** | **153.54** | **107.88** |
| **Diluted earnings per ordinary share (expressed in RR per share)** | **149.14** | **104.42** |

Information on dividends is disclosed in Note 31.

## 23 Net margin

| *In millions of RR* | Note | 2018 | 2017 |
|---|---|---|---|
| **Interest income calculated using the effective interest rate method** | | | |
| Loans and advances to customers, including: | | | |
| Credit card loans | | 63,218 | 53,596 |
| Cash loans | | 4,029 | 1,083 |
| POS loans | | 1,454 | 793 |
| Loans to SME | | 68 | - |
| Secured loans | | 41 | - |
| Car loans | | 38 | - |
| Debt securities and repurchase receivables at FVOCI | 10, 12 | 5,753 | - |
| Placements with other banks and non-bank credit organizations with original maturities of less than three months | | 440 | 510 |
| Other interest income | | - | 68 |
| Investment securities available for sale and repurchase receivables | | - | 3,267 |
| **Total Interest income calculated using the effective interest rate method** | | **75,041** | **59,317** |
| **Other similar income** | | | |
| Debt securities and repurchase receivables at FVTPL | | 456 | 224 |
| **Total Interest Income** | | **75,497** | **59,541** |
| **Interest expense calculated using the effective interest rate method** | | | |
| Customer accounts, including: | | | |
| *Individuals* | | | |
| - Current/demand accounts | | 5,922 | 4,165 |
| - Term deposits | | 5,283 | 5,453 |
| *SME* | 33 | 800 | 421 |
| *Other legal entities* | | 90 | 65 |
| Subordinated debt | | 2,089 | 2,022 |
| RR denominated bonds | | 706 | 682 |
| Euro-Commercial Papers | | 124 | 3 |
| Due to banks | | 92 | 13 |
| **Total Interest expense calculated using the effective interest rate method** | | **15,106** | **12,824** |
| Expenses on deposit insurance | | 1,174 | 641 |
| **Net margin** | | **59,217** | **46,076** |

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# Notes to the Consolidated Financial Statements (Continued)

## 24 Fee and Commission Income and Expense

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| **Fee and commission income** | | |
| SME current accounts commission | 6,943 | 3,003 |
| Credit protection fee | 5,601 | 4,211 |
| Merchant acquiring commission | 4,162 | 2,416 |
| Interchange fee | 3,046 | 1,683 |
| SMS fee | 2,256 | 1,341 |
| Foreign currency exchange transactions fee | 1,785 | 992 |
| Card to card commission | 1,279 | 555 |
| Cash withdrawal fee | 885 | 606 |
| Mortgage agency fee | 419 | 100 |
| Brokerage operations | 210 | 87 |
| Income from MVNO services | 186 | - |
| Placement fee | 167 | 167 |
| Marketing services fee | 108 | - |
| Other fees receivable | 376 | 370 |
| **Total fee and commission income** | **27,423** | **15,531** |

SME current accounts commission represents commission for services to individual entrepreneurs and small to medium businesses. Credit protection fee income represents agency fee for providing voluntary credit insurance to borrowers of the Group. Merchant acquiring commission represents commission for processing card payments from online and offline points of sale.

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| **Fee and commission expense** | | |
| Payment systems | 8,430 | 4,766 |
| Service fees | 1,429 | 726 |
| Banking and other fees | 456 | 126 |
| Costs of MVNO services | 246 | - |
| Partnership fees | 190 | - |
| **Total fee and commission expense** | **10,751** | **5,618** |

Payment systems fees represent fees for MasterCard and Visa services. Service fees represent fees for statement printing, mailing services and sms services.

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.

## 25 Customer Acquisition Expense

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Marketing and advertising | 6,685 | 5,096 |
| Staff costs | 5,509 | 3,968 |
| Credit bureaux | 535 | 358 |
| Telecommunication expenses | 285 | 244 |
| Other acquisition | 86 | 53 |
| **Total customer acquisition expenses** | **13,100** | **9,719** |

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 and statutory pension contributions in the amount of RR 1,341 million for the year ended 31 December 2018 (2017: RR 949 million).

## 26 Net Gains from Operations with Foreign Currencies

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Net gains/(losses) from derivative revaluation | 1,784 | (652) |
| Foreign exchange translation (losses)/gains | (2,155) | 501 |
| Net gains/(losses) from trading in foreign currencies | 381 | (105) |
| **Net gains/(losses) from operations with foreign currencies** | **10** | **(256)** |

## 27 Insurance Claims Incurred

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Claims paid | 1,409 | 516 |
| Change in loss provision | 416 | 256 |
| Claims handling expenses | 143 | 43 |
| **Total insurance claims incurred** | **1,968** | **815** |

Staff and administrative expenses for insurance operations are included in Note 28.

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# Notes to the Consolidated Financial Statements (Continued)

## 28 Administrative and Other Operating Expenses

| *In millions of RR* | Note | 2018 | 2017 |
|---|---|---|---|
| Staff costs | | 15,602 | 11,430 |
| Taxes other than income tax and levies | | 2,514 | 1,779 |
| Amortization of intangible assets | 14 | 899 | 476 |
| Depreciation of fixed assets | 14 | 823 | 420 |
| Operating lease expense for premises and equipment | | 651 | 441 |
| Information services | | 570 | 441 |
| Communication services | | 402 | 324 |
| Professional services | | 333 | 212 |
| Stationery | | 263 | 187 |
| Security expenses | | 171 | 134 |
| Collection expenses | | 168 | 63 |
| Other provisions | | 158 | - |
| Other administrative expenses | | 469 | 299 |
| **Total administrative and other operating expenses** | | **23,023** | **16,206** |

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 2018 amounted to RR 2.7 million (2017: RR 2.1 mln). The total fees charged by the Company's statutory auditor for the year ended 31 December 2018 for other assurance services amounted to RR 4.7 million (2017: RR 3.8 million), for tax advisory services amounted to RR 5.7 million (2017: RR 1.1 million) and for other non-assurance services amounted to nil (2017: RR 1.7 million).

Included in staff costs are statutory social contributions to the non-budget funds and statutory pension contributions and share-based remuneration:

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Statutory social contribution to the non-budget funds and statutory pension contributions | 2,582 | 1,721 |
| Share-based remuneration | 630 | 1,037 |

The average number of employees employed by the Group during the reporting year, including those who are working under civil contracts, was 21,577 (2017: 15,391).

## 29 Other Operating Income

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Income from marketing services | 2,060 | 956 |
| Subrogation fee | 122 | 41 |
| Other | 788 | 223 |
| **Total other operating income** | **2,970** | **1,220** |

## 30 Income Taxes

Income tax expense comprises the following:

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Current tax | 4,639 | 5,479 |
| Deferred tax | 3,463 | 483 |
| **Total income tax expense** | **8,102** | **5,962** |

The income tax rate applicable to the majority of the Group's income is 20% (2017: 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% (2017: 12.5%).

A reconciliation between the expected and the actual taxation charge is provided below.

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| **Profit before tax** | **35,224** | **24,985** |
| Theoretical tax expense at statutory rate of 20% (2017: 20%) | 7,045 | 4,997 |
| Tax effect of items, which are not deductible or assessable for taxation purposes: | | |
| - Non-deductible expenses | 311 | 370 |
| - Other including dividend tax | 740 | 549 |
| Unrecognised tax losses | 177 | - |
| Effects of different tax rates: | | |
| - Income on government securities taxed at different rates | (165) | - |
| - Results of companies of the Group taxed at different statutory rates | (6) | 46 |
| **Income tax expenses for the year** | **8,102** | **5,962** |

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% (2017: 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.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

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# Notes to the Consolidated Financial Statements (Continued)

## 30 Income Taxes (Continued)

| *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)** |

| *In millions of RR* | 31 December 2016 | (Charged)/ credited to profit or loss | Charged to OCI | 31 December 2017 |
|---|---|---|---|---|
| **Tax effect of deductible and taxable temporary differences** | | | | |
| Loans and advances to customers | 318 | (95) | - | 223 |
| Tangible fixed assets | (246) | (98) | - | (344) |
| Intangible assets | (353) | 41 | - | (312) |
| Revaluation of investment securities available for sale and repurchase receivables | (140) | 24 | (211) | (327) |
| Securities at fair value through profit or loss | (1) | 1 | - | - |
| Accrued expenses and other temporary differences | 226 | (425) | - | (199) |
| Customer accounts | (39) | 9 | - | (30) |
| Debt securities in issue | (11) | (44) | - | (55) |
| Financial derivatives | (544) | 109 | - | (435) |
| Insurance provisions | 5 | (5) | - | - |
| **Net deferred tax liabilities** | **(785)** | **(483)** | **(211)** | **(1,479)** |

## 31 Dividends

The movements in dividends during the year are as follows:

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| **Dividends payable at 1 January** | **377** | **167** |
| Dividends declared during the year | 12,265 | 8,279 |
| Dividends paid during the year | (11,946) | (7,970) |
| Dividends paid under MLTIP after vesting date | (144) | (29) |
| Foreign exchange loss on dividends payable | 208 | (70) |
| Dividends payable at 31 December | 760 | 377 |
| **Dividends per share declared during the year (in USD)** | **1.07** | **0.77** |
| **Dividends per share paid during the year (in USD)** | **1.07** | **0.77** |

Dividends declared during the year for the year ended 31 December 2018 in the table above represent dividends declared by the Board of Directors during the year ended 31 December 2018 decreased by RR 11 million of dividends on GDRs acquired by the Company from the market not for the purposes of existing MLTIP.

On 25 November 2018 the Board of Directors declared an interim dividend of RR 18.39 (USD 0.28) per share/per GDR amounting to RR 3,358 million (USD 51.1 million). Declared dividends were paid in USD in December 2018.

On 27 August 2018 the Board of Directors declared an interim dividend of RR 16.27 (USD 0.24) per share/per GDR amounting to RR 2,972 million (USD 43.9 million). Declared dividends were paid in USD in September 2018.

On 29 May 2018 the Board of Directors declared an interim dividend of RR 14.95 (USD 0.24) per share/per GDR amounting to RR 2,730 million (USD 43.8 million). Declared dividends were paid in USD in June 2018.

On 9 March 2018 the Board of Directors declared an interim dividend of RR 17.61 (USD 0.31) per share/per GDR amounting to RR 3,216 million (USD 56.6 million). Declared dividends were paid in USD in April 2018.

On 19 November 2017 the Board of Directors of the Group declared an interim dividend of RR 13.12 (USD 0.22) per share/per GDR amounting to RR 2,396 million (USD 40.2 million). At the same date a special interim dividend of RR 10.73 (USD 0.18) per share/per GDR amounting to RR 1,960 million (USD 32.9) million was declared. Declared dividends were paid in USD in December 2017.

On 28 August 2017 the Board of Directors of the Group declared an interim dividend of RR 11.83 (USD 0.20) per share/per GDR amounting to RR 2,161 million (USD 36.5 million). Declared dividends were paid in USD in September 2017.

On 29 May 2017 the Board of Directors of the Group declared a dividend of RR 9.65 (USD 0.17) per share/per GDR amounting to RR 1,762 million (USD 31.05 million). Declared dividends were paid in USD in June 2017.

Dividends were declared and paid in USD throughout the years ended 31 December 2018 and 2017.

Dividends payable at 31 December 2018 related to treasury shares acquired under MLTIP amounting to RR 760 million are included in other non-financial liabilities (2017: RR 377 million).

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# Notes to the Consolidated Financial Statements (Continued)

## 32 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 | Total |
| **Net debt at 1 January 2017** | **2,986** | **-** | **11,514** | **14,500** |
| Cash flows | 7,819 | 17,109 | (6,623) | 18,305 |
| Issue costs | - | (256) | - | (256) |
| Foreign exchange adjustments | - | 262 | (106) | 156 |
| Other non-cash movements | 14 | - | 101 | 115 |
| **Net debt at 31 December 2017** | **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) |
| **Net debt at 31 December 2018** | **9,605** | **20,644** | **-** | **30,249** |

## 33 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 and brokerage services to individuals.
- SME accounts services – representing customer current accounts, savings, deposits services to individual entrepreneurs and small to medium businesses.
- Insurance operations – representing insurance services provided to individuals.
- MVNO services - providing mobile services for both current Group's customers and others.

***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.

***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 2018 is set out below:

| *In millions of RR* | Retail banking | SME accounts services | Insurance operations | MVNO services | Elimi-na-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 | - | - | - | - | 2,708 |
| Customer accounts | 242,092 | 41,702 | - | 1,344 | (4,222) | 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** |

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# Notes to the Consolidated Financial Statements (Continued)

## 33 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 | Elimi-nations | Total |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Interest income calculated using the effective interest rate method | 73,105 | 1,807 | 250 | - | (121) | 75,041 |
| Other similar income | 456 | - | - | - | - | 456 |
| Fee and commission income: | | | | | | |
| - *SME current accounts commission* | - | 6,943 | - | - | - | 6,943 |
| - *Credit protection fee* | 5,601 | - | - | - | - | 5,601 |
| - *Merchant acquiring commission* | 4,202 | - | - | - | (40) | 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* | - | - | - | 239 | (53) | 186 |
| - *Placement fee* | 167 | - | - | - | - | 167 |
| - *Marketing services fee* | 108 | - | - | - | - | 108 |
| - *Other fees receivable* | 393 | - | - | - | (17) | 376 |
| Timing of fee and commission income recognition: | | | | | | |
| - *At point in time* | 17,435 | 7,385 | - | 239 | (110) | 24,949 |
| - *Over time* | 2,256 | 218 | - | - | - | 2,474 |
| Total fee and commission income | 19,691 | 7,603 | - | 239 | (110) | 27,423 |
| Net gains/(losses) from operations with foreign currencies | (6) | - | 18 | (2) | - | 10 |
| Net gains from disposals of debt securities at FVOCI | 457 | - | - | - | (79) | 378 |
| Insurance premiums earned | 320 | - | 6,665 | - | (311) | 6,674 |
| Net gain from repurchase of subordinated debt | 1 | - | - | - | - | 1 |
| Other operating income | 2,784 | 39 | 202 | 4 | (59) | 2,970 |
| **Total revenues** | **96,808** | **9,449** | **7,135** | **241** | **(680)** | **112,953** |
| Interest expense calculated using the effective interest rate method | (14,377) | (800) | - | (50) | 121 | (15,106) |
| Expenses on deposit insurance | (1,090) | (84) | - | - | - | (1,174) |
| Credit loss allowance for loans and advances to customers | (11,574) | (33) | - | - | - | (11,607) |

| *In millions of RR* | Retail banking | SME accounts services | Insurance operations | MVNO services | Elimi-nations | Total |
|---|---|---|---|---|---|---|
| Credit loss allowance for debt securities at FVOCI | (192) | - | - | - | - | (192) |
| Fee and commission expense | (9,434) | (1,125) | - | (246) | 54 | (10,751) |
| Customer acquisition expense | (10,012) | (2,429) | (772) | (254) | 367 | (13,100) |
| Net losses from debt instruments at FVTPL | (808) | - | - | - | - | (808) |
| Insurance claims incurred | - | - | (1,968) | - | - | (1,968) |
| Administrative and other operating expenses | (18,896) | (2,370) | (1,002) | (814) | 59 | (23,023) |
| **Segment result** | **30,425** | **2,608** | **3,393** | **(1,123)** | **(79)** | **35,224** |

Segment reporting of the Group's assets and liabilities as at 31 December 2017 is set out below:

| *In millions of RR* | Retail banking | SME accounts services | Insurance operations | Elimi-nations | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | 16,741 | 6,067 | 1,850 | (808) | 23,850 |
| Mandatory cash balances with the CBRF | 1,675 | - | - | - | 1,675 |
| Due from other banks | 256 | - | 521 | - | 777 |
| Loans and advances to customers | 140,245 | - | - | - | 140,245 |
| Financial derivatives | 2,424 | - | - | - | 2,424 |
| Investment securities available for sale | 53,974 | 17,500 | 202 | - | 71,676 |
| Repurchase receivables | 798 | - | - | - | 798 |
| Current income tax assets | 301 | - | - | - | 301 |
| Guarantee deposits with payment systems | 3,660 | - | - | - | 3,660 |
| Tangible fixed assets | 6,138 | - | 2 | - | 6,140 |
| Intangible assets | 2,391 | 370 | 295 | - | 3,056 |
| Other financial assets | 10,514 | 13 | 604 | (162) | 10,969 |
| Other non-financial assets | 3,084 | - | 208 | (35) | 3,257 |
| **Total reportable segment assets** | **242,201** | **23,950** | **3,682** | **(1,005)** | **268,828** |
| Due to banks | 595 | - | - | - | 595 |
| Customer accounts | 156,148 | 23,705 | - | (808) | 179,045 |
| Debt securities in issue | 10,819 | - | - | - | 10,819 |
| Financial derivatives | 240 | - | - | - | 240 |
| Current income tax liabilities | 25 | - | - | - | 25 |
| Deferred income tax liabilities | 1,429 | - | 50 | - | 1,479 |
| Subordinated debt | 22,001 | - | - | - | 22,001 |
| Insurance provisions | - | - | 1,840 | - | 1,840 |
| Other financial liabilities | 8,103 | - | 102 | (162) | 8,043 |
| Other non-financial liabilities | 2,808 | - | 23 | (35) | 2,796 |
| **Total reportable segment liabilities** | **202,168** | **23,705** | **2,015** | **(1,005)** | **226,883** |

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# Notes to the Consolidated Financial Statements (Continued)

## 33 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2017 is set out below:

| *In millions of RR* | Retail banking | SME accounts services | Insurance operations | Elimi-na-tions | Total |
|---|---|---|---|---|---|
| Interest income calculated using the effective interest rate method | 58,294 | 945 | 116 | (38) | 59,317 |
| Other similar income | 224 | - | - | - | 224 |
| Fee and commission income: | | | | | |
| - *SME current accounts commission* | - | 3,003 | - | - | 3,003 |
| - *Credit protection fee* | 4,211 | - | - | - | 4,211 |
| - *Merchant acquiring commission* | 2,686 | - | - | (270) | 2,416 |
| - *Interchange fee* | 1,540 | 143 | - | - | 1,683 |
| - *SMS fee* | 1,341 | - | - | - | 1,341 |
| - *Foreign currency exchange transactions fee* | 911 | 81 | - | - | 992 |
| - *Card to card commission* | 555 | - | - | - | 555 |
| - *Cash withdrawal fee* | 606 | - | - | - | 606 |
| - *Mortgage agency fee* | 100 | - | - | - | 100 |
| - *Brokerage operations* | 87 | - | - | - | 87 |
| - *Placement fee* | 167 | - | - | - | 167 |
| - *Other fees receivable* | 397 | - | - | (27) | 370 |
| Timing of fee and commission income recognition: | | | | | |
| - At point in time | 11,260 | 3,166 | - | (297) | 14,129 |
| - Over time | 1,341 | 61 | - | - | 1,402 |
| Total fee and commission income | 12,601 | 3,227 | - | (297) | 15,531 |
| Net gains from investment securities available for sale | 270 | - | - | - | 270 |
| Insurance premiums earned | - | - | 2,742 | (7) | 2,735 |
| Other operating income | 1,140 | 9 | 75 | (4) | 1,220 |
| **Total revenues** | **72,529** | **4,181** | **2,933** | **(346)** | **79,297** |
| Interest expense calculated using the effective interest rate method | (12,441) | (421) | - | 38 | (12,824) |
| Expenses on deposit insurance | (612) | (29) | - | - | (641) |
| Provision for loan impairment | (7,614) | - | - | - | (7,614) |
| Fee and commission expense | (5,192) | (426) | - | - | (5,618) |
| Customer acquisition expense | (7,770) | (1,588) | (665) | 304 | (9,719) |
| Net losses from operations with foreign currencies | (251) | - | (5) | - | (256) |
| Net losses from repurchase of subordinated loan | (619) | - | - | - | (619) |
| Insurance claims incurred | - | - | (815) | - | (815) |
| Administrative and other operating expenses | (14,718) | (879) | (613) | 4 | (16,206) |
| **Segment result** | **23,312** | **838** | **835** | **-** | **24,985** |

Depreciation charges for the year ended 2018 included in administrative and other operating expenses in the amount of RR 801 million and RR 1 million (2017: RR 415 million and RR 2 million) relate to the Bank and to the Insurance Company, correspondingly. Amortisation for 2018 included in the administrative and other operating expenses in the amount of RR 761 million and RR 64 million (2017: RR 403 million and RR 62 million) relate to the Bank and to the Insurance Company, correspondingly.

***Reconciliation of reportable segment revenues, profit or loss, assets and liabilities***

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Total revenues for reportable segments | 113,633 | 79,643 |
| Intercompany transactions | (680) | (346) |
| **Total consolidated revenues** | **112,953** | **79,297** |

Total consolidated revenues comprise interest income calculated using the effective interest rate method, other similar income, fee and commission income, net gains from operations with foreign currencies, net gains from disposals of debt securities at FVOCI, insurance premiums earned and other operating income.

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Total reportable segment result | 35,224 | 24,985 |
| **Profit before tax** | **35,224** | **24,985** |

| *In millions of RR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total reportable segment assets | 380,243 | 269,833 |
| Intercompany balances | (4,744) | (1,005) |
| **Total consolidated assets** | **375,499** | **268,828** |

| *In millions of RR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total reportable segment liabilities | 337,993 | 227,888 |
| Intercompany balances | (4,744) | (1,005) |
| **Total consolidated liabilities** | **333,249** | **226,883** |

## 34 Financial 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.

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# Notes to the Consolidated Financial Statements (Continued)

## 34 Financial Risk Management (Continued)

***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 SME 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 grants retail 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.

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 36).

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, 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 100 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, and 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 range between RR 100 thousand and RR 1,000 thousand;
- The requirement for the car is with an age not more than 18 years.

For loans to SME minimum requirements are listed below:

- The requested loan term is from 6 to 36 months;
- Car loan volumes range between RR 50 thousand and RR 2,000 thousand;

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 bureau 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.

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.

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# Notes to the Consolidated Financial Statements (Continued)

## 34 Financial Risk Management (Continued)

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) |
|---|---|
| Current | AAA to BB+ |
| Monitor | BB to B+ |
| Sub-standard | B, B- |
| Doubtful | CCC+ to CC- |
| Default | C, D-I, D-II |

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- Current – strong credit quality with 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 |
|---|---|
| Current | Non-overdue |
| 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 |

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- Current – strong 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.

*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.

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# Notes to the Consolidated Financial Statements (Continued)

## 34 Financial Risk Management (Continued)

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.

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.

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.

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# Notes to the Consolidated Financial Statements (Continued)

## 34 Financial Risk Management (Continued)

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 behavioral 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;
- 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 highest weight and with optimistic and pessimistic scenarios having approximately equal weights. If a 100% weight is applied to any of the scenarios the effect on the ECL shall not be material.

*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. 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 2018 | | | | At 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| *In millions of RR* | Nonderivative monetary financial assets | Nonderivative monetary financial liabilities | Derivatives | Net position | Nonderivative monetary financial assets | Nonderivative monetary financial liabilities | Derivatives | Net position |
| RR | 307,617 | (264,073) | (5,283) | 38,261 | 220,246 | (174,842) | (10,200) | 35,204 |
| USD | 37,550 | (47,539) | 7,245 | (2,744) | 26,082 | (40,046) | 13,565 | (399) |
| Euro | 11,318 | (13,773) | (233) | (2,688) | 6,837 | (5,851) | (1,186) | (200) |
| GBP | 571 | (586) | (22) | (37) | 485 | (487) | 5 | 3 |
| Others | 13 | (202) | - | (189) | - | - | - | - |
| **Total** | **357,069** | **(326,173)** | **1,707** | **32,603** | **253,650** | **(221,226)** | **2,184** | **34,608** |

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 38. 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 2018 | | At 31 December 2017 | |
|---|---|---|---|---|
| *In millions of RR* | Impact on profit or loss | Impact on equity (pre-tax) | Impact on profit or loss | Impact on equity (pre-tax) |
| USD strengthening by 20% (2017: by 20%) | (549) | (549) | (80) | (80) |
| USD weakening by 20% (2017: by 20%) | 549 | 549 | 80 | 80 |
| Euro strengthening by 20% (2017: by 20%) | (538) | (538) | (40) | (40) |
| Euro weakening by 20% (2017: by 20%) | 538 | 538 | 40 | 40 |
| GBP strengthening by 20% (2017: by 20%) | (7) | (7) | 1 | 1 |
| GBP weakening by 20% (2017: by 20%) | 7 | 7 | (1) | (1) |

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.

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# Notes to the Consolidated Financial Statements (Continued)

## 34 Financial Risk Management (Continued)

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 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** |
| 31 December 2017 | | | | | | |
| Total financial assets | 72,944 | 89,477 | 24,809 | 20,370 | 48,474 | 256,074 |
| Total financial liabilities | (115,982) | (44,828) | (28,355) | (7,040) | (25,261) | (221,466) |
| **Net interest sensitivity gap at 31 December 2017** | **(43,038)** | **44,649** | **(3,546)** | **13,330** | **23,213** | **34,608** |

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

At 31 December 2018, if interest rates at that date had been 200 basis points lower/higher (2017: 200 points lower), with all other variables held constant, profit for the year would have been RR 652 million (2017: RR 692 million) lower/higher, equity would have been RR 652 million (2017: RR 692 million) lower/higher.

The Group monitors interest rates for its financial instruments. The table below summarizes interest rates for the years 2018 and 2017 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:

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| *In % p.a.* | RR | USD | EURO | GPB | 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 |
| Loans and advances to customers | 42.7 | - | - | - | 45.5 | - | - | - |
| Due from banks | 5.9 | - | - | - | 6.1 | 1.3 | - | - |
| Investment in debt securities | 8.5 | 4.5 | 3.2 | - | - | - | - | - |
| Investment Securities available for sale | - | - | - | - | 8.3 | 4.7 | 3.4 | - |
| Repurchase receivables | 7.4 | 4.3 | - | - | - | 10.9 | - | - |
| **Liabilities** | | | | | | | | |
| Due to banks | 7.0 | 2.4 | - | - | 0.0 | 2.5 | - | - |
| Customer accounts | 5.2 | 0.9 | 0.4 | 0.3 | 6.6 | 1.8 | 1.8 | 4.5 |
| Debt securities in issue | 9.9 | 4.4 | 1.4 | - | 10.8 | 4.2 | - | - |
| Subordinated debt | - | 10.0 | - | - | - | 11.1 | - | - |

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 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 (2017: no material impact).

***Geographical risk concentrations.*** 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** |
| **Unused limits on credit card loans (Note 36)** | **110,478** | **-** | **-** | **-** | **110,478** |

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# Notes to the Consolidated Financial Statements (Continued)

## 34 Financial Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2017 is set out below:

| *In millions of RR* | Russia | OECD | Other Non-OECD | Listed | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 22,617 | 1,233 | - | - | 23,850 |
| Mandatory cash balances with the CBRF | 1,675 | - | - | - | 1,675 |
| Due from other banks | 777 | - | - | - | 777 |
| Loans and advances to customers | 140,245 | - | - | - | 140,245 |
| Financial derivatives | 1,207 | 1,217 | - | - | 2,424 |
| Investment securities available for sale | 71,664 | - | 12 | - | 71,676 |
| Repurchase receivables | - | - | 798 | - | 798 |
| Guarantee deposits with payment systems | 37 | 3,623 | - | - | 3,660 |
| Other financial assets | 5,695 | 5,274 | - | - | 10,969 |
| **Total financial assets** | **243,917** | **11,347** | **810** | **-** | **256,074** |
| **Financial liabilities** | | | | | |
| Due to banks | 4 | - | 591 | - | 595 |
| Customer accounts | 177,933 | - | 1,112 | - | 179,045 |
| Debt securities in issue | 2,769 | - | - | 8,050 | 10,819 |
| Financial derivatives | 240 | - | - | - | 240 |
| Subordinated debt | - | - | - | 22,001 | 22,001 |
| Insurance provisions | 723 | - | - | - | 723 |
| Other financial liabilities | 7,827 | 216 | - | - | 8,043 |
| **Total financial liabilities** | **189,496** | **216** | **1,703** | **30,051** | **221,466** |
| **Unused limits on credit card loans (Note 36)** | **78,602** | **-** | **-** | **-** | **78,602** |

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 2018 and 2017.

***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.

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 2018 and 2017. 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 behavior is reviewed by the CFO.

The table below shows liabilities at 31 December 2018 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.

| *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 |
| Unused limits on credit card loans (Note 36) | 110,478 | - | - | - | - | 110,478 |
| **Total potential future payments for financial obligations** | **316,130** | **25,197** | **33,564** | **40,085** | **38,287** | **453,263** |

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# Notes to the Consolidated Financial Statements (Continued)

## 34 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2017 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 | 595 | - | - | - | - | 595 |
| Customer accounts | 110,655 | 19,400 | 21,635 | 27,445 | 3,250 | 182,385 |
| Debt securities in issue | 72 | 139 | 214 | 3,211 | 8,060 | 11,696 |
| Subordinated debt | 197 | 377 | 5,594 | 827 | 17,156 | 24,151 |
| Insurance provisions | 63 | 124 | 197 | 228 | 111 | 723 |
| Other financial liabilities | 8,043 | - | - | - | - | 8,043 |
| Financial derivatives | 19 | 104 | 3,433 | 185 | 10,075 | 13,816 |
| Unused limits on credit card loans (Note 36) | 78,602 | - | - | - | - | 78,602 |
| **Total potential future payments for financial obligations** | **198,246** | **20,144** | **31,073** | **31,896** | **38,652** | **320,011** |

Financial derivatives receivable and payable are disclosed in the Note 38. The tables above present only the gross payables.

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 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 | 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 | 46,765 | 63,071 | 49,057 | 31,697 | 7,899 | 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** | **200,130** | **64,869** | **50,322** | **33,172** | **10,286** | **358,779** |
| **Liabilities** | | | | | | |
| Due to banks | 2,708 | - | - | - | - | 2,708 |
| Customer accounts | 184,795 | 7,659 | 12,245 | 34,392 | 41,825 | 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** | **198,917** | **8,195** | **12,736** | **38,575** | **67,753** | **326,176** |
| **Net liquidity gap at 31 December 2018** | **1,213** | **56,674** | **37,586** | **(5,403)** | **(57,467)** | **32,603** |
| **Cumulative liquidity gap at 31 December 2018** | **1,213** | **57,887** | **95,473** | **90,070** | **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 20.

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# Notes to the Consolidated Financial Statements (Continued)

## 34 Financial Risk Management (Continued)

The expected maturity analysis of financial instruments at carrying amounts as monitored by management based on the revised approach at 31 December 2017 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 | From 1 to 5 years | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and cash equivalents | 23,041 | 809 | - | - | - | 23,850 |
| Mandatory cash balances with the CBRF | 978 | 63 | 80 | 204 | 350 | 1,675 |
| Due from other banks | - | - | - | 401 | 376 | 777 |
| Loans and advances to customers | 33,420 | 44,846 | 34,588 | 22,041 | 5,350 | 140,245 |
| Financial derivatives | - | - | 2,424 | - | - | 2,424 |
| Investment securities available for sale | 71,676 | - | - | - | - | 71,676 |
| Repurchase receivables | 798 | - | - | - | - | 798 |
| Guarantee deposits with payment systems | 872 | 1,170 | 903 | 575 | 140 | 3,660 |
| Other financial assets | 10,938 | 5 | 9 | 12 | 5 | 10,969 |
| **Total financial assets** | **141,723** | **46,893** | **38,004** | **23,233** | **6,221** | **256,074** |
| Liabilities | | | | | | |
| Due to banks | 595 | - | - | - | - | 595 |
| Customer accounts | 104,562 | 6,705 | 8,597 | 21,780 | 37,401 | 179,045 |
| Debt securities in issue | - | - | 88 | 2,769 | 7,962 | 10,819 |
| Financial derivatives | - | - | - | - | 240 | 240 |
| Subordinated debt | - | - | 4,942 | - | 17,059 | 22,001 |
| Insurance provisions | 63 | 124 | 197 | 228 | 111 | 723 |
| Other financial liabilities | 8,043 | - | - | - | - | 8,043 |
| **Total financial liabilities** | **113,263** | **6,829** | **13,824** | **24,777** | **62,773** | **221,466** |
| **Net liquidity gap at 31 December 2017** | **28,460** | **40,064** | **24,180** | **(1,544)** | **(56,552)** | **34,608** |
| **Cumulative liquidity gap at 31 December 2017** | **28,460** | **68,524** | **92,704** | **91,160** | **34,608** | **-** |

Provision for unearned premiums in the amount of RR 1,117 million is not included in the insurance provisions stated above. Refer to Note 20.

As at the 31 December 2018 all the investment in debt securities (2017: investment securities available for sale) 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 (2017: the same).

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.

## 35 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 2018 was RR 42,014 million (2017: RR 41,743 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 2018 was RR 74,375 million, and the equity capital adequacy ratio (N1.0) was 13.92% (31 December 2017: RR 59,640 million and 16.27%). Minimum required statutory equity capital adequacy ratio (N1.0) was 8% as at 31 December 2018 (2017: 8%).

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 amounts of total capital and Tier 1 capital calculated in accordance with the methodology set by Basel Committee with capital adjustments as set out in Basel III as at 31 December 2018 were RR 58,435 million (2017: RR 56,046 million and RR 55,802 million respectively). Total capital adequacy ratio and Tier 1 capital adequacy ratio were 14.86% (2017: 21.10% and 21.00% respectively). The Group and the Bank have complied with all externally imposed capital requirements throughout the year ended 31 December 2018 and 2017.

The Insurance Company has complied with all capital requirements set by the Central Bank of Russian Federation throughout the year ended 31 December 2018 and 2017.

## 36 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.

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# Notes to the Consolidated Financial Statements (Continued)

## 36 Contingencies and Commitments (Continued)

***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 2018 and 2017 no material tax risks were identified.

***Operating lease commitments.*** Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

| *In millions of RR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Not later than 1 year | 829 | 305 |
| **Total operating lease commitments** | **829** | **305** |

***Compliance with covenants.*** The Group is subject to certain covenants related primarily to its subordinated 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 2018 and 2017.

***Credit related commitments.*** 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. 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.

Outstanding credit limits and related commitments are as follows:

| *In millions of RR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Unused limits on credit card loans | 110,478 | 78,602 |
| Credit loss allowance | (2,041) | - |
| **Total credit related commitments, net of credit loss allowance** | **108,437** | **78,602** |

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 2018 based on credit risk grades. Refer to Note 21 for the movements in the credit loss allowance for credit related commitments. Refer to Note 34 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 credit related commitments.

| *In millions of RR* | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL for SICR) | Stage 3 (lifetime ECL for credit impairred) | Total |
|---|---|---|---|---|
| Credit related commitments | | | | |
| - Current | 101,418 | 71 | - | 101,489 |
| - 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 behavior model. Credit related commitments are denominated in RR. Therefore, the fair value of the contractual amount of revocable unused limits on contingencies and commitments is close to zero.

Mandatory cash balances with the CBRF of RR 2,435 million (31 December 2017: RR 1,675 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

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# Notes to the Consolidated Financial Statements (Continued)

## 37 Transfers of Financial Assets

***Transfers that did not qualify for derecognition of the financial asset in its entirety.***

The Group transferred financial assets in transactions that did not qualify for derecognition in the current periods.

***Sale and repurchase transactions.*** At 31 December 2018, the Group has investments in debt securities represented by debt securities at FVOCI of RR 1,182 million (2017: RR 798 million) that are subject to obligation to repurchase the securities for a fixed pre-determined price. Refer to Note 12 for the carrying value of obligations from these sale and repurchase transactions.

The following schedule summarises transfers where the entity continues to recognise all of the transferred financial assets. The analysis is provided by class of financial assets.

| | | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|
| *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 |
| Repurchase receivables | 12, 16 | 1,182 | 1,111 | 798 | 591 |
| **Total** | | **1,182** | **1,111** | **798** | **591** |

## 38 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 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| *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: fair values, at the end of the reporting period, of** | | | | |
| - USD receivable on settlement (+) | 9,373 | - | 5,871 | 7,720 |
| - USD payable on settlement (-) | (1,146) | (982) | (25) | (1) |
| - RR payable on settlement (-) | (7,666) | (596) | (3,285) | (7,979) |
| - RR receivable on settlement (+) | 1,619 | 1,360 | 1,063 | 1 |
| - EUR receivable on settlement (+) | - | 596 | 3 | 14 |
| - EUR payable on settlement (-) | (459) | (370) | (1,203) | - |
| - GBP receivable on settlement (+) | - | - | - | 5 |
| - GBP payable on settlement (-) | (11) | (11) | - | - |
| **Net fair value of foreign exchange forwards and swaps** | **1,710** | **(3)** | **2,424** | **(240)** |

Included in financial derivatives held by the Group as at 31 December 2018 are three outstanding swap contracts with total positive fair value of RR 1,706 million which include reference to the default of the Bank (2017: one outstanding swap contract with positive fair value RR 1,207 million and two outstanding swaps contracts with total negative fair value of RR 240 million). Where there is a reference in the swap contract to default of the entity or the country the swap contract would be cancelled and all of the rights and obligations are terminated in the event of an actual default of this entity or the country.

## 39 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 2018 | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| *In millions of RR* | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets AT FAIR VALUE** | | | | | | | | |
| Financial derivatives | - | 1,710 | - | 1,710 | - | 2,424 | - | 2,424 |
| Investments in debt securities | 100,140 | - | - | 100,140 | - | - | - | - |
| Investment securities available for sale | - | - | - | - | 71,676 | - | - | 71,676 |
| Repurchase receivables | 1,182 | - | - | 1,182 | 798 | - | - | 798 |
| **Total assets recurring fair value measurements** | **101,322** | **1,710** | **-** | **103,032** | **72,474** | **2,424** | **-** | **74,898** |
| **Liabilities AT FAIR VALUE** | | | | | | | | |
| Financial derivatives | - | 3 | - | 3 | - | 240 | - | 240 |
| **Total liabilities recurring fair value measurements** | **-** | **3** | **-** | **3** | **-** | **240** | **-** | **240** |

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# Notes to the Consolidated Financial Statements (Continued)

## 39 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 | | | |
| 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** | **1,710** | | |
| **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** | | |

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2017 are as follows:

| *In millions of RR* | Fair value | Valuation technique | Inputs used |
|---|---|---|---|
| **Assets AT FAIR VALUE** | | | |
| Foreign exchange swaps and forwards | 2,424 | 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** | **2,424** | | |
| **Liabilities AT FAIR VALUE** | | | |
| Foreign exchange swaps and forwards | 240 | 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** | **240** | | |

There were no changes in the valuation techniques for level 2 recurring fair value measurements during the years ended 31 December 2018 and 2017. 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 immaterial 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 2018 | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| *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 | 5,839 | - | - | 5,839 | 2,941 | - | - | 2,941 |
| - Cash balances with the CBRF (other than mandatory reserve deposits) | - | 11,158 | - | 11,158 | - | 11,201 | - | 11,201 |
| - Placements with other banks and non-bank credit organizations with original maturities of less than three months | - | 16,805 | - | 16,805 | - | 9,708 | - | 9,708 |
| **Mandatory cash balances with the CBRF** | - | 2,435 | - | 2,435 | - | 1,675 | - | 1,675 |
| **Due from other banks** | - | 776 | - | 776 | - | 777 | - | 777 |
| **Loans and advances to customers** | - | - | 198,489 | 198,489 | - | - | 140,245 | 140,245 |
| **Guarantee deposits with payment systems** | - | - | 4,603 | 4,603 | - | - | 3,660 | 3,660 |
| **Other financial assets** | | | | | | | | |
| Settlement of operations with plastic cards receivable | - | 12,694 | - | 12,694 | - | 10,280 | - | 10,280 |
| Other receivables | - | 2,948 | - | 2,948 | - | 689 | - | 689 |
| **Total financial assets carried at amortised cost** | **5,839** | **46,816** | **203,092** | **255,747** | **2,941** | **34,330** | **143,905** | **181,176** |

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# Notes to the Consolidated Financial Statements (Continued)

## 39 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 2018 | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| *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** | - | 2,708 | - | 2,708 | - | 595 | - | 595 |
| **Customer accounts** | | | | | | | | |
| Individuals | | | | | | | | |
| -Current/demand accounts | - | 137,637 | - | 137,637 | - | 76,318 | - | 76,318 |
| -Term deposits | - | 102,829 | - | 100,227 | - | 79,694 | - | 77,377 |
| SME | | | | | | | | |
| -Current/demand accounts | - | 41,702 | - | 41,702 | - | 23,705 | - | 23,705 |
| Other legal entities | | | | | | | | |
| -Current/demand accounts | | 552 | | 552 | - | 533 | - | 533 |
| -Term deposits | | 847 | - | 798 | - | 1,223 | - | 1,112 |
| **Debt securities in issue** | | | | | | | | |
| RR Bonds issued on domestic market | 5,919 | - | - | 5,851 | 8,213 | - | - | 8,050 |
| Euro-Commercial Paper | - | 3,754 | - | 3,754 | - | 2,769 | - | 2,769 |
| **Subordinated debt** | | | | | | | | |
| Perpetual subordinated bonds | 20,505 | - | - | 20,644 | 18,389 | - | - | 17,115 |
| Subordinated bonds | - | - | - | - | 5,115 | - | - | 4,886 |
| **Other financial liabilities** | | | | | | | | |
| Settlement of operations with plastic cards | - | 4,904 | - | 4,904 | - | 5,271 | - | 5,271 |
| Trade payables | - | 3,189 | - | 3,189 | - | 2,538 | - | 2,538 |
| Credit related commitments | - | - | - | 2,041 | - | - | - | - |
| Other financial liabilities | - | 1,067 | - | 1,067 | - | 234 | - | 234 |
| **Total financial liabilities carried at amortised cost** | **26,424** | **299,189** | **-** | **325,074** | **31,717** | **192,880** | **-** | **220,503** |

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. Fair value of credit related commitments is estimated to be approximately equal to zero since they are at market rates.

As at 31 December 2018 and 31 December 2017 the fair value of the debt securities in issue and subordinated debt has been calculated based on quoted prices from OJSC 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 31 December 2018 and 31 December 2017 depend on currency:

| *In % p.a.* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 0.0 | 0.0 |
| Due from other banks | 5.9 | 5.6 |
| Loans and advances to customers | 42.7 | 45.5 |
| Investment securities available for sale | - | 5.8 |
| Investments in debt securities | 5.5 | - |
| Repurchase receivables | 4.3 | 10.9 |
| **Liabilities** | | |
| Due to banks | 6.0 | 2.5 |
| Customer accounts | 4.4 | 5.3 |
| Debt securities in issue | 7.6 | 8.0 |
| Subordinated debt | 9.8 | 6.7 |

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# Notes to the Consolidated Financial Statements (Continued)

## 40 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. In addition, finance lease receivables form a separate category.

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** |

For the purposes of measurement at 31 December 2017, IAS 39 "Financial Instruments" classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2017:

| *In millions of RR* | Loans and receivables | Held for trading | Assets designated at FVTPL | Available-for-sale assets | Total |
|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | |
| - Cash on hand | 2,941 | - | - | - | 2,941 |
| - Cash balances with the CBRF (other than mandatory reserve deposits) | 11,201 | - | - | - | 11,201 |
| - Placements with other banks and non-bank credit organizations with original maturities of less than three months | 9,708 | - | - | - | 9,708 |
| **Mandatory cash balances with the CBRF** | 1,675 | - | - | - | 1,675 |
| **Due from other banks** | 777 | - | - | - | 777 |
| **Loans and advances to customers** | 140,245 | - | - | - | 140,245 |
| **Financial derivatives** | - | 2,424 | - | - | 2,424 |
| **Guarantee deposits with payment systems** | 3,660 | - | - | - | 3,660 |
| **Investment securities available for sale** | - | - | - | 71,676 | 71,676 |
| **Repurchase receivables** | - | - | - | 798 | 798 |
| **Other financial assets** | | | | | |
| - Settlement of operations with plastic cards receivable | 10,280 | - | - | - | 10,280 |
| - Other receivables | 523 | - | 166 | - | 689 |
| **TOTAL FINANCIAL ASSETS** | **181,010** | **2,424** | **166** | **72,474** | **256,074** |

As of 31 December 2018 and 2017 all of the Group's financial liabilities except derivatives were carried at amortised cost.

## 41 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 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| *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: 27.8% (31 December 2017: 32.1%)) | 9 | - | 21 | - |
| **TOTAL ASSETS** | **9** | **-** | **21** | **-** |

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# Notes to the Consolidated Financial Statements (Continued)

## 41 Related Party Transactions (Continued)

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| *In millions of RR* | **Key management personnel** | **Other related parties** | **Key management personnel** | **Other related parties** |
| **LIABILITIES** | | | | |
| Customer accounts (contractual interest rate: 4.2% p.a. (31 December 2017: 3.1% p.a.)) | 1,349 | 798 | 1,387 | 1,145 |
| Debt securities in issue (discount: 4%) | - | 3,754 | - | 2,769 |
| Other non-financial liabilities | 888 | - | 705 | - |
| **TOTAL LIABILITIES** | **2,237** | **4,552** | **2,092** | **3,914** |
| EQUITY | | | | |
| Share-based payment reserve | | | | |
| - Management long-term incentive programme | 1,102 | - | 1,143 | - |
| **TOTAL EQUITY** | **1,102** | **-** | **1,143** | **-** |

Other related parties in the tables above are represented by entities which are under the control of the Group's ultimate controlling party Oleg Tinkov.

The income and expense items with related parties were as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| *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 | 3 | - | 4 | - |
| Interest expense calculated using effective interest rate method | (46) | (165) | (77) | (41) |
| Unrealised foreign exchange translation losses less gains | - | (69) | - | (13) |

Key management compensation is presented below:

| *In millions of RR* | **2018** | **2017** |
|---|---|---|
| *Short-term benefits:* | | |
| - Salaries | 792 | 555 |
| - Short-term bonuses | 917 | 1,147 |
| *Long-term benefits:* | | |
| - Management long-term incentive programme | 564 | 922 |
| **Total** | **2,273** | **2,624** |

***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. The maximum share capital attributable to the plan on launch was 4.1% of issued share capital at 31 March 2016.

On 8 February 2017 the Group granted shares to new participants in MLTIP and also granted additional shares to certain existing participants which resulted in an increase in total shares granted under MLTIP to 5.6% of issued share capital of the Group. For the purpose of the financial reporting the grant date for newly added rewards is considered to be 8 February 2017, implementation date is 31 March 2017.

On 22 February 2018 the Group granted shares to new participants in MLTIP which resulted in an increase in total shares granted under MLTIP to 5.68% of issued share capital of the Group. For the purpose of the financial reporting the grant date for newly added rewards is considered to be 22 February 2018, implementation date is 31 March 2018.

The total number of GDRs attributable to the Management according to MLTIP is 9,781 thousand as at 31 December 2018 (2017: 9,628 thousand).

Participants cannot own or exercise their shareholder rights over GDRs within MLTIP directly. Participants are entitled to the dividends, if any.

The fair value as at recognition dates of the equity-settled share-based payments (31 March 2016, 8 February 2017 and 22 February 2018) is determined on the basis of a market quote.

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 until 2022 for participants joining in 2016, then until 2023 for participants joining in 2017, and until 2024 for participants joining in 2018.

## 42 Events after the End of the Reporting Period

On 19 February 2019 the Group issued EUR denominated ECP with a nominal value of EUR 12 million with a discount of 1.25% maturing on 18 February 2020.

In March 2019 the Group acquired an additional stake in Kassir.ru.

On 11 March 2019 the Board of Directors declared an interim dividend in line with the current dividend policy of USD 0.32 per share/per GDR with a total amount allocated for dividend payment of around USD 58.4 million.

## 43 Accounting Policies Applicable before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows.

***Financial instruments – key measurement terms.*** Depending on their classification financial instruments are carried at fair value or amortised cost as described below. Refer to Note 3 for the definition of fair value and AC as well as for description of valuation techniques.

***Other securities at FVTPL.*** Other securities at FVTPL are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel.

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# Notes to the Consolidated Financial Statements (Continued)

## 43 Accounting Policies Applicable before 1 January 2018 (Continued)

***Loans and advances to customers.*** Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

***Impairment of financial assets carried at amortised cost.*** Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- an instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in national or local economic conditions that impact the borrower;
- concession is granted by the Bank that would not have otherwise been given.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed.

This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows. Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The amount of uncollectible loan balance is estimated on a loan portfolio basis taking into account defaulted loans recovery statistics. In 2017 the Group refined the approach to determination of uncollectible loan balance as sufficient and appropriate loans recovery statistics has now been accumulated.

Gains or losses on disposal of impaired loans are recognized in the consolidated statement of profit or loss and other comprehensive income in the period when sale occurred.

***Investment securities available for sale.*** This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

***Income and expense recognition.*** Interest income and expense are recorded for all debt instruments on an accruals 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, for example fees for evaluating creditworthiness, negotiating the terms of the instrument, for servicing of account, and cash withdrawals. Commitment fees 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 fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's original effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accruals 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.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

**31 DECEMBER 2018**

# 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
Philippe Delpal
Jacques Der Megreditchian
Martin Robert Cocker

All served throughout the year ended 2018 and through to the date of these separate financial statements.

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 2019 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 2018**

# 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 2018.

## Principal activities and nature of operations of the Company

2. The principal activities of the Company are holding of investments in Russian Federation subsidiary companies and offering call centre services to customers and potential customers in Russian Federation subsequent to the launch of Cyprus based home call centre. The main subsidiaries are JSC "Tinkoff Bank" (the "Bank"), JSC "Tinkoff Insurance" (the "Insurance company"), LLC "Phoenix", LLC "CloudPayments", LLC "Tinkoff Mobile" and Tinkoff Software DC (the Company and its subsidiaries collectively the "Group").

3. The Bank specialises in retail banking for individuals and small and medium-sized enterprises (SME) accounts and brokerage services. The Bank which is fully licensed by the Central Bank of Russia and launched its operations in the summer of 2007 is a member of the Russian Deposit Insurance System. The Insurance Company specialises in providing non-life insurance coverage such as accident, property, travellers', financial risks 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.

4. During 2018 the Company acquired a minority stake in Kassir.ru, one of Russia's biggest ticket sales companies by the number of tickets sold. The acquisition is in line with the Group's strategy of developing its ecosystem to offer customers a greater choice of financial and related services through the Tinkoff.ru platform.

## Review of developments, position and performance of the Company's business

5. In 2017 the Company initiated its own home call-centre in Cyprus and plans to develop this business activity in the future both in and outside the Russian Federation. The Company was registered as an employer in Cyprus with the 'Employers' Register of the Social Insurance Services' in Cyprus in 2017. During 2018 the Company was actively developing its business in Cyprus connected with providing of call-center and software development services. The Company is hiring a call centre work force, training it and these employees provide services to Tinkoff Bank and indirectly Bank's customers.

6. 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. During 2018 the Bank started providing new types of loans: i) car loans; ii) secured loans which represent loans secured by cars or real estate; and iii) loans provided to individual entrepreneurs and small and medium businesses for the purpose of working capital management.

7. The key offerings of JSC "Tinkoff Insurance" are accident insurance, travel insurance, property insurance and voluntary insurance of vehicles (KASKO) and Obligatory Motor Third Party Liability (OMTPL). The Insurance Company focuses on online sales.

8. The loss of the Company for the year ended 31 December 2018 was RR 23 million (2017: RR 310 million). On 31 December 2018 the total assets of the Company were RR 222,216 million (2017: RR 209,667 million) and the net assets were RR 193,046 million (2017: RR 197,634 million). In 2017 the Company began investing in corporate bonds. The fair value of the bonds amounted to RR 425 million as at 31 December 2018 (2017: RR 65 million). 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 RR 1,320 million, EUR denominated ECP has a nominal value of RR 2,424 million, RR denominated ECP has a nominal value of RR 105 million. Loans received grew to RR 23,243 million (2017: RR 7,833 million) in order to fund the Company's operations. During 2018 the Company distributed dividends in accordance with its dividend policy in amount of RR 12,265 million (2017: RR 8,279 million).

9. The Company has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. Impacts of IFRS 9 adoption on the Company are disclosed in Note 5 separate financial statements.

## Environmental matters

10. As the Group and by extension the Company is an online only financial institution, the management of the Company believes none of 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

11. The Company and the Group whose the Company is the holding entity has a flat organizational culture. The Company practices delegation of decision making to the levels deep below the management team and actively promotes discussion and idea generation and exchange. The Company believes in creating an environment where highly talented people are empowered. Empowerment is an important ingredient in the success of our organization. It's also about the workplace environment – having an open leadership style where information can move freely – where ideas are constantly channelled up, down and sideways around the Company. The Company does not have 'a rule by committee' approach. The Company utilizes all types of forums to promote continual dialogue – using email, various online chat rooms, flash meetings, as well as formalized meeting structures. Anyone can talk to anyone and transparency is promoted. The Company offers a clear far-reaching career path for its employees, unique work environment and a fair and transparent compensation.

12. Clear performance evaluation process and fair compensation are essential. Compensation is a combination of fixed rate salary and bonuses and is based on employee performance. Employees are evaluated on a regular basis in order to monitor their achievement against KPIs, to determine incentive compensation, and to provide feedback which can be used for their career development.

13. Prior to its IPO in 2013, the Company set up share based long term incentive plans 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. In 2017 and 2018, the Company announced the expansion of the plan. The number of participants increased to over 80. Total target size of the MLTIP pool is 5.6% of the Company's current share capital. 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.

## Non-Financial Information and Diversity Statement

14. The Company's policies and information for an understanding of the development, performance, position and impact of the activity of the Company in the spheres 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 2018, on the Company's website, www.tcsgh.com.cy (and www.tinkoff.ru/eng) by 30 June 2019, within six months of the reporting date.

## Principal risks and uncertainties

15. The Company's business and financial results are impacted by the uncertainties and volatility of the Russian economic environment. For example in April 2018 the Russian Rouble decreased by about 10% against the US Dollar and Euro in the space of a few days and international sanctions continue to impact Russia. With respect of Rouble interest rates, during 2018 the CBRF "key rate" fluctuated between 7.25% and 7.75%. It was at the top end of the range at both the beginning and the end of 2018.

16. 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

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# Management Report (Continued)

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 adopted a formal process to identify, evaluate and manage principal risks and uncertainties faced by the Company and the Company's subsidiaries. The Company has 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 directly with the Board of Directors in this area. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that the exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures to minimize operational and legal risks of the Group and the Company. 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 25 and 26 of the separate financial statements.

## Contingencies

18. The Company's contingencies are disclosed in Note 26 to the separate financial statements.

## Future developments

19. Strategic objective for the Group and by extension to the Company is to be a full service, online financial supermarket 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 23.

## 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 31.

## Share capital

22. During 2018 the Company's shareholders approved a resolution to increase authorised 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. As at 31 December 2018 the total number of authorised shares is 191,770,766 shares (31 December 2017: 190,479,500 shares) with a par value of USD 0.04 per share (31 December 2017: USD 0.04 per share).

23. As at 31 December 2018 the issued share capital of the Company which remains unchanged from the prior year, comprised of 96,239,291 "class A" ordinary shares and 86,399,534 "class B" ordinary shares with a par value of USD 0.04 per share.

## Research and development activities

24. The Company has not undertaken any research and development activities during the year ended 31 December 2018.

## Treasury shares

25. At 31 December 2018 the Company held 6,604,353 (2017: 6,315,121) of its own GDRs that is equivalent of approximately RR 3,670 million (2017: RR 1,587 million) representing 3.6% (2017: 3.5%) of the issued share capital.

26. Treasury shares are GDRs of TCS Group Holding Plc that are held by the special purpose trust which has been specifically created for the long-term incentive programme for Management of the Company's subsidiaries (MLTIP) (see Note 30 for further information).

27. In 2018 the Company repurchased 2,094,126 GDRs (2017: 602,148 GDRs) at market price for RR 2,455 million (2017: RR 397 million) representing 1.1% (2017: 0.3%) of the issued share capital.

28. During 2018 the Company transferred 1,804,894 GDRs (2017: 1,326,464 GDRs) out of treasury shares upon vesting under the MLTIP to retained earnings that is equivalent of RR 372 million (2017: RR 283 million) representing 1.0% (2017: 0.7%) of the issued share capital.

## Board of Directors

29. The members of the Board of Directors as of 31 December 2018 and at the date of this report are presented above.

30. There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

## Branches

31. The Company did not operate through any branches during the year.

## Independent auditor

32. The Board of Directors in accordance with the requirements of the EU introduced into Cypriot legislation undertook a mandatory audit tender in respect of the 2019 audit. Following this 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

33. 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 2019, including cash flows and funding facilities, the Directors consider that the Company has adequate resources to continue in operation for the foreseeable future.

# Corporate Governance Statement

## Overview

GDRs of TCS Group Holding PLC (a Cyprus company), issued under a deposit agreement dated on or about 24th October 2013 with JPMorgan Chase Bank N.A. as depositary representing one class A share, are listed on the London Stock Exchange (LSE) and the Company is required to comply with its corporate governance regime to the extent it applies to foreign issuers of GDRs. No shares of TCS Group Holding PLC are listed on any exchange. As the class A shares themselves or the GDRs are not listed on the Cyprus Stock Exchange, the Cypriot corporate governance regime is not applicable for the Company and accordingly the Company does not monitor its compliance with that regime. The rights of shareholders include the right to vote on the appointment and removal of Directors and to amend the Articles of Association.

TCS Group Holding PLC has two classes of ordinary shares, Class B shares carry or confer enhanced voting rights (10 votes per class B share) as opposed to class A (one vote per class A share); a concise description of these is set out in the Company's most recent annual report: a detailed description of the Articles of Association, including the rights of shareholders, and the Terms and Conditions of the GDRs can be found in the Company's October 2013 Prospectus on the website at www.tinkoff.ru/eng.

## 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.

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# Management Report (Continued)

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The current six strong Board of directors is comprised of three executive directors including the chairman, and three non-executive directors two of whom are independent. There was no change in the composition of the Board in 2018. The board of directors currently contains no B Directors.

The longest serving director 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 2018 are listed above. 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 carried out, in-house, in relation to 2018, looking at overall performance but focused mainly on late 2017 and 2018. All directors completed detailed questionnaires on the Board's performance. Analysis of the resultant feedback 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, which was discussed at a meeting of the Board of Directors on 11 March 2019.

## Committees of the Board of directors

The Company has established two Committees of the Board of directors: the Audit Committee and the Remuneration Committee and their terms of reference are summarized below. Both Committees were constituted 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.

## Committee composition

The Audit Committee is chaired by an independent non-executive director Mr Martin Cocker, and has two other members both non-executive directors one of whom is independent.

The Remuneration Committee is also chaired by an independent non-executive director Mr Jacques Der Megreditchian, and has two other members both non-executive directors one of whom is independent.

## 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 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 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 in two main ways, through members participating in the main Board review described above in the second half of 2017 and by arranging a complementary committee review on a rolling basis driven by the audit cycle March to March. After consideration of the Audit Committee's own review, no further changes to those adopted in the preceding year were proposed to the committee's terms of reference. During the second half of 2017 the Audit Committee determined to set a more structured framework around the extensive work it had been doing between its quarterly meetings to review the financial statements by adding at least two additional meetings to its annual schedule, 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 such as risk management issues including internal audit procedures, and the financial and reputational dimensions of cyber security measures put in place by the Group. Two such meetings were held in 2018 with a further two at least planned for 2019.

The Audit Committee has developed a risk matrix which constantly evolves to reflect new risks, the perceived impact of, and the Company'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.

## 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 Company'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 work into 2018 on its ongoing review of the operation of the Company's equity based incentive and retention plan for key, senior and middle management (MLTIP) which launched and in considering additional awards to both existing and new participants for this and subsequent years.

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. Although earlier reviews had resulted in certain minor changes to the Remuneration Committee's terms of reference to clarify certain procedural matters and to align them more closely with how the committee operated in practice, no further changes were felt required in 2018 and 2019.

## 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 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.

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 characteris-

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# Management Report (Continued)

tics 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 2018 is set out below:

| Name | Age | Male/Female | Educational/professional background |
|---|---|---|---|
| Constantinos Economides | 43 | Male | ICAEW, MSc in Management Sciences, experience in 'Big Four' professional services firms |
| Alexios Ioannides | 42 | Male | ICAEW, ICPAC, BSc in Business Administration, experience in 'Big Four' professional services firms |
| Mary Trimithiotou | 41 | Female | ICPAC, FCCA, Licensed insolvency practitioner, experience in 'Big Four' professional services firms |
| Martin Robert Cocker | 59 | Male | ICAEW, BSc in Mathematics and Economics, experience in 'Big Four' professional services firms |
| Philippe Delpal | 45 | Male | BSc in IT, Telecoms and Economics, senior executive experience in banking industry |
| Jacques Der Megreditchian | 59 | 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

11 April 2019



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# *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 2018, 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 47 and comprise:

- the separate statement of financial position as at 31 December 2018;
- 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' Code of Ethics for Professional Accountants (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.

## 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") 965 million, which approximately represents 0.5% of total equity |
| ***Key audit matters*** | We have identified the following key audit matter:<br>• 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 965 million |
| ***How we determined it*** | Approximately 0.5% of total equity |
| ***Rationale for the materiality benchmark applied*** | The Company 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 96 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 management makes judgements over the fair value of investments in subsidiaries.<br><br>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 Stock Exchange. Other inputs include the estimated fair value of the assets and liabilities held by the Company other than its investments in the subsidiaries.<br><br>Note 3, Significant Accounting Policies, Note 4, Critical Accounting Estimates and Judgements in Applying Accounting Policies, Note 11, Investments in Equity Securities, and Note 28, Fair Value of Financial Instruments, 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.<br><br>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 an EU PIE was the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 10 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 11 April 2019 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 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.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018.

The engagement partner on the audit resulting in this independent auditor's report is Anna Loizou.

A Loizou

Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus

11 April 2019

**31 DECEMBER 2018**

# Separate Statement of Financial Position

| *In millions of RR* | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 761 | 385 |
| Loans and deposit placement with related parties | 8 | 379 | 581 |
| Financial derivatives | 27 | 86 | 4 |
| Tangible fixed assets | | 2 | - |
| Investments in debt securities | 9 | 425 | - |
| Investment securities available for sale | 10 | - | 207,899 |
| Investments in equity securities | 11 | 219,249 | - |
| Repurchase receivables | 12 | - | 798 |
| Other financial assets | 13 | 1,300 | - |
| Other non-financial assets | | 14 | - |
| **TOTAL ASSETS** | | **222,216** | **209,667** |
| LIABILITIES | | | |
| Loans received | 14 | 23,243 | 7,833 |
| Debt securities in issue | 15 | 3,754 | 2,769 |
| Financial derivatives | 27 | 1 | - |
| Current income tax liability | | - | 1 |
| Deferred income tax liabilities | | 1,187 | 565 |
| Other financial liabilities | 16 | 222 | 395 |
| Other non-financial liabilities | 16 | 763 | 470 |
| **TOTAL LIABILITIES** | | **29,170** | **12,033** |
| EQUITY | | | |
| Share capital | 17 | 188 | 188 |
| Share premium | 17 | 8,623 | 8,623 |
| Treasury shares | 17 | (3,670) | (1,587) |
| Share-based payment reserve | 30 | 1,232 | 1,286 |
| Accumulated losses | | (20,861) | (8,593) |
| Revaluation reserve | | 207,534 | 197,717 |
| **TOTAL EQUITY** | | **193,046** | **197,634** |
| **TOTAL LIABILITIES AND EQUITY** | | **222,216** | **209,667** |

Approved for issue and signed on behalf of the Board of Directors on 11 April 2019.

**Constantinos Economides**

Director

**Mary Trimithiotou**

Director

The notes № 1-32 are an integral part of these Separate Financial Statements.

# Separate Statement of Profit or Loss and Other Comprehensive Income

| *In millions of RR* | Note | 2018 | 2017 |
|---|---|---|---|
| Interest income calculated using the effective interest rate method | 18 | 107 | 120 |
| Other similar income | 18 | 84 | 21 |
| Interest expense calculated using the effective interest rate method | 18 | (1,404) | (277) |
| **Net interest expense** | | **(1,213)** | **(136)** |
| Credit loss allowance for debt financial instruments | | (19) | (52) |
| **Net interest expense after credit loss allowance** | | **(1,232)** | **(188)** |
| Dividend income | 19 | 1,351 | - |
| Net gains less losses from operations with foreign currencies | 20 | 173 | 106 |
| Net losses from debt instruments at FVTPL | | (112) | - |
| Net gains from disposals of debt securities at FVOCI | | 90 | - |
| Administrative and other operating expenses | 21 | (347) | (500) |
| Gain on initial recognition of liabilities at rates below market | | - | 275 |
| Other operating income | | 140 | - |
| **Profit/(Loss) before tax** | | **63** | **(307)** |
| Income tax expense | 22 | (86) | (3) |
| **Loss for the year** | | **(23)** | **(310)** |
| **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) | - |
| Investment securities available for sale and Repurchase receivables: | | | |
| - Net gains arising during the year, net of tax | | - | 89,329 |
| 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 | | 10,148 | - |
| Income tax charge recorded directly in other comprehensive income | | (622) | (565) |
| **Other comprehensive income for the year, net of tax** | | **9,525** | **88,764** |
| **Total comprehensive income for the year** | | **9,502** | **88,454** |

The notes № 1-32 are an integral part of these Separate Financial Statements.

**31 DECEMBER 2018**

# Separate Statement of Changes in Equity

| *In millions of RR* | Note | Share capital | Share premium | Revaluation reserve | Share-based payment | Accumulated losses | Treasury shares | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | | **188** | **8,623** | **108,781** | **704** | **(4)** | **(1,473)** | **116,819** |
| Loss for the year | | - | - | - | - | (310) | - | (310) |
| Other comprehensive income: | | | | | | | | |
| Investment securities available for sale and Repurchase receivables | 10 | - | - | 89,329 | - | - | - | 89,329 |
| Income tax charge recorded directly in other comprehensive income | | - | - | (565) | - | - | - | (565) |
| **Total comprehensive income/ (loss) for 2017** | | **-** | **-** | **88,764** | **-** | **(310)** | **-** | **88,454** |
| GDRs buy-back | 17 | - | - | - | - | - | (397) | (397) |
| Share-based payment reserve | 17, 30 | - | - | 172 | 582 | - | 283 | 1,037 |
| Dividends | 23 | - | - | - | - | (8,279) | - | (8,279) |
| **Total transactions with owners** | | **-** | **-** | **172** | **582** | **(8,279)** | **(114)** | **(7,639)** |
| **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 | 5 | - | - | 1 | - | (1) | - | - |
| Effect of initial application of IFRS 9 – other | 5 | - | - | (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 | 17 | - | - | - | - | - | (2,455) | (2,455) |
| Share-based payment reserve | 17, 30 | - | - | 312 | (54) | - | 372 | 630 |
| Dividends | 23 | - | - | - | - | (12,265) | - | (12,265) |
| **Balance at 31 December 2018** | | **188** | **8,623** | **207,534** | **1,232** | **(20,861)** | **(3,670)** | **193,046** |

The notes № 1-32 are an integral part of these Separate Financial Statements.

# Separate Statement of Cash Flows

| *In millions of RR* | Note | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest income calculated using the effective interest rate method received | | 78 | 95 |
| Other similar income received | | 71 | 21 |
| Interest expense calculated using the effective interest rate method paid | | (998) | (225) |
| Administrative and other operating expenses paid | | (532) | (337) |
| Income tax paid | | (20) | (2) |
| Cash received from trading in foreign currencies and operations with financial derivatives | | 537 | - |
| **Cash flows used in operating activities before changes in operating assets and liabilities** | | **(864)** | **(448)** |
| **Changes in operating assets and liabilities** | | | |
| Net decrease in loans and deposit placement with related parties | | 199 | 102 |
| Net decrease in investments in debt securities at FVTPL | | 466 | - |
| Net decrease in other non-financial liabilities | | (144) | (29) |
| **Net cash used in operating activities** | | **(343)** | **(375)** |
| **Cash flows used in investing activities** | | | |
| Acquisition of shareholding in subsidiaries | | - | (290) |
| Acquisition of debt securities at FVOCI | | (12,545) | - |
| Proceeds from sale and redemption of debt securities at FVOCI | | 12,667 | - |
| Acquisition of investments in equity securities at FVOCI | | (606) | - |
| Acquisition of investments available for sale | 10 | - | (11,641) |
| Proceeds from sale and redemption of investments available for sale | 10 | - | 10,800 |
| Acquisition of tangible fixed assets | | (2) | - |
| **Net cash used in investing activities** | | **(486)** | **(1,131)** |
| Cash flows (used in)/from financing activities | | | |
| GDR buy back | 17 | (2,455) | (397) |
| Repayment of debt securities in issue | 15 | (3,204) | - |
| Proceeds from debt securities in issue | 15 | 3,622 | 2,819 |
| Loans received | 14 | 14,955 | 7,301 |
| Dividends paid | 23 | (11,946) | (7,970) |
| **Net cash from financing activities** | | **972** | **1,753** |
| Effect of exchange rate changes on cash and cash equivalents | | 233 | (30) |
| **Net increase in cash and cash equivalents** | | **376** | **217** |
| **Cash and cash equivalents at the beginning of the year** | **7** | **385** | **168** |
| **Cash and cash equivalents at the end of the year** | **7** | **761** | **385** |

The notes № 1-32 are an integral part of these Separate Financial Statements.

**31 DECEMBER 2018**

# Notes to the Separate Financial Statements

## 1 Introduction

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2018 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 2018.

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 this of these separate financial statements consists of: Constantinos Economides, Alexios Ioannides, Mary Trimithiotou, Philippe Delpal, Jacques Der Megreditchian and Martin Cocker.

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

At 31 December 2018 and 2017 the issued 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 2018 the number of issued "class A" shares is 96,239,291 and issued "class B" shares is 86,399,534 (31 December 2017: the same).

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.

As at 31 December 2018 and 2017 the entities and the individuals holding either Class A or Class B shares of the Company were:

| | Class of shares | 31 December 2018 | 31 December 2017 | Country of Incorporation |
|---|---|---|---|---|
| Guaranty Nominees Limited (JP Morgan Chase Bank NA) | Class A | 52.70% | 50.06% | United Kingdom |
| Altoville Holdings Limited | Class B | 23.65% | - | Cyprus |
| Nemorenti Limited | Class B | 23.65% | - | Cyprus |
| Ioanna Georgiou | Class A | 0.00% | - | Cyprus |
| Panagiota Charalambous | Class A | 0.00% | - | Cyprus |
| Maria Vyra | Class A | 0.00% | - | Cyprus |
| Marios Panayides | Class A | 0.00% | - | Cyprus |
| Chloi Panagiotou | Class A | 0.00% | - | Cyprus |
| Leonora Chagianni | Class A | 0.00% | - | Cyprus |
| Tadek Holding & Finance S.A. | Class B | - | 47.31% | British Virgin Islands |
| Vostok Emerging Finance Limited | Class A | - | 1.64% | Cyprus |
| Rousse Nominees Limited | Class A | - | 0.99% | Guernsey |
| Tasos Invest & Finance Inc. | Class B | - | 0.00% | British Virgin Islands |
| Vizer Limited | Class B | - | 0.00% | British Virgin Islands |
| Maitland Commercial Inc. | Class B | - | 0.00% | British Virgin Islands |
| Norman Legal S.A. | Class B | - | 0.00% | British Virgin Islands |
| **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.

On 24 January 2018 Tadek Holding & Finance SA transferred its entire holding of B class shares (86,399,458 B class shares) to Altoville Holdings Limited. On 18 December 2018 Altoville Holdings Limited transferred 50% of its holding of B class shares (43,199,767 B class shares) to Nemorenti Limited. As at 31 December 2018 the beneficial owner of Altoville Holdings Limited and Nemorenti Limited was Russian entrepreneur Mr. Oleg Tinkov.

In September 2018, 6 A class shares were transferred to the individuals listed above. The individuals hold them as nominees of Altoville Holdings Limited.

As at 31 December 2017 the beneficial owner of Tadek Holding & Finance S.A., Tasos Invest & Finance Inc., Vizer Limited, Maitland Commercial Inc and Norman Legal S.A. was Mr. Oleg Tinkov and the beneficial owner of Rousse Nominees Limited was Baring Vostok Private Equity Fund IV, L.P.

As at 31 December 2018 and 2017 the ultimate controlling party of the Company is Mr. Oleg Tinkov. Mr. Oleg Tinkov controls approximately 89.98% of the aggregated voting rights attaching to the Class A and B shares as at 31 December 2018 (2017: 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 2018 and 2017: JSC "Tinkoff Bank" ("the Bank"), JSC "Tinkoff Insurance" ("the Insurance Company"), LLC "Microfinance company "T-Finans", LLC TCS, LLC "Phoenix", Tinkoff Software DC, LLC "Tinkoff Mobile", Goward Group Limited (since February 2018 Goward Group Ltd is in liquidation process).

The Company owns 55% of shares of LLC "CloudPayments" at 31 December 2018 and 2017.

**Principal activity.** The Company's principal business activities are holding investments in Russian subsidiary companies and starting from December 2017 offering Cyprus based home call centre 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 of individuals insurance in the Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1.4 million per individual 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 manages part of the Group's assets.

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 which core business is online merchant acquiring in Russia.

The subsidiary LLC "Phoenix" is a debt collection agency.

The subsidiary Tinkoff Software DC provides software development services to the Group. The Company plans to develop software development business line to provide services to Tinkoff and other companies.

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# Notes to the Separate Financial Statements (Continued)

## 1 Introduction (Continued)

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).

## 2 Operating Environment of the Company

**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 26).

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. For example in April 2018 the Russian Rouble decreased by about 10% against the US Dollar and Euro in the space of a few days. 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 economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

With respect of Rouble interest rates, during 2017 and 2018 the CBRF "key rate" decreased by 2.5% to 7.75% per annum as at 31 December 2018.

The Group actively monitors the situation in the Russian banking sector, and the activity of CBRF in response to current and newly developed requirements and any sanctions against the participants who breach them. 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.

## 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 International Financial Reporting Standards as adopted by the European Union (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") (2017: the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by revaluation of derivatives, investment securities available for sale, securities at fair value through profit or loss, and repurchase receivables carried at fair value). The principal accounting policies applied in the preparation of these separate financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Notes 5 and 32.

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 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 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 28.

*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.

**31 DECEMBER 2018**

# Notes to the Separate Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

*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 such as fee and commission. 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. 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.

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.

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# Notes to the Separate Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

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 25 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 25 for a description of how the Company defines credit-impaired assets and default.

Note 25 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 (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

***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.

***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 placement 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 losses less gains from operations with foreign currencies. 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.

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# Notes to the Separate Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

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.

***Investments in debt securities.*** Based on the business model and the 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.

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 investments 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 separate statement of profit or loss and other comprehensive income as gains/losses from repurchase of debt securities in issue.

***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 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.

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# Notes to the Separate Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

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.

***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 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.

***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 Standards 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.

At 31 December 2018 the rate of exchange used for translating foreign currency balances was USD 1 = RR 69.4706 (31 December 2017: USD 1 = RR 57.6002), and the average rate of exchange was USD 1 = RR 62.7078 (2017: USD 1 = RR 58.3529).

***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.

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# Notes to the Separate Financial Statements (Continued)

## 3 Significant Accounting Policies (Continued)

***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.

***Changes in presentation.*** Starting from 1 January 2018 the Company changed presentation of interest income and expense following the application of IFRS 9. In these separate financial statements the Company changed presentation of the separate statement of profit or loss and other comprehensive income for the year ended 31 December 2017. These changes were implemented to increase comparability of the financial information for 2017 with the respective information for 2018. The effect of changes on the separate statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

| *In millions of RR* | As originally presented | Reclassification | As reclassified |
|---|---|---|---|
| Interest income | 141 | (141) | - |
| Interest expense | (277) | 277 | - |
| Interest income calculated using the effective interest rate method | - | 120 | 120 |
| Other similar income | - | 21 | 21 |
| Interest expense calculated using the effective interest rate method | - | (277) | (277) |

The effect of changes on the separate statement of cash flows for the year ended 31 December 2017 is as follows:

| *In millions of RR* | As originally presented | Reclassification | As reclassified |
|---|---|---|---|
| Interest received | 116 | (116) | - |
| Interest paid | (225) | 225 | - |
| Interest income received calculated using the effective interest rate method | - | 95 | 95 |
| Other similar income received | - | 21 | 21 |
| Interest expense paid calculated using the effective interest rate method received | - | (225) | (225) |

## 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 namely the Bank and the Insurance Company. 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 28.

***Perpetual subordinated bonds.*** The Company has invested 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 30.

***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 26.

## 5 Adoption of New or Revised Standards and Interpretations

***Adoption of IFRS 9 – Financial Instruments (IFRS 9) (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018).*** The Company has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The Company elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities at the date of initial application in the opening retained earnings of the current period. The comparative period disclosures repeat those disclosures made in the prior period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 – Financial Instruments: Disclosures (IFRS 7) disclosures have also only been applied to the current period.

Details of the specific IFRS 9 accounting policies applied in the current period are described in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 32. The impact of the IFRS 9 adoption on the Company is disclosed below.

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# Notes to the Separate Financial Statements (Continued)

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

| *In millions of RR* | Measurement category: IAS 39 | Measurement category: IFRS 9 | Carrying value per IAS 39 (closing balance at 31 December 2017) | Effect: Remeasurement: ECL | Effect: Remeasurement: Other | Effect: Reclassification: Mandatory | Effect: Reclassification: Voluntary | Carrying value per IFRS 9 (opening balance at 1 January 2018) |
|---|---|---|---|---|---|---|---|---|
| **Cash and cash equivalents** | L&R (loans and receivables) | AC | 385 | - | - | - | - | 385 |
| **Loans and deposit placement with related parties** | L&R | AC | 581 | - | - | - | - | 581 |
| **Financial derivatives** | FVTPL | FVTPL | 4 | - | - | - | - | 4 |
| Investments in debt securities | AFS (available for sale) | FVOCI | 12 | (1) | 1 | - | - | 12 |
| Investments in debt securities | AFS | FVTPL (mandatory) | 53 | - | - | - | - | 53 |
| **Total Investment in debt securities** | | | **65** | **-** | **-** | **-** | **-** | **65** |
| **Investments in equity securities** | AFS (available for sale) | FVOCI | 207,834 | - | - | - | - | 207,834 |
| **Repurchase receivables** | AFS | FVTPL (mandatory) | 798 | - | - | - | - | 798 |

All classes of cash and cash equivalents disclosed in Note 7 were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9 at adoption of the standard. The ECL for cash and cash equivalents balances was immaterial.

At 31 December 2017, all of the Company's financial liabilities except for derivatives were carried at AC. The derivatives belonged to the FVTPL measurement category under IAS 39. Starting from 1 January 2018 the Company's financial liabilities except for derivatives continued to be classified at AC. The derivatives were reclassified from FVTPL measurement category under IAS 39 to FVTPL (mandatory) measurement category under IFRS 9.

Since the Investments in debt securities are measured at fair value under IFRS 9 and were measured at fair value under IAS 39, the effect of remeasurement and ECL does not impact the carrying value of Investments in debt securities. The effect of ECL impacts the revaluation gains/losses of debt securities measured at FVOCI (the ECL amount was reclassified from the revaluation gains/losses to retained earnings).

Having performed the business model assessment, the Company classified some of the other financial assets previously measured at FVTPL to FVOCI measurement category, business model "hold to collect and sell".

The main reasons for reclassifications of investments in debt securities and repurchase receivables were as follows:

- *Perpetual corporate bonds with interest payments that are not mandatory.* The Company has invested in perpetual corporate bonds where the interest payments can be cancelled at the option of the issuer. Interest payments are not cumulative. The Company has concluded that its contractual cash flows are not consistent with the basic lending arrangement. Hence the investments in perpetual debt securities are measured at FVTPL. Refer to Note 4.
- *Reclassification from retired categories with no change in measurement.* In addition to the above, the debt instruments previously classified as AFS have been reclassified as measured at FVOCI under IFRS 9, as their previous category under IAS 39 was 'retired', with no changes to their measurement basis (except for perpetual corporate bonds as described above). The business model for these debt financial instruments (except for perpetual corporate bonds) was determined to be hold to collect contractual cash flows and sell since the Company holds these assets to collect both the contractual cash flows and the cash flows arising from the sale of assets.

The below disclosure provides reconciliation of the carrying amounts of financial instruments by classes from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018 as well as describes the reasons for such reclassifications:

***Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018***

The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

| *In millions of RR* | Measurement category: IAS 39 | Measurement category: IFRS 9 | Provision for impairment under IAS 39 or IAS 37 at 31 December 2017 | Effect: Remeasurement | Effect: Reclassification | Effect: Gross up of ECL and gross carrying amount | Credit loss allowance under IFRS 9 at 1 January 2018 |
|---|---|---|---|---|---|---|---|
| **Loans and deposit placement with related parties** | | | | | | | |
| Loans to subsidiary | L&R | AC | (72) | - | - | - | (72) |
| **Investments in debt securities** | | | | | | | |
| - Corporate bonds | AFS | FVOCI | - | - | - | (1) | (1) |
| **Total** | | | **(72)** | **-** | **-** | **(1)** | **(73)** |

Further information on the measurement of the credit loss allowance under IFRS 9 is disclosed in respective notes.

The following amended standards became effective for the Company from 1 January 2018, but did not have a material impact on the Company:

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

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# Notes to the Separate Financial Statements (Continued)

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Adoption of IFRS 15 (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).

## 6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Company has not early adopted.

***IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).*** IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation.

The Company is currently assessing the impact of the interpretation on its separate financial statements and the impact is not yet known.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

(a) Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*.

(b) 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)*.

(c) Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019)*.

(d) 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).

(e) Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)*.

(f) 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)*.

(g) Amendment to IFRS 3 Business Combinations (issued on 22 October 2018 and effective for annual periods beginning on or after 1 January 2020)*.

(h) IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

(i) IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2022)*.

## 7 Cash and Cash Equivalents

| *In millions of RR* | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Placements with other banks with original maturities of less than three months | | |
| - placements with UK Bank (A rated) | 760 | 377 |
| - placements with European bank (B rated) | 1 | 2 |
| - placements with subsidiary Bank (B+ rated) | - | 6 |
| **Total Cash and Cash Equivalents** | **761** | **385** |

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018. Refer to Note 25 for the description of the Company's credit risk grading system. The 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 | |
| Current | 761 |
| **Total cash and cash equivalents** | **761** |

Cash and cash equivalents are not impaired and not past due as at 31 December 2017. 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 25 for the ECL measurement approach. Interest rate, maturity and geographical risk concentration analysis of cash and cash equivalents is disclosed in Note 25. Information on related party balances is disclosed in Note 30. Refer to Note 28 for the disclosure of the fair value of cash and cash equivalents.

* Denotes standards, interpretations and amendments which have not yet been endorsed by the European Union.

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# Notes to the Separate Financial Statements (Continued)

## 8 Loans and Deposit Placements with Related Parties

| *In millions of RR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Deposit placements with subsidiary Bank (B+ rated) | 379 | 131 |
| Subordinated loans to subsidiary Bank (B+ rated) | - | 450 |
| Loans to subsidiary | - | 72 |
| **Total gross carrying amount of loans and deposit placements with related parties** | 379 | 653 |
| Less: Provision for loan impairment | - | (72) |
| **Total loans and deposit placements with related parties** | **379** | **581** |

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.

At 31 December 2017 the deposit placements with subsidiary Bank were represented by a deposit with a nominal value of RR 131 million at 13% per annum maturing on 14 September 2019. In 2018 the deposit was closed before maturity.

On 29 May 2012 the Company issued RR denominated subordinated loan with a nominal value of RR 450 million at 14.4% per annum maturing on 29 May 2022. On 2 July 2018 the Company redeemed subordinated loan before maturity.

As at 31 December 2017 loans to subsidiary had a contractual maturity on 27 May 2018 and nominal interest rate of 0.1% p.a. In 2018 loans to subsidiary were written-off as fully impaired.

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 25 for the ECL measurement approach.

As at 31 December 2018 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. Refer to Note 25 for the description of the credit risk grading system.

Refer to Note 28 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 25. Information on related party balances is disclosed in Note 30.

## 9 Investments in Debt Securities

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

| *In millions of RR* | Debt securities at FVOCI | Debt securities measured at FVTPL | Total |
|---|---|---|---|
| Corporate bonds | 14 | - | 14 |
| Perpetual corporate bonds | - | 411 | 411 |
| **Total investments in debt securities at 31 December 2018 (fair value/carrying value)** | **14** | **411** | **425** |
| Including Credit loss allowance | 1 | - | 1 |

**1) Investments in debt securities at FVTPL**

Debt securities mandatorily classified as at FVTPL by the Company represent perpetual corporate bonds. Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Company's maximum exposure to credit risk. The debt securities at FVTPL are not collateralised.

As at 31 December 2018 for the purpose of credit risk measurement debt securities measured at FVTPL balances are included in "Sub-standard" credit risk grade based on credit risk grademaster scale. Refer to Note 25 for the description of credit risk grading system.

**2) Investments in debt securities at FVOCI**

As at 31 December 2018 for the purpose of credit risk measurement debt securities measured at FVOCI balances are included in "Sub-standard" credit risk grade based on credit risk grademaster scale. Refer to Note 25 for the description of credit risk grading system.

For the purpose of ECL measurement debt securities measured at FVOCI balances are included in Stage 1. Refer to Note 25 for the ECL measurement approach.

The debt securities at FVOCI are not collateralised.

Interest rate, maturity and geographical risk concentration analysis of investment in debt securities are disclosed in Note 25.

## 10 Investment Securities Available for Sale

| *In millions of RR* | 2017 |
|---|---|
| Corporate bonds (B- to B+ rated) | 12 |
| Perpetual corporate bonds (B- to B+ rated) | 53 |
| **Total debt securities** | **65** |
| Investments in subsidiaries | 207,834 |
| **Total investment securities available for sale** | **207,899** |

As at 31 December 2017 investment securities available for sale were neither past due nor impaired.

The movements in debt investment securities available for sale for the period ended 31 December 2017 are as follows:

| *In millions of RR* | 2017 |
|---|---|
| Carrying amount at 1 January | - |
| Purchases | 11,641 |
| Redemption of investment securities available for sale | (6,399) |
| Disposal of investment securities available for sale | (4,401) |
| Interest income accrued on investment securities available for sale and Repurchase receivables (Note 18) | 36 |
| Interest received | (35) |
| Reclassification from investment securities available for sale to Repurchase receivables | (798) |
| Foreign exchange loss on investment securities available for sale in foreign currency | (3) |
| Revaluation through other comprehensive income | 24 |
| **Carrying amount at 31 December** | **65** |

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# Notes to the Separate Financial Statements (Continued)

## 10 Investment Securities Available for Sale (Continued)

As at 31 December 2017 investments in subsidiaries represent investments in the share capital of the Bank, Insurance Company, and LLC "CloudPayments". Refer to Note 11 for the description of the nature of investments in subsidiaries.

Investments in subsidiaries are stated at fair value at the end of each reporting period (Notes 4, 28).

The movements in investments in subsidiaries for the period ended 31 December 2017 are as follows:

| *In millions of RR* | 2017 |
|---|---|
| **Carrying amount at 1 January** | **117,202** |
| Acquisition of subsidiary | 290 |
| Revaluation of investment in subsidiaries | 89,305 |
| Share-based payment | 1,037 |
| **Carrying amount at 31 December** | **207,834** |

Interest rate, maturity and geographical risk concentration analysis of investment securities available for sale are disclosed in Note 25. Refer to Note 28 for the disclosure of the fair value of investments securities available for sale.

## 11 Investments in Equity Securities

| *In millions of RR* | 31 December 2018 |
|---|---|
| Investments in subsidiaries, including: | 218,818 |
| - *Investments in financial institutions* | 203,192 |
| - *Investments in non-financial institutions* | 15,626 |
| Other investments in equity securities | 431 |
| **Total investments in equity securities** | **219,249** |

Investments in financial institutions include investments in JSC "Tinkoff Bank", JSC "Tinkoff Insurance", LLC "Microfinance company "T-Finans". Investments in non-financial institutions include investments in LLC "CloudPayments", Goward Group Limited, LLC "Tinkoff Mobile", LLC "Phoenix", Tinkoff Software DC, LLC TCS.

At 1 January 2018, the Company designated investments disclosed in the above table as equity securities at FVOCI. In 2017, these investments were classified as AFS. Refer to Note 10. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

As at 31 December 2018 investments in equity securities represent investments in the share capital of the Bank, Insurance company, LLC "CloudPayments" and other investments in equity securities.

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 December 2018 the Company acquired 10% in the Insurance Company for cash consideration of RR 206 mln from the Bank. As at 31 December 2018 the Company owns 90.08% of the share capital of the Insurance Company and controls it.

In October 2017 the Company acquired a 55% shareholding in LLC "CloudPayments". The Company has the right to acquire the remaining 45% within five years from the date of purchase.

Investments in subsidiaries are stated at fair value at the end of each reporting period (Notes 4, 28).

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** |

Interest rate, maturity and geographical risk concentration analysis of investment in equity securities are disclosed in Note 25. Refer to Note 28 for the disclosure of the fair value of investments in equity securities.

None of these strategic investments were disposed of during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

## 12 Repurchase Receivables

Repurchase receivables represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge. The sale and repurchase agreements are short-term and mature by 10 January 2018.

Analysis by credit quality of debt securities classified as repurchase receivables outstanding at 31 December 2017 is as follows:

| *In millions of RR* | Available-for-sale securities Perpetual corporate bonds |
|---|---|
| Neither past due nor impaired | |
| B- rated | 798 |
| **Total neither past due nor impaired debt securities classified as repurchase receivables** | **798** |

No debt securities were sold under sale and repurchase agreements as at 31 December 2018.

Refer to Note 14 for the related liabilities. Interest rate, maturity and geographical risk concentration analysis of repurchase receivables are disclosed in Note 25.

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# Notes to the Separate Financial Statements (Continued)

## 13 Other Financial Assets

As at 31 December 2018 other financial assets are represented by the dividend income accrued from the Insurance Company.

For the purpose of ECL measurement other financial asset 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 other financial assets. Refer to Note 25 for the ECL measurement approach. As at 31 December 2018 for the purpose of credit risk measurement other financial assets balances are included in "Monitor" credit risk grade based on credit risk grademaster scale. Refer to Note 25 for the description of the credit risk grading system. Refer to Note 25 for the description of the credit risk grading system. Interest rate, maturity and geographical risk concentration analysis of other financial assets is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

## 14 Loans Received

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Loans from subsidiary Bank | 20,655 | 6,424 |
| Loans from the subsidiary company | 1,792 | 570 |
| Loans from other companies | 796 | 839 |
| **Total loans received** | **23,243** | **7,833** |

As at 31 December 2018 loans from subsidiary Bank had a contractual maturity from 30 October 2019 to 29 October 2021 and nominal interest rate from 5.5% to 7% (2017: a contractual maturity from 26 April 2018 to 20 November 2020 and nominal interest rate from 6.5% to 7%).

As at 31 December 2018 loans from the subsidiary company have a contractual maturity from 15 March 2020 and 6 June 2021 and nominal interest rate from 5.5% to 7% (2017: 15 March 2020 and nominal interest rate 7%).

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%.

As at 31 December 2017 loans from other companies represent liabilities of RR 591 million from sale and repurchase agreements with Renaissance Securities (Cyprus) Limited and loan from related party in the amount of RR 248 million, which had a contractual maturity 20 December 2018 and nominal interest rate 4%.

Refer to Note 28 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 25. Information on related party balances is disclosed in Note 30. Reconciliation of liabilities arising from financing activities is disclosed in Note 24.

Loans received are unsecured (2017: unsecured except for loans from other companies which were secured by the securities sold under sale and repurchase agreements).

## 15 Debt Securities in Issue

| *In millions of RR* | Date of maturity | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| 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 | - |
| Euro-Commercial Paper issued in December 2017 | 19 December 2018 | - | 2,769 |
| **Total Debt Securities in Issue** | | **3,754** | **2,769** |

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.

On 20 December 2017 the Company issued USD denominated Euro-Commercial Paper (ECP) with a nominal value of USD 50 million with a discount of 4% maturing on 19 December 2018. The Company redeemed all outstanding ECP of this issue at maturity.

Refer to Note 28 for the disclosure of the fair value of debt securities in issue. Maturity analysis of debt securities in issue are disclosed in Note 25. Reconciliation of liabilities arising from financing activities is disclosed in Note 24.

## 16 Other Financial and Non-financial Liabilities

| *In millions of RR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Other Financial Liabilities** | | |
| Enhanced exclusivity agreement payable | 208 | 380 |
| Accrued audit and accountancy fees | 14 | 15 |
| **Total Other Financial Liabilities** | **222** | **395** |
| **Other Non-financial Liabilities** | | |
| Dividends payable under GDRs repurchased for MLTIP purposes | 760 | 377 |
| Other provision | 3 | 93 |
| **Total Other Non-financial Liabilities** | **763** | **470** |

The enhanced exclusivity agreement payable represents amounts due to the beneficiary shareholder under a Relationship Agreement dated 22 October 2013.

Interest rate, maturity and geographical risk concentration analysis of other financial liabilities are disclosed in Note 25. Refer to Note 28 for disclosure of fair value of other financial liabilities.

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# Notes to the Separate Financial Statements (Continued)

## 17 Share Capital

| *In millions of RR except for the number of shares* | Number of authorized shares | Number of outstanding shares | Ordinary shares | Share premium | Treasury shares | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2017** | **190,479,500** | **182,638,825** | **188** | **8,623** | **(1,473)** | **7,338** |
| GDRs buy-back | - | - | - | - | (397) | (397) |
| GDRs and shares transferred under MLTIP | - | - | - | - | 283 | 283 |
| **At 31 December 2017** | **190,479,500** | **182,638,825** | **188** | **8,623** | **(1,587)** | **7,224** |
| Increase of number 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** |

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. As at 31 December 2018 the total number of authorized shares is 191,770,766 shares (31 December 2017: 190,479,500 shares) with a par value of USD 0.04 per share (31 December 2017: USD 0.04 per share).

As at 31 December 2018 and 2017 treasury shares represent GDRs of the Group repurchased from the market for the purposes permitted by Cyprus law including contribution to MLTIP. During the year ended 31 December 2018 the Company purchased 2,094,126 GDRs at market price for RR 2,455 million (2017: 602,148 GDRs at market price for RR 397 million). Refer to Note 30. Information on dividends is disclosed in Note 23.

## 18 Interest income and expense

| *In millions of RR* | Note | 2018 | 2017 |
|---|---|---|---|
| **Interest income calculated using the effective interest rate method** | | | |
| Loans and deposit placement with related parties, including: | | | |
| Deposit placement with subsidiary Bank | | 46 | 9 |
| Subordinated loans to subsidiary Bank | | 32 | 65 |
| Loan to subsidiary | | - | 24 |
| Loan to other related party | | - | 7 |
| Debt securities and repurchase receivables at FVOCI | | 29 | - |
| Investment securities available for sale and repurchase receivables | | - | 15 |
| **Total Interest income calculated using the effective interest rate method** | | **107** | **120** |
| **Other similar income** | | | |
| Debt securities and repurchase receivables at FVTPL | 9 | 84 | 21 |
| **Total Interest Income** | | **191** | **141** |
| **Interest expense calculated using the effective interest rate method** | | | |
| Loans from subsidiary Bank | | 1,161 | 243 |
| Euro-Commercial Papers | | 124 | 3 |
| Loans from subsidiary company | | 104 | 30 |
| Other loans received | | 15 | 1 |
| **Total Interest expense calculated using the effective interest rate method** | | **1,404** | **277** |
| Net interest expense | | (1,213) | (136) |

## 19 Dividend income

On 27 December 2018 the Company accrued dividend income declared by the Insurance Company in the amount of RR 1,351 million.

## 20 Net Gains less Losses from Operations with Foreign Currencies

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Net gains less losses from derivative revaluation | 538 | 4 |
| Realised foreign exchange translation gains less losses from trading in foreign currencies | 195 | 46 |
| Foreign exchange translation (losses less gains)/gains less losses | (560) | 56 |
| **Net gains less losses from operations with foreign currencies** | **173** | **106** |

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# Notes to the Separate Financial Statements (Continued)

## 21 Administrative and Other Operating Expenses

| *In millions of RR* | Note | 2018 | 2017 |
|---|---|---|---|
| Enhanced exclusivity agreement expense | | 208 | 380 |
| Legal and consulting fees | | 92 | 77 |
| Audit and accountancy fees | 16 | 32 | 25 |
| Staff costs | | 10 | - |
| Taxes other than income tax | | - | 15 |
| Other administrative expenses | | 5 | 3 |
| **Total administrative and other operating expenses** | | **347** | **500** |

The total fees charged by the Company's statutory auditor for the statutory audit of the annual separate and separate financial statements of the Company for the year ended 31 December 2018 amounted to RR 2.7 million (2017: RR 2.1 mln). The total fees charged by the Company's statutory auditor for the year ended 31 December 2018 for other assurance services amounted to RR 4.7 million (2017: RR 3.8 million), for tax advisory services amounted to RR 5.7 million (2017: RR 1.1 million) and for other non-assurance services amounted to nil (2017: RR 1.7 million).

Included in staff costs are statutory social contributions to the non-budget funds and share-based remuneration:

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Statutory social contribution to the non-budget funds | 2 | - |

At 31 December 2018 there are 29 employees employed by the Company (31 December 2017: 1). The average number of employees employed by the Company during the reporting year was 23 (2017: 1).

## 22 Income Taxes

Income tax expense comprises the following:

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| Corporation tax | 19 | 3 |
| Overseas tax withheld at source | 67 | - |
| **Total income tax expense** | **86** | **3** |

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* | 2018 | 2017 |
|---|---|---|
| **Profit/(Loss) before income tax** | **63** | **(307)** |
| Theoretical tax charge/(credit) at statutory rate of 12.5% (2017: 12.5%) | 8 | (38) |
| Tax effect of expenses not deductible for tax purposes | 217 | 41 |
| Tax effect of allowances and income not subject to tax | (214) | - |
| Overseas tax withheld at source | 67 | - |
| Under provision of tax for prior year | 8 | - |
| **Income tax expenses for the year** | **86** | **3** |

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc.) are exempt from Cyprus income tax. At 31 December 2018 and 2017 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 2017 | Charged to OCI | 31 December 2018 |
|---|---|---|---|
| Investments in subsidiaries | (565) | (622) | (1,187) |
| **Net deferred tax liabilities** | **(565)** | **(622)** | **(1,187)** |

| *In millions of RR* | 31 December 2016 | Charged to OCI | 31 December 2017 |
|---|---|---|---|
| Investments in subsidiaries | - | (565) | (565) |
| **Net deferred tax liabilities** | **-** | **(565)** | **(565)** |

## 23 Dividends

The movements in dividends during the year are as follows:

| *In millions of RR* | 2018 | 2017 |
|---|---|---|
| **Dividends payable at 1 January** | 377 | **167** |
| Dividends declared during the year | 12,265 | 8,279 |
| Dividends paid during the year | (11,946) | (7,970) |
| Dividends paid under MLTIP after vesting date | (144) | (29) |
| Foreign exchange gain/(loss) on dividends payable | 208 | (70) |
| **Dividends payable at 31 December** | **760** | **377** |
| **Dividends per share declared during the year (in USD)** | **1.07** | **0.77** |
| **Dividends per share paid during the year (in USD)** | **1.07** | **0.77** |

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# Notes to the Separate Financial Statements (Continued)

## 23 Dividends (Continued)

Dividends declared during the year for the year ended 31 December 2018 in the table above represent dividends declared by the Board of Directors during the year ended 31 December 2018 decreased by RR 11 million of dividends on GDRs acquired by the Company from the market not for the purposes of existing MLTIP.

On 25 November 2018 the Board of Directors declared an interim dividend of RR 18.39 (USD 0.28) per share/per GDR amounting to RR 3,358 million (USD 51.1 million). Declared dividends were paid in USD in December 2018.

On 27 August 2018 the Board of Directors declared an interim dividend of RR 16.27 (USD 0.24) per share/per GDR amounting to RR 2,972 million (USD 43.9 million). Declared dividends were paid in USD in September 2018.

On 29 May 2018 the Board of Directors declared an interim dividend of RR 14.95 (USD 0.24) per share/per GDR amounting to RR 2,730 million (USD 43.8 million). Declared dividends were paid in USD in June 2018.

On 9 March 2018 the Board of Directors declared an interim dividend of RR 17.61 (USD 0.31) per share/per GDR amounting to RR 3,216 million (USD 56.6 million). Declared dividends were paid in USD in April 2018.

On 19 November 2017 the Board of Directors of the Group declared an interim dividend of RR 13.12 (USD 0.22) per share/per GDR amounting to RR 2,396 million (USD 40.2 million). At the same date a special interim dividend of RR 10.73 (USD 0.18) per share/per GDR amounting to RR 1,960 million (USD 32.9) million was declared. Declared dividends were paid in USD in December 2017.

On 28 August 2017 the Board of Directors of the Group declared an interim dividend of RR 11.83 (USD 0.20) per share/per GDR amounting to RR 2,161 million (USD 36.5 million). Declared dividends were paid in USD in September 2017.

On 29 May 2017 the Board of Directors of the Group declared a dividend of RR 9.65 (USD 0.17) per share/per GDR amounting to RR 1,762 million (USD 31.05 million). Declared dividends were paid in USD in June 2017.

Dividends were declared and paid in USD throughout the years ended 31 December 2018 and 2017.

Dividends payable at 31 December 2018 related to treasury shares acquired under MLTIP amounting to RR 760 million are included in other non-financial liabilities (2017: RR 377 million).

## 24 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 2017** | **-** | **772** | **772** |
| Cash flows | 2,819 | 7,301 | 10,120 |
| Foreign exchange adjustments | (50) | (9) | (59) |
| Other non-cash movements | - | (231) | (231) |
| **Net debt at 31 December 2017** | **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** |

## 25 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.

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# Notes to the Separate Financial Statements (Continued)

## 25 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) |
|---|---|
| Current | AAA to BB+ |
| Monitor | BB to B+ |
| Sub-standard | B, B- |
| Doubtful | CCC+ to CC- |
| NPL | C, D-I, D-II |

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Current* – strong credit quality with 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 |
|---|---|
| Current | Non-overdue |
| Monitor | 1-30 days overdue |
| Sub-standard | 31-90 days overdue |
| NPL | 90+ days overdue |

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Current* – strong 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 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 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.

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# Notes to the Separate Financial Statements (Continued)

## 25 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 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.

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 2018 | | | | At 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| *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 | 1,679 | (22,557) | (4,258) | (25,136) | 587 | (6,994) | (2,772) | (9,179) |
| US Dollars | 1,185 | (2,062) | 1,935 | 1,058 | 1,241 | (3,608) | 2,776 | 409 |
| EUR | 1 | (2,600) | 2,408 | (191) | 1 | (395) | - | (394) |
| **Total** | **2,865** | **(27,219)** | **85** | **(24,269)** | **1,829** | **(10,997)** | **4** | **(9,164)** |

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 2018 | | At 31 December 2017 | |
|---|---|---|---|---|
| *In millions of RR* | Pre-tax impact on profit or loss | Impact on equity | Pre-tax impact on profit or loss | Impact on equity |
| USD strengthening by 20% (2017: by 20%) | 212 | 212 | 82 | 82 |
| USD weakening by 20% (2017: by 20%) | (212) | (212) | (82) | (82) |
| EUR strengthening by 20% (2017: by 20%) | (38) | (38) | (79) | (79) |
| EUR weakening by 20% (2017: by 20%) | 38 | 38 | 79 | 79 |

***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 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 2017** | | | | | | |
| Total financial assets | 389 | - | - | 1,444 | 207,834 | 209,667 |
| Total financial liabilities | (591) | (1,301) | (3,017) | (6,088) | - | (10,997) |
| **Net interest sensitivity gap at 31 December 2017** | **(202)** | **(1,301)** | **(3,017)** | **(4,644)** | **207,834** | **198,670** |

At 31 December 2018 if interest rates at that date had been 200 basis points higher/lower (2017: 200 basis points higher/lower), with all other variables held constant, profit and equity would have been RR 455 million higher/lower (2017: RR 179 million higher/lower).

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# Notes to the Separate Financial Statements (Continued)

## 25 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 2018 and 2017 based on reports reviewed by key management personnel:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| *In % p.a.* | **RR** | **USD** | **EUR** | **RR** | **USD** | **EUR** |
| Assets | | | | | | |
| Cash and cash equivalents | - | - | - | 0.0 | 0.0 | - |
| Loans and deposit placement with related parties | | | | | | |
| *- Deposit placements with subsidiary Bank* | 8.5 | - | - | 13.0 | - | - |
| *- Subordinated loan to subsidiary Bank* | - | - | - | 15.4 | - | - |
| *- Loan to subsidiaries* | - | - | - | 9.3 | - | - |
| Investments in debt securities | - | 10.3 | - | - | - | - |
| Investment securities available for sale | - | - | - | - | 10.2 | - |
| Repurchase receivables | - | - | - | - | 10.9 | - |
| **Liabilities** | | | | | | |
| Loans received | 8.0 | 4.4 | - | 9.4 | 4.2 | - |
| Debt securities in issue | 9.8 | 4.4 | 1.4 | - | 4.2 | - |

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 28.

***Geographical risk concentrations.*** 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 advances to 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** |

The geographical concentration of the Company's financial assets and liabilities at 31 December 2017 is set out below:

| *In millions of RR* | **Russian Federation** | **OECD** | **Other Non-OECD** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 6 | 377 | 2 | 385 |
| Loans and advances to related parties | 581 | - | - | 581 |
| Financial derivatives | 4 | - | - | 4 |
| Investment securities available for sale | 207,887 | - | 12 | 207,899 |
| Repurchase receivables | - | - | 798 | 798 |
| **Total financial assets** | **208,478** | **377** | **812** | **209,667** |
| **Financial liabilities** | | | | |
| Loans received | 6,994 | - | 839 | 7,833 |
| Debt securities in issue | 2,769 | - | - | 2,769 |
| Other financial liabilities | 380 | - | 15 | 395 |
| **Total financial liabilities** | **10,143** | **-** | **854** | **10,997** |
| **Net separate statement of financial position** | **198,335** | **377** | **(42)** | **198,670** |

Assets and liabilities have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which it is 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 2018 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.

| *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** |

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# Notes to the Separate Financial Statements (Continued)

## 25 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2017 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 | 626 | 1,123 | 489 | 6,771 | 9,009 |
| Debt securities in issue | 10 | 47 | 2,825 | - | 2,882 |
| Financial derivatives | 2,772 | - | - | - | 2,772 |
| Other financial liabilities | - | 395 | - | - | 395 |
| **Total potential future payments for financial obligations** | **3,408** | **1,565** | **3,314** | **6,771** | **15,058** |

## 26 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.

***Transfers that did not qualify for derecognition of the financial asset in its entirety.***

The Company transferred financial assets in transactions that did not qualify for derecognition in the current periods as set out below.

***Sale and repurchase transactions.***

At 31 December 2017, the Company has investments in debt securities represented by perpetual corporate bonds of RR 798 million that are subject to obligation to repurchase the securities for a fixed pre-determined price. Refer to Note 14 for the carrying value of obligations from these sale and repurchase transactions.

The following schedule summarises transfers where the entity continues to recognise all of the transferred financial assets. The analysis is provided by class of financial assets.

| | | 31 December 2017 | |
|---|---|---|---|
| *In millions of RR* | Notes | Carrying amount of the assets | Carrying amount of the associated liabilities |
| Repurchase receivables | 12, 14 | 798 | 591 |
| **Total** | | **798** | **591** |

## 27 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 entered into by the Company. 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 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| *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: fair values, at the end of the reporting period, of** | | | | |
| - USD receivable on settlement (+) | 1,449 | 486 | 2,776 | - |
| - RR payable on settlement (-) | (1,415) | (487) | (2,772) | - |
| - EUR receivable on settlement (+) | 2,408 | - | - | - |
| - RR payable on settlement (-) | (2,356) | - | - | - |
| **Net fair value of foreign exchange forwards** | **86** | **(1)** | **4** | **-** |

## 28 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:

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# Notes to the Separate Financial Statements (Continued)

## 28 Fair Value of Financial Instruments (Continued)

| *In millions of RR* | 31 December 2018 Level 1 | Level 2 | Level 3 | Total | 31 December 2017 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets AT FAIR VALUE** | | | | | | | | |
| Financial derivatives | - | 86 | - | 86 | - | 4 | - | 4 |
| *Investments in debt securities* | 425 | - | - | 425 | - | - | - | - |
| Investments in equity securities | | | | | | | | |
| Investments in subsidiaries | - | 218,818 | - | 218,818 | - | - | - | - |
| Other investments in equity securities | - | - | 431 | 431 | - | - | - | - |
| Investment securities available for sale | - | - | - | - | 65 | 207,834 | - | 207,899 |
| Repurchase receivables | - | - | - | - | 798 | - | - | 798 |
| **Total assets recurring fair value measurements** | **425** | **218,904** | **431** | **219,760** | **863** | **207,838** | **-** | **208,701** |

Investments in subsidiaries are stated at fair value based on market valuation (2017: 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 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 namely the Bank and the Insurance company. 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** | | |

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2017 are as follows:

| *In millions of RR* | Fair value | Valuation technique | Inputs used |
|---|---|---|---|
| **ASSETS AT FAIR VALUE** | | | |
| Investments in subsidiaries | 207,834 | 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 namely the Bank and the Insurance company. 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 18.85 for 1 share at 31 December 2017; Market interest rates |
| Foreign exchange forwards | 4 | Discounted cash flows adjusted for counterparty credit risk | EUR curve. USD Dollar Swaps Curve. CDS quotes for assessment of counterparty credit risk or credit risk of reference entities |
| **Total recurring fair value measurements at level 2** | **207,838** | | |

There were no changes in the valuation techniques for level 2 recurring fair value measurements during the years ended 31 December 2018 and 2017. Level 2 derivatives comprise foreign exchange forwards.

At 31 December 2018 if market quote of GDR of the Company at that date had been 39% higher/lower (2017: 54% higher/lower), with all other variables held constant, the fair value of the investment in subsidiaries would have been RR 74,212 million higher/lower (2017: RR 107,083 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 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** | | |

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# Notes to the Separate Financial Statements (Continued)

## 28 Fair Value of Financial Instruments (Continued)

***(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 2018 | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| *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*** | | | | | | | | |
| Placement with Russian and UK banks | - | 760 | - | 760 | - | 377 | - | 377 |
| Placements with European banks | - | 1 | - | 1 | - | 2 | - | 2 |
| Placement with subsidiary bank | - | - | - | - | - | 6 | - | 6 |
| ***Loans and deposit placement with related parties*** | | | | | | | | |
| Deposit placement with subsidiary Bank | - | - | 411 | 379 | - | - | 162 | 131 |
| Subordinated loan to subsidiary Bank | - | - | - | - | - | - | 573 | 450 |
| Loan to subsidiary | - | - | - | - | - | - | - | - |
| **Other financial assets** | - | 1,300 | - | 1,300 | - | - | - | - |
| **Total financial assets carried at amortised cost** | **-** | **2,061** | **411** | **2,440** | **-** | **385** | **735** | **966** |
| **FINANCIAL LIABILITIES CARRIED AT AMORTISED COST** | | | | | | | | |
| Loans received | - | - | 22,362 | 23,243 | - | - | 7,317 | 7,833 |
| Debt securities in issue | - | 3,754 | - | 3,754 | - | 2,769 | - | 2,769 |
| Other financial liabilities | - | 222 | - | 222 | - | 395 | - | 395 |
| **Total financial liabilities carried at amortised cost** | **-** | **3,976** | **22,362** | **27,219** | **-** | **3,164** | **7,317** | **10,997** |

Weighted average discount rates used in determining fair value as of 31 December 2018 and 31 December 2017 depend on currency:

| *In % p.a.* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | - | - |
| Loans and advances to customers | | |
| *- Deposit placement with subsidiary Bank* | 6.0 | 7.6 |
| *- Subordinated loan to subsidiary Bank* | - | 7.6 |
| *- Loan to subsidiaries* | - | 7.6 |
| Investments in debt securities | 10.3 | - |
| Investment securities available for sale | - | 10.2 |
| Repurchase receivables | - | 10.9 |
| **Liabilities** | | |
| Loans received | 7.0 | 8.0 |
| Debt securities in issue | 2.6 | 4.2 |

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.

## 29 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. In addition, finance lease receivables form a separate category.

For the purposes of measurement at 31 December 2017, IAS 39 "Financial Instruments" classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

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# Notes to the Separate Financial Statements (Continued)

## 29 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) | FVTPL (designa-ted) | FVOCI | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | 761 | - | - | - | 761 |
| Loans and deposit placement with related parties: | | | | | |
| *Subordinated loan to subsidiary Bank* | - | - | - | - | - |
| *Deposit placement 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** |

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2017:

| *In millions of RR* | Loans and receivables | Held for trading | Available-for-sale assets | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 385 | - | - | 385 |
| Loans and deposit placement with related parties: | | | | |
| *Subordinated loan to subsidiary Bank* | 450 | - | - | 450 |
| *Deposit placement with subsidiary Bank* | 131 | - | - | 131 |
| *Loan to subsidiary* | - | - | - | - |
| Financial derivatives | - | 4 | - | 4 |
| Investment securities available for sale | - | - | 207,899 | 207,899 |
| Repurchase receivables | - | - | 798 | 798 |
| **Total financial assets** | **966** | **4** | **208,697** | **209,667** |

As of 31 December 2018 and 2017 all of the Company's financial liabilities were carried at amortised cost.

## 30 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 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| *In millions of RR* | Subsidiaries | Other related parties | Subsidiaries | Other related parties |
| **ASSETS** | | | | |
| Cash and cash equivalents | - | - | 6 | - |
| Loans and deposit placement with related parties (contractual interest rate 2018: from 0.1% to 14.4%, 2017: from 0.1% to 14.4%) | 379 | - | 581 | - |
| Financial derivatives | 86 | - | 4 | - |
| Investments in equity securities | 218,818 | 431 | - | - |
| Investments in subsidiaries | - | - | 207,834 | - |
| Other financial assets | 1,300 | - | - | - |
| **TOTAL ASSETS** | **220,583** | **431** | **208,425** | **-** |
| **LIABILITIES** | | | | |
| Loans from related parties (contractual interest rate 2018: from 4% to 7%, 2017: from 4% to 7% p.a.) | 22,447 | 796 | 6,994 | 248 |
| Debt securities in issue (discount: 4%) | - | 3,754 | - | 2,769 |
| Financial derivatives | 1 | - | - | - |
| Other financial liabilities | - | 208 | - | 380 |
| Other non-financial liabilities | - | 680 | - | 335 |
| **TOTAL LIABILITIES** | **22,448** | **5,438** | **6,994** | **3,484** |

Other related parties in the tables above are represented by entities which are under control of the Company's ultimate controlling party Oleg Tinkov.

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# Notes to the Separate Financial Statements (Continued)

## 30 Related Party Transactions (Continued)

The income and expense items with related parties were as follows:

| *In millions of RR* | 2018 Subsidiaries | 2018 Other related parties | 2017 Subsidiaries | 2017 Other related parties |
|---|---|---|---|---|
| Interest income calculated using the effective interest rate method | 78 | - | 98 | 7 |
| Interest expense calculated using the effective interest rate method | (1,265) | (139) | (273) | (4) |
| Enhanced exclusivity agreement expense | - | (208) | - | (380) |
| Credit loss allowance for loans | (19) | - | (52) | - |
| Dividend income | 1,351 | - | - | - |
| Gain on initial recognition of liabilities at rates below market | - | - | 275 | - |
| Net gains from operations with foreign currencies | 801 | (619) | 106 | - |
| Other comprehensive income: | | | | |
| Revaluation of investments in subsidiaries | 10,148 | - | 89,305 | - |

In 2018 the total remuneration of Directors listed in the Management Report amounted to RR 17,6 million (2017: RR 16 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. The maximum share capital attributable to the plan on launch was 4.1% of issued share capital at 31 March 2016.

On 8 February 2017 the Company granted shares to new participants in MLTIP and also granted additional shares to certain existing participants which resulted in an increase in total shares granted under MLTIP to 5.6% of issued share capital of the Company. For the purpose of the separate financial statements the grant date for newly added rewards is considered to be 8 February 2017, implementation date is 31 March 2017.

On 22 February 2018 the Company granted shares to new participants in MLTIP which resulted in an increase in total shares granted under MLTIP to 5.68% of issued share capital of the Company. For the purpose of the separate financial statements the grant date for newly added rewards is considered to be 22 February 2018, implementation date is 31 March 2018.

The total number of GDRs attributable to the Management according to MLTIP is 9,781 thousand as at 31 December 2018 (2017: 9,628 thousand).

Participants cannot own or exercise their shareholder rights over GDRs within MLTIP directly. Participants are entitled to the dividends, if any.

The fair value as at recognition dates of the equity-settled share-based payments (31 March 2016, 8 February 2017 and 22 February 2018) is determined on the basis of a market quote.

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 until 2022 for participants joining in 2016, then until 2023 for participants joining in 2017, and until 2024 for participants joining in 2018.

## 31 Events after the End of the Reporting Period

On 21 January 2019 the Company received dividends from the Bank in the amount of RR 9,501 million.

On 19 February 2019 the Company issued EUR denominated ECP with a nominal value of EUR 12 million with a discount of 1.25% maturing on 18 February 2020.

In March 2019 the Company acquired an additional stake in Kassir.ru.

On 11 March 2019 the Board of Directors declared an interim dividend in line with the current dividend policy of USD 0.32 per share/per GDR with a total amount allocated for dividend payment of around USD 58.4 million.

## 32 Accounting Policies Applicable before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows.

***Financial instruments – key measurement terms.*** Depending on their classification financial instruments are carried at fair value or amortised cost as described below. Refer to Note 3 for the definition of fair value and AC as well as for description of valuation techniques.

***Other securities at FVTPL.*** Other securities at FVTPL are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Company's key management personnel.

***Impairment of financial assets carried at amortised cost.*** Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- an instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Company obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in national or local economic conditions that impact the borrower;
- concession is granted by the Bank that would not have otherwise been given.

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# Notes to the Separate Financial Statements (Continued)

## 32 Accounting Policies Applicable before 1 January 2018 (Continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are re-negotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed.

This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows. Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The amount of uncollectible loan balance is estimated on a loan portfolio basis taking into account defaulted loans recovery statistics. In 2017 the Group refined the approach to determination of uncollectible loan balance as sufficient and appropriate loans recovery statistics has now been accumulated.

Gains or losses on disposal of impaired loans are recognized in the separate statement of profit or loss and other comprehensive income in the period when sale occurred.

***Investment securities available for sale.*** This classification includes investment securities which the Company intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Company's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

***Investment in subsidiaries.*** Investments in subsidiaries are carried in accordance with IAS 39 as assets available for sale and are carried at fair value. Dividends on these equity instruments are recognised in profit or loss for the year when the Company's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired.

The cumulative impairment loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income.

***Financial guarantees.*** Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee.

At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the guarantee at the end of each reporting period.

***Income and expense recognition.*** Interest income and expense are recorded for all debt instruments on an accruals 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, for example fees for evaluating creditworthiness, negotiating the terms of the instrument, for servicing of account, and cash withdrawals. 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 fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's original effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accruals 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.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

***Gain on initial recognition of liabilities at rates below market.*** Gain on initial recognition of liabilities at rates below market represents the difference between transaction price of instrument received from subsidiary Bank and other subsidiaries at non market terms and its fair value that is determined as present value of estimated future cash flows discounted at rates which are observable and is recognised in the separate statement of profit or loss and other comprehensive income.

# 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
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TCS GROUP HOLDING PLC
TINKOFF.RU/ENG