TCS Group Holding PLC

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

31 December 2019

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

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

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

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

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

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

Principal activities and nature of operations of the Group

1. The Group's principal activities are all undertaken within the Russian Federation and consist on-line retail banking operations, through its subsidiary JSC "Tinkoff Bank" (the "Bank"), and other operations through its subsidiaries, such us insurance operations through JSC "Tinkoff Insurance" (the "Insurance Company"), mobile services through LLC "Tinkoff Mobile" and asset management through LLC "Tinkoff Capital" (Note 1).

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

Changes in group structure

3. During 2019 the Group acquired an additional 40% shareholding in LLC "CloudPayments", a developer of online payment solutions in Russia, and increased its stake to 95%.

4. During 2019 the Bank founded an asset management company LLC "Tinkoff Capital" to manage investment mutual funds and non-state pension funds.

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

5. The Bank operates a flexible business model. Its virtual network enables it to quickly and easily increase business or slow down customer acquisition depending on the availability of funding and market conditions. The Bank's primary customer acquisition channels are Internet and Mobile, but it also uses Direct Sales Agents and partnerships (co-brands) to acquire new customers. These customer acquisition models, combined with the Bank's virtual network, afford it a geographic reach across all of Russia's regions resulting in a highly diversified portfolio.

6. During 2019 the Group completed a secondary public offering ("SPO") of its "class A" shares in the form of Global Depositary Receipts (GDRs) and raised its capital by USD 300 million. This provided the necessary capital to take advantage of the current profitable growth opportunities whilst maintaining sufficient capital buffers in the future (Note 1 and 20).

7. During 2019 the Company actively continued the development its call-center and software development services in Cyprus.

8. The key offerings of JSC "Tinkoff Insurance" are personal accident insurance, collective insurance against accidents and illnesses, travel insurance, motor vehicle insurance and property insurance, compulsory third party liability insurance (CTP) and voluntary third party liability insurance (VTP) (Note 24). The Insurance Company focuses on online sales.

9. In terms of financial performance the profit of the Group for the year ended 31 December 2019 was RR 36,123 million (2018: RR 27,122 million). This result is driven by two major continuing trends: the ongoing growth of the Group's consumer finance business and a growing contribution from the non-credit fees-and-commission business lines. Thus the Group continues to demonstrate an active growth of income from acquiring services. Net margin increased by 44.6% to RR 86,769 million (2018: increased by 30.2% to RR 59,992 million) on the back of credit and investment portfolio growth. The growth of the credit portfolio was driven not only by the credit cards loans but also by other types of loans, such as secured, cash and POS loans. The quality of loans continues to improve. The Group aims to diversify its credit portfolio by the extention of collateralised credit products which represents a business line with lower credit risks. The 90 days plus overdue loans ratio ("NPL") reduced to 9.1% as at 31 December 2019 (2018: 9.4%). The NPL coverage ratio reduced to 156% as at 31 December 2019 (2018: reduced to 164%). The Investment in debt securities portfolio increased by 35% and amounted to RR 135,178 million (2018: increased by 39.7% to RR 100,140 million). This growth has been fuelled by the continued development of the

debit cards and SME business lines. The Group continues to maintain a good quality and diversified securities portfolio. During the year the Bank developed the Tinkoff Investments product by increasing of the customer base and providing of new trading instruments to its clients. The Group's Insurance business continues to develop at a good pace. This year insurance premiums earned increased by 111.4% to RR 14,110 million (2018: increase by 144.0% to RR 6,674 million). The growth was as a result of a continuous development of auto (including CTP and VTP) and travel insurance, as well as the growth of personal accident insurance along with the credit portfolio and providing a wider coverage of insured risks.

Environmental matters

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

Human resources

11. Empowerment is an important ingredient in the success of our organization. To achive this, decision making is delegated to the levels deep below the management team, discussion, idea generation and exchange and transparency is actively promoted and encouraged and an open leadership style ensures that information can move freely. The Group utilizes all types of forums to promote continual dialogue – such as email, online chat rooms, flash meetings, as well as formalized meeting structures. The Group offers a clear far-reaching career path for its employees, a unique work environment and a fair and transparent compensation.

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

13. Prior to its IPO in 2013, the Group set up share-based management long term incentive plans ('MLTIP') as retention and motivational tools for key and senior managers. In March 2016, the Group announced a consolidated long-term management incentive and retention plan, covering around 50 key, senior and middle managers. In 2017, 2018 and 2019 the Group announced the expansion of the plan. The number of participants increased to over 80. Total target size of the MLTIP pool is 5.4% of the Group's share capital as at 31 December 2018 before the SPO (Note 20) . The plan is designed to align more closely managers' interests with those of shareholders to grow the Group's value. The plan is awarded over four years with each such annual award vesting over the subsequent three years. The Group believes that participation in its share capital is an effective motivation and retention tool. The new management incentive and retention plan now embraces more managers, for two main reasons: firstly, internal promotions as some employees were promoted to key managerial positions; and, secondly, as part of its expansion and transformation into a financial marketplace, the Group has hired a significant number of new managers to develop and manage new business lines and to strengthen internal controls, including cyber security.

Non-Financial Information and Diversity Statement

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

Principal risks and uncertainties

15. The Group's business and financial results are impacted by uncertainties and volatilities in the Russian economic environment.

16. The Group is subject to a number of principal risks which might adversely impact its performance. The principal activities of the Group are banking and insurance operations and so it is within this area that the principal risks occur. Management considers that those principal risks are financial risks, operational risks and legal risks. Financial risk comprises market risks (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

17. The Board has put in place arrangements to identify, evaluate and manage principal risks and uncertainties faced by the Group. The Group has an established risk management program that focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. This is overseen by a dedicated Risk Management function, which works with senior management of the operating companies in Russia as well as the Board of Directors in this area. The primary objectives of the financial risk management function are to establish acceptable risk limits, and then ensure that the exposures remain within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures that minimize operational and legal risks. The risk management strategy is established so as to identify, assess, monitor and manage the risks arising from Group's activities. These risks as well as other risks and uncertainties, which affect the Group and how these are managed, are presented in Notes 31 and 33 of the consolidated financial statements.

Contingencies

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

Future developments

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

Results

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

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

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

Share capital

22. In June 2019 the Company's shareholders approved a resolution to increase the authorised share capital to USD 8,401,385.92 by the creation of 18,263,882 new undesignated ordinary shares of nominal value USD 0.04 each. At 31 December 2019 the total number of authorised shares is 210,034,648 shares (31 December 2018: 191,770,766 shares) with a par value of USD 0.04 per share (31 December 2018: USD 0.04 per share).

23. On 2 July 2019 the Group announced the successful completion of the offering of 16,666,667 GDRs representing interests in its "class A" share on London Stock Exchange plc. raising aggregate gross proceeds of USD 300 million (RR 18,916 million) which would ensure the necessary capital to seize the current profitable growth opportunities whilst maintaining ample capital buffers in the future.

24. As at 31 December 2019 the number of issued "class A" shares is 119,291,268 and issued "class B" shares is 80,014,224 (31 December 2018: the number of issued "class A" shares is 96,239,291 and issued "class B" shares is 86,399,534).

Research and development activities

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

Treasury shares

26. At 31 December 2019 the Group held 4,185,166 (2018: 6,604,353) of its own GDRs, equivalent to approximately RR 3,164 million (2018: RR 3,670 million) and which represent 2.1% (2018: 3.6%) of the issued share capital.

27. Treasury shares are GDRs of TCS Group Holding Plc that are held by a special purpose trust which has been specifically created for the long-term incentive programme for the MLTIP (see Note 40 for further information).

28. The Group repurchased no GDRs in 2019 (2018: 2,094,126 GDRs at market price for RR 2,455 million representing 1.1% of the issued share capital).

29. During 2019 the Group transferred 2,419,187 GDRs (2018: 1,804,894 GDRs), representing 1.21% (2018: 1.0%) of the issued share capital, upon vesting under the MLTIP. This resulted in a transfer of RR 506 million (2018: RR 372 million) out of treasury shares to retained earnings.

Board of Directors

30. The members of the Board of Directors as of 31 December 2019 and at the date of this report are presented above. All served throughout the year ended 2019 and through to the date of these consolidated financial statements, except for Philippe Delpal, who retired from 16 August 2019.

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

Branches

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

Independent auditor

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

Going concern

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

Corporate Governance Statement

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

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

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

The Company's Home State is Cyprus.

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

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

Board of Directors

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

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

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

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

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

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

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

Committees of the Board of directors

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

Committees-current composition

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

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

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

Role of the Audit Committee

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

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

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

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

Role of the Remuneration Committee

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

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

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

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

Appointment, retirement, rotation and removal of directors

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

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

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

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

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

The office of director shall be vacated if the director:

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

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

Significant direct/indirect holdings

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

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

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

Financial reporting process

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

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

Internal Controls and Risk Management

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

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

Diversity policy

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

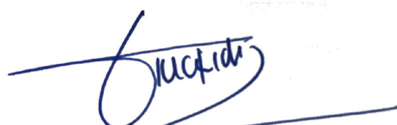
Recruitment, training and promotion are exclusively based on merit. All the Group employees involved in the recruitment and management of staff are responsible for ensuring the policy is fairly applied within their areas of responsibility. The Group applies this approach throughout, at all levels. This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

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

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

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

By Order of the Board



Constantinos Economides
Chairman of the Board
Limassol
10 March 2020

Independent Auditor's Report

To the Members of TCS Group Holding PLC

Report on the Audit of the Consolidated Financial Statements

Our opinion

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

What we have audited

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

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

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

Basis for opinion

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

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

Independence

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

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

PricewaterhouseCoopers Ltd is a private company registered in Cyprus (Reg. No.143594). Its registered office is at 3 Themistocles Dervis Street, CY-1066, Nicosia. A list of the company's directors, including for individuals the present and former (if any) name and surname and nationality, if not Cypriot and for legal entities the corporate name, is kept by the Secretary of the company at its registered office. PwC refers to the Cyprus member firm, PricewaterhouseCoopers Ltd and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

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Our audit approach

Overview

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

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

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

We have identified the following key audit matters:

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

Materiality

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

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

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

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

How we tailored our group audit scope

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

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

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

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

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

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

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

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

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

Reporting on other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

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

Consistency of the Additional Report to the Audit Committee

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

Provision of Non-audit Services

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

Other Legal Requirements

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

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

Other Matter

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

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

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

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

10 March 2020

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

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

Constantinos Economides
Director

Mary Trimithiotou
Director

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

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

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

1 Introduction

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

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

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

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

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

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

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

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

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

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

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

1 Introduction (Continued)

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

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

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

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

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

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

LLC "Phoenix" is a debt collection agency.

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

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

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

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

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

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

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

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

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

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

2 Operating Environment of the Group

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

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

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

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

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

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

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

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

3 Significant Accounting Policies

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

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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

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

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

The measurement of ECL reflects:

1) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;

2) the time value of money; and

3) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

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

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

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

1) A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 months ECL”).

2) If the Group identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“lifetime ECL”). Refer to Note 31 for a description of how the Group determines when a SICR has occurred.

3) If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL. Refer to Note 31 for a description of how the Group defines credit-impaired assets and default.

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

3 Significant Accounting Policies (Continued)

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.

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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.

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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.

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

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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.

3 Significant Accounting Policies (Continued)

They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates. For the insurance contracts with duration of less than one month and with automatic prolongation condition amortisation of one-off acquisition costs occurs over the period determined based on statistical assessment of duration of the insurance contract taking into account all of the expected future prolongations.

Insurance provisions

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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.

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

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

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

3 Significant Accounting Policies (Continued)

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

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

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

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

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

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

In millions of RR	**As originally presented**	**Reclassification**	**As reclassified**
Interest income calculated using the effective interest rate method	75,041	1,228	76,269
Interest expense calculated using the effective interest rate method	(15,106)	(453)	(15,559)
Customer acquisition expense	(13,100)	(1,122)	(14,222)
Insurance claims incurred	(1,968)	(158)	(2,126)
Administrative and other operating expenses	(23,023)	1,524	(21,499)
Fee and commission expense	(10,751)	(1,019)	(11,770)
Net (losses)/gains from operations with foreign currencies	10	371	381
Net (losses)/gains from derivatives revaluation	-	1,784	1,784
Net gains/(losses) from foreign exchange translation	-	(2,155)	(2,155)

3 Significant Accounting Policies (Continued)

The effect of changes described above on the consolidated statement of cash flows for the year ended 31 December 2018 is as follows:

In millions of RR	As originally presented	Reclassification	As reclassified
Interest income received calculated using the effective interest rate method	72,169	1,228	73,397
Interest expense paid calculated using the effective interest rate method	(14,240)	(453)	(14,693)
Customer acquisition expense paid	(14,419)	(1,122)	(15,541)
Administrative and other operating expenses paid	(22,451)	1,524	(20,927)
Fees and commissions paid	(10,569)	(1,019)	(11,588)
Cash (paid)/received from operations with foreign currencies	2,962	(2,581)	381
Cash (paid)/received from operations with derivatives	-	2,581	2,581
Premiums received from insurance operations	-	7,044	7,044
Claims paid from insurance operations	-	(2,050)	(2,050)
Cash received from insurance operations	5,152	(5,152)	-

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement. Calculation and measurement of ECLs is an area of significant judgement and involves methodology, models and data inputs. The following components of ECL calculation have a major impact on credit loss allowance: probability of default ("PD") (impacted by definition of default, SICR, forward-looking scenarios and theirs weights) and loss given default ("LGD"). Refer to Note 31 for explanation of terms. The Group regularly reviews and validates models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Refer to Note 31 for further information on ECL measurement.

If a 100% weight is applied to the optimistic macroeconomic forward-looking scenario the ECL will be RR 2,797 million lower (2018: RR 821 million lower). If a 100% weight is applied to the pessimistic macroeconomic forward-looking scenario the ECL will be RR 3,000 million higher (2018: RR 1,328 million higher).

An increase or decrease in PDs by 1% compared to PDs used in the ECL estimates calculated at 31 December 2019 would result in an increase or decrease in credit loss allowances of RR 2,092 million (2018: RR 1,598 million).

An increase or decrease in LGDs by 1% compared to LGDs used in the ECL estimates calculated at 31 December 2019 would result in an increase or decrease in credit loss allowances of RR 462 million (2018: RR 372 million).

During 2019 as a result of the accumulation of further statistics on the recoveries of the defaulted loans in courts the Group increased the period over which the recoveries are analysed for the purposes of LGD calculation for loans in courts. The Group recorded this change in 2019 as a decrease in the amount of credit loss allowances of RR 47 million.

During 2019 the Group made changes to the methodology of estimation of the PD of new originated credit cards loans and introduced application PD model instead of default rate model. The Group recorded this change in 2019 as a decrease in the amount of credit loss allowances of RR 212 million for credit card loans and of RR 163 million for credit related commitments.

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

During 2019 the Group improved the way how forward-looking information is incorporated in the ECL models by including an additional economic variable. The Group recorded this change in 2019 as a decrease in the amount of credit loss allowances of RR 201 million.

During 2018 as a result of the accumulation of reliable statistics of the recoveries of the defaulted credit card loans, cash loans, POS loans the Group increased the period over which the recoveries are analysed for the purposes of LGD calculation for these loans. The Group recorded these changes in 2018 as a decrease in the amount of credit loss allowances of RR 261 million.

Credit exposure on revolving credit facilities. For credit card loans, the Group's exposure to credit losses extends beyond the maximum contractual period of the facility. For such facilities the Group measures ECLs over the period that the Group is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this approach requires judgement: determining a period for measuring ECLs – the Group considers historical information and experience about: (a) the length of time for related defaults to occur on similar financial instruments following a SICR and (b) the credit risk management actions that the Group expects to take once the credit risk has increased (e.g. the reduction or removal of undrawn limits).

For details of the period over which the Group is exposed to credit risk on revolving facilities and which is used as an approximation of lifetime period for ECL calculation for stage 2 and stage 3 loans and advances to customers, refer to Note 31.

Perpetual subordinated bonds. A perpetual subordinated bond issue in June 2017 was initially recognised in the amount of USD 295.8 million (RR 16.9 billion) represented by the funds received from investors less issuance costs. Subsequent measurement of this instrument is consistent with the accounting policy for debt securities in issue. Interest expense on the instrument is calculated using the effective interest rate method and recognised in profit or loss for the year.

In the event the accrued interest is paid, the payment decreases the balance of the liability. A cancellation of accrued interest for a given period results in its conversion, at the Group's option, into equity and therefore the respective amount of the liability is reclassified to equity. Foreign exchange translation gains and losses on the bond are recognised in profit or loss for the period. Application of this approach requires judgement: the Group has taken into consideration that there are genuine contingent settlement provisions that could arise and as such has classified the perpetual subordinated bond instrument in its entirety as a liability, rather than equity, on the basis of terms of issue which stipulate the possible redemption of the instrument in several cases other than liquidation of the issuer. If the Group had recognized this instrument as equity, then interest expense would only have been recognized when it was paid and treated as a distribution from equity rather than an expense in profit or loss.

The Group also from time to time invests in perpetual subordinated bonds issued by third parties. The Group has taken into consideration that there are genuine contingent settlement provisions that could arise and as such has classified the investments in perpetual subordinated bonds as investments in debt securities on the basis of terms of issue which stipulate the possible redemption of the instrument in several cases other than liquidation of the issuer.

The investments in these instruments are classified as debt investment securities measured at FVTPL since the analysis of the contractual cash flow characteristics resulted in acquired perpetual bonds not passing SPPI test. If the Group had recognized this instrument as equity instrument, then it could have been measured at FVTPL or FVOCI as the Group does not hold it for trading purposes.

Interest income recognition. The effective interest method incorporates significant assumptions around expected loan lives as well as judgements of type of fees and costs that are included in interest income. Refer to Note 3.

Unbundling of loans and insurance products. Certain loans issued by the Group are forgivable upon events such as the borrower's death, or the borrower becoming unemployed because the Insurance Company's products cover repayments of the related loan products issued by the Bank in such cases. The Group is able to measure the loans separately and, as well as being able to take a loan without insurance at the time of issuance, the borrowers can cancel the insurance products at any time, separately from the loan. Accordingly, the Group unbundled the loans from the overall arrangement.

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

The portion of the fee attributable to the insurance component is recognised within Insurance premiums earned line (refer to Note 24). The remaining portion of the fee approximates a fee that would have been earned on market terms for selling third party insurance products and it is recognised as fee for selling credit protection within Fee and commission income line (refer to Note 22).

Tax legislation. Russian and Cypriot tax, currency and customs legislation are subject to varying interpretations. Refer to Note 33.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The Group has adopted IFRS 16 with a date of transition of 1 January 2019 and applied the standard using the modified retrospective method, without restatement of comparatives (Note 3). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

The Group recognised a right of use asset of RR 1,671 million against a corresponding lease liability on 1 January 2019. Right-of-use assets are mainly represented by leases of office premises. A reconciliation of the operating lease commitments to this liability is as follows:

In millions of RR	**1 January 2019**
Legally non-cancellable minimum operating lease commitments	829
Additional lease commitments which relate to the inforceable period of lease	1,288
Lease payments under operating lease (based on requirements of IFRS 16)*	**2,117**
Recognition exemption: the underlying asset is of low value	(216)
Future lease payments under IFRS 16	**1,901**
Effect of discounting (the weighted average incremental borrowing rate used 7.6%)	(236)
Lease liabilities under IFRS 16	**1,665**
Amount of prepayments and irrevocable security payments on agreements	6
Right-of-use assets under IFRS 16	**1,671**

* The amount of lease payments under operating lease as at 1 January 2019 presented above differs from the amount of operating lease commitments disclosed in the Note 36 to the consolidated financial statements of the Group for the year ended 31 December 2018 because the amount of operating lease commitments disclosed in the Note 36 to the consolidated financial statements of the Group for the year ended 31 December 2018 included only legally non-cancellable minimum operating lease commitments (based on termination notice in lease contracts), while the above table includes those lease commitments which relate to the enforceable period of lease based on the requirements of IFRS 16 and the IFRIC Agenda decision about the lease term.

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

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

6 New Accounting Pronouncements

Certain new amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2020:

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)*. IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of IFRS 17 on the insurance contracts issued by the Insurance Company as well as the impact for credit cards and similar loan products which may include insurance component.

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

(a) Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

(b) Amendments to IFRS 3: Definition of a business (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)*.

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

6 New Accounting Pronouncements (Continued)

(d) Amendments to IAS 1: Classification of liabilities as current or non-current (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022)*.

(e) Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an Investor and its associate or joint venture (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)*.

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

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

7 Cash and Cash Equivalents

In millions of RR	**31 December 2019**	**31 December 2018**
Cash on hand	11,118	5,839
Cash balances with the CBRF (other than mandatory reserve deposits)	16,599	11,158
Placements with other banks with original maturities of less than three months:		
- AA- to AA+ rated	2,302	1,130
- A- to A+ rated	599	761
- BBB- to BBB+ rated	1,430	1,317
- BB- to BB+ rated	503	360
- B- to B+ rated	67	114
- CCC+ rated	2	-
Non-bank credit organizations:		
- BBB- to BBB+ rated	21,096	12,137
- Unrated	4,080	986
Total Cash and Cash Equivalents	**57,796**	**33,802**

Cash on hand includes cash balances in ATMs and cash balances in transit. Placements with other banks and organizations with original maturities of less than three months include placements under reverse sale and repurchase agreements in the amount of RR 20,681 million as at 31 December 2019 (31 December 2018: RR 11,147 million). The Group has a right to sell or repledge securities received under reverse sale and repurchase agreements.

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019:

In millions of RR	**Cash balances with the CBRF**	**Placements with other banks and non-bank credit organizations**	**Total**
Excellent	-	2,901	2,901
Good	16,599	23,031	39,630
Monitor	-	4,145	4,145
Doubtful	-	2	2
Total cash and cash equivalents, excluding cash on hand	**16,599**	**30,079**	**46,678**

7 Cash and Cash Equivalents (Continued)

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018:

In millions of RR	Cash balances with the CBRF	Placements with other banks and non-bank credit organizations	Total
Excellent	-	1,891	1,891
Good	11,158	13,789	24,947
Monitor	-	1,018	1,018
Sub-standard	-	107	107
Total cash and cash equivalents, excluding cash on hand	**11,158**	**16,805**	**27,963**

The carrying amount of cash and cash equivalents at 31 December 2019 and 2018 also represents the Group's maximum exposure to credit risk on these assets. Refer to Note 31 for the description of the Group's credit risk grading system.

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an immaterial amount, therefore the Group did not recognise any credit loss allowance for cash and cash equivalents. Except for reverse sale and repurchase agreements, amounts of cash and cash equivalents are not collateralised. As at 31 December 2019 the fair value of collateral under reverse sale and repurchase agreements was RR 22,369 million (31 December 2018: RR 12,389 million). There is no material impact of collateral on credit loss allowance for cash and cash equivalents. Refer to Note 38 for the disclosure of the fair value of cash and cash equivalents. ECL measurement approach, interest rate, maturity and geographical risk concentration analysis of cash and cash equivalents are disclosed in Note 31.

8 Due from Other Banks

In millions of RR	31 December 2019	31 December 2018
Placements with other banks with original maturities of more than three months		
- BBB- rated	204	210
- BB- to BB+ rated	1,419	128
- B- to B+ rated	461	438
Total due from other banks	**2,084**	**776**

The table below discloses the credit quality of due from banks balances based on credit risk grades:

In millions of RR	31 December 2019	31 December 2018
Good	1,577	338
Monitor	507	438
Total due from other banks	**2,084**	**776**

The carrying amount of due from other banks at 31 December 2019 and 2018 also represents the Group's maximum exposure to credit risk on these assets. Refer to Note 31 for the description of credit risk grading system used by the Group. For the purpose of ECL measurement due from other banks balances are included in Stage 1.

8 Due from Other Banks (Continued)

The ECL for these balances represents an immaterial amount, therefore the Group did not create any credit loss allowance for due from other banks. Refer to Note 31 for the ECL measurement approach. Refer to Note 38 for the disclosure of the fair value of due from other banks. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 31.

9 Loans and Advances to Customers

	31 December 2019			31 December 2018		
In millions of RR	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Credit card loans	244,937	(44,129)	200,808	177,990	(33,296)	144,694
Cash loans	62,265	(8,029)	54,236	35,495	(2,331)	33,164
Secured loans	29,601	(496)	29,105	2,644	(16)	2,628
POS loans	25,940	(1,057)	24,883	15,380	(460)	14,920
Car loans	20,156	(913)	19,243	2,838	(85)	2,753
Loans to IE and SME	1,013	(113)	900	363	(33)	330
Total loans and advances to customers at AC	**383,912**	**(54,737)**	**329,175**	**234,710**	**(36,221)**	**198,489**

Credit cards are issued to customers for cash withdrawals or payment for goods or services, within the range of limits established by the Bank. These limits may be increased or decreased from time-to-time based on management decision. Credit card loans are not collateralized.

Cash loans represent a product for the borrowers who have a positive credit history and who do not have overdue loans in other banks. Cash loans are loans provided to customers via the Bank's debit cards. These loans are available for withdrawal without commission.

POS ("Point of sale") loans represent POS lending through the Bank's programme "POS loans". This programme funds online and offline purchases through internet and offline shops for individual borrowers.

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

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

Loans to IE and SME represent loans provided by the Bank to individual entrepreneurs and small and medium businesses for the purpose of working capital management.

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors. The main movements in the tables presented below are described as follows:

- new originated or purchased category represents the gross carrying amounts and the related ECL of purchased loans and loans issued during the reporting period (and withdrawals of limits of new credit card borrowers) as at the end of the reporting period or as at the date of transfer of loan out of stage 1 (whichever date is earlier);
- transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL. Transfers present the amount of credit loss allowance charged or recovered at the moment of transfer of a loan among the respective stages;
- changes to ECL measurement model assumptions and estimates represent movements due to changes in PDs, EADs and LGDs models during the period;
- movements other than transfers and new originated or purchased loans category represent all other movements of ECL in particular related to changes in gross carrying amounts (including drawdowns, repayments, and accrued interest), as well as changes in ECL model assumptions including those arising from update of inputs to ECL model in the period;

9 Loans and Advances to Customers (Continued)

- write-offs of allowances are related to assets that were written-off during the period;
- unwinding of discount (for Stage 3) category represents adjustment to credit loss allowance and gross carrying amount for Stage 3 loans to increase it to discounted amount of the expected cash shortfalls to the reporting date using the effective interest rate.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers between the beginning and the end of the reporting and comparative periods:

	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)**	**Purchased/ originated credit impaired**	**Total**
Credit card loans									
At 31 December 2018	**9,266**	**4,708**	**19,322**	**33,296**	**145,732**	**6,654**	**25,497**	**107**	**177,990**
Movements with impact on credit loss allowance charge for the year:									
New originated or purchased	5,356	-	-	5,356	63,177	-	-	241	63,418
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(2,478)	6,097	-	3,619	(11,142)	11,142	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(4,644)	(4,111)	21,348	12,593	(21,206)	(5,322)	26,528	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	233	(756)	(21)	(544)	1,101	(1,077)	(24)	-	-
									-
Changes to ECL measurement model assumptions and estimates	(387)	-	(26)	(413)	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	4,358	915	(4,267)	1,006	20,134	35	(5,771)	(12)	14,386
Total movements with impact on credit loss allowance charge for the year	**2,438**	**2,145**	**17,034**	**21,617**	**52,064**	**4,778**	**20,733**	**229**	**77,804**
Movements without impact on credit loss allowance charge the year									
Unwinding of discount (for Stage 3)	-	-	3,133	3,133	-	-	3,133	-	3,133
Write-offs	-	-	(10,999)	(10,999)	-	-	(10,999)	-	(10,999)
Sales	-	-	(986)	(986)	-	-	(1,059)	-	(1,059)
Modification of original cash flows without derecognition	-	-	(1,932)	(1,932)	-	-	(1,932)	-	(1,932)
At 31 December 2019	**11,704**	**6,853**	**25,572**	**44,129**	**197,796**	**11,432**	**35,373**	**336**	**244,937**

9 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount				
In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Purchased/ originated credit impaired**	**Total**
Credit card loans									
At 1 January 2018	**9,064**	**5,319**	**21,689**	**36,072**	**121,988**	**6,958**	**25,598**	**42**	**154,586**
Movements with impact on credit loss allowance charge for the year									
New originated or purchased	2,884	-	-	2,884	34,791	-	-	94	34,885
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(1,647)	4,319	-	2,672	(6,465)	6,465	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,063)	(4,636)	16,804	9,105	(13,933)	(5,569)	19,502	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	295	(930)	(29)	(664)	1,216	(1,184)	(32)	-	-
Changes to ECL measurement model assumptions and estimates	(19)	(9)	(257)	(285)	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	1,752	645	(3,245)	(848)	8,135	(16)	(3,902)	(29)	4,188
Total movements with impact on credit loss allowance charge for the year	**202**	**(611)**	**13,273**	**12,864**	**23,744**	**(304)**	**15,568**	**65**	**39,073**
Movements without impact on credit loss allowance charge for the year									
Unwinding of discount (for Stage 3)	-	-	3,098	3,098	-	-	3,098	-	3,098
Write-offs	-	-	(16,899)	(16,899)	-	-	(16,899)	-	(16,899)
Sales	-	-	(395)	(395)	-	-	(424)	-	(424)
Modification of original cash flows without derecognition	-	-	(1,444)	(1,444)	-	-	(1,444)	-	(1,444)
At 31 December 2018	**9,266**	**4,708**	**19,322**	**33,296**	**145,732**	**6,654**	**25,497**	**107**	**177,990**

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance				Gross carrying amount				
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Purchased/ originated credit impaired**	**Total**
Cash loans									
At 31 December 2018	**1,116**	**545**	**670**	**2,331**	**32,651**	**1,776**	**767**	**301**	**35,495**
Movements with impact on credit loss allowance charge for the year:									
New originated or purchased	2,628	-	-	2,628	44,199	-	-	422	44,621
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(587)	2,960	-	2,373	(5,663)	5,663	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(897)	(528)	3,927	2,502	(3,536)	(699)	4,235	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	14	(78)	-	(64)	408	(408)	-	-	-
Changes to ECL measurement model assumptions and estimates	(22)	-	(1)	(23)	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	106	(1,017)	193	(718)	(16,134)	(1,298)	676	(87)	(16,843)
Total movements with impact on credit loss allowance charge for the year	**1,242**	**1,337**	**4,119**	**6,698**	**19,274**	**3,258**	**4,911**	**335**	**27,778**
Movements without impact on credit loss allowance charge the year									
Unwinding of discount (for Stage 3)	-	-	138	138	-	-	138	-	138
Write-offs	-	-	(524)	(524)	-	-	(524)	-	(524)
Sales	-	-	(114)	(114)	-	-	(122)	-	(122)
Modification of original cash flows without derecognition	-	-	(500)	(500)	-	-	(500)	-	(500)
At 31 December 2019	**2,358**	**1,882**	**3,789**	**8,029**	**51,925**	**5,034**	**4,670**	**636**	**62,265**

9 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount				
In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Purchased/ originated credit impaired**	**Total**
Cash loans									
At 1 January 2018	**268**	**151**	**156**	**575**	**6,478**	**438**	**161**	**177**	**7,254**
Movements with impact on credit loss allowance charge for the year									
New originated or purchased loans	1,255	-	-	1,255	32,010	-	-	144	32,154
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(162)	968	-	806	(1,953)	1,953	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(147)	(129)	673	397	(549)	(156)	705	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	4	(23)	-	(19)	96	(96)	-	-	-
Changes to ECL measurement model assumptions and estimates	8	3	(2)	9	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	(110)	(425)	157	(378)	(3,431)	(363)	214	(20)	(3,600)
Total movements with impact on credit loss allowance charge for the year	**848**	**394**	**827**	**2,069**	**26,173**	**1,338**	**919**	**124**	**28,554**
Movements without impact on credit loss allowance charge for the year									
Unwinding of discount (for Stage 3)	-	-	43	43	-	-	43	-	43
Write-offs	-	-	(256)	(256)	-	-	(256)	-	(256)
Sales	-	-	(19)	(19)	-	-	(19)	-	(19)
Modification of original cash flows without derecognition	-	-	(81)	(81)	-	-	(81)	-	(81)
At 31 December 2018	**1,116**	**545**	**670**	**2,331**	**32,651**	**1,776**	**767**	**301**	**35,495**

9 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Secured Loans								
At 31 December 2018	**15**	**1**	**-**	**16**	**2,641**	**3**	**-**	**2,644**
Movements with impact on credit loss allowance charge for the year:								
New originated or purchased	168	-	-	168	27,907	-	-	27,907
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(23)	499	-	476	(2,141)	2,141	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(6)	-	81	75	(203)	-	203	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	1	(1)	-	-
Movements other than transfers and new originated or purchased loans	(4)	(236)	6	(234)	(839)	(106)	-	(945)
Total movements with impact on credit loss allowance charge for the year	**135**	**263**	**87**	**485**	**24,725**	**2,034**	**203**	**26,962**
Movements without impact on credit loss allowance charge the year								
Unwinding of discount (for Stage 3)	-	-	3	3	-	-	3	3
Modification of original cash flows	-	-	(8)	(8)	-	-	(8)	(8)
At 31 December 2019	**150**	**264**	**82**	**496**	**27,366**	**2,037**	**198**	**29,601**
Secured loans								
At 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	15	-	-	15	2,644	-	-	2,644
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	1	-	1	(3)	3	-	-
Total movements with impact on credit loss allowance charge for the year	**15**	**1**	**-**	**16**	**2,641**	**3**	**-**	**2,644**
At 31 December 2018	**15**	**1**	**-**	**16**	**2,641**	**3**	**-**	**2,644**

9 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount				
In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Purchased/ originated credit impaired**	**Total**
POS loans									
At 31 December 2018	**190**	**81**	**189**	**460**	**14,560**	**505**	**210**	**105**	**15,380**
Movements with impact on credit loss allowance charge for the year:									
New originated or purchased	357	-	-	357	23,779	-	-	145	23,924
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(61)	479	-	418	(1,673)	1,673	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(71)	(92)	614	451	(518)	(137)	655	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	1	(7)	-	(6)	112	(112)	-	-	-
Changes to ECL measurement model assumptions and estimates	(15)	(7)	(1)	(23)	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	(103)	(264)	(61)	(428)	(12,229)	(876)	(34)	(52)	(13,191)
Total movements with impact on credit loss allowance charge for the year	**108**	**109**	**552**	**769**	**9,471**	**548**	**621**	**93**	**10,733**
Movements without impact on credit loss allowance charge the year									
Unwinding of discount (for Stage 3)	-	-	19	19	-	-	19	-	19
Write-offs	-	-	(131)	(131)	-	-	(131)	-	(131)
Sales	-	-	(23)	(23)	-	-	(24)	-	(24)
Modification of original cash flows without derecognition	-	-	(37)	(37)	-	-	(37)	-	(37)
At 31 December 2019	**298**	**190**	**569**	**1,057**	**24,031**	**1,053**	**658**	**198**	**25,940**

9 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount				
In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Purchased/ originated credit impaired	Total
POS loans									
At 1 January 2018	**133**	**46**	**125**	**304**	**4,462**	**162**	**129**	**57**	**4,810**
Movements with impact on credit loss allowance charge for the year									
New originated or purchased	217	-	-	217	14,620	-	-	30	14,650
Transfers:									
- to lifetime (from Stage 1 to Stage 2)	(30)	236	-	206	(710)	710	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(31)	(41)	196	124	(151)	(56)	207	-	-
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	1	(4)	-	(3)	28	(28)	-	-	-
Changes to ECL measurement model assumptions and estimates	4	2	-	6	-	-	-	-	-
Movements other than transfers and new originated or purchased loans	(104)	(158)	17	(245)	(3,689)	(283)	23	18	(3,931)
Total movements with impact on credit loss allowance charge for the year	**57**	**35**	**213**	**305**	**10,098**	**343**	**230**	**48**	**10,719**
Movements without impact on credit loss allowance charge for the year									
Unwinding of discount (for Stage 3)	-	-	21	21	-	-	21	-	21
Write-offs	-	-	(151)	(151)	-	-	(151)	-	(151)
Sales	-	-	(11)	(11)	-	-	(11)	-	(11)
Modification of original cash flows without derecognition	-	-	(8)	(8)	-	-	(8)	-	(8)
At 31 December 2018	**190**	**81**	**189**	**460**	**14,560**	**505**	**210**	**105**	**15,380**

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Car Loans								
At 31 December 2018	**56**	**25**	**4**	**85**	**2,754**	**78**	**6**	**2,838**
Movements with impact on credit loss allowance charge for the year:								
New originated or purchased	469	-	-	469	18,238	-	-	18,238
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(98)	466	-	368	(1,087)	1,087	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(72)	(23)	248	153	(320)	(34)	354	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	(4)	-	(3)	24	(24)	-	-
Changes to ECL measurement model assumptions and estimates	(1)	-	-	(1)	-	-	-	-
Movements other than transfers and new originated or purchased loans	13	(179)	(1)	(167)	(884)	(47)	2	(929)
Total movements with impact on credit loss allowance charge for the year	**312**	**260**	**247**	**819**	**15,971**	**982**	**356**	**17,309**
Movements without impact on credit loss allowance charge the year								
Unwinding of discount (for Stage 3)	-	-	12	12	-	-	12	12
Modification of original cash flows	-	-	(3)	(3)	-	-	(3)	(3)
At 31 December 2019	**368**	**285**	**260**	**913**	**18,725**	**1,060**	**371**	**20,156**

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Car loans								
At 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	64	-	-	64	2,839	-	-	2,839
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(7)	31	-	24	(80)	80	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1)	-	4	3	(6)	-	6	-
Movements other than transfers and new originated 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**

9 Loans and Advances to Customers (Continued)

In millions of RR	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 ifetime ECL for credit impaired)	Total
Loans to IE and SME								
At 31 December 2018	**13**	**10**	**10**	**33**	**332**	**21**	**10**	**363**
Movements with impact on credit loss allowance charge for the year:								
New originated or purchased	13	-	-	13	301	-	-	301
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(4)	26	-	22	(58)	58	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(8)	(7)	44	29	(39)	(8)	47	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-	1	(1)	-	-
Movements other than transfers and new originated or purchased loans	43	(19)	(13)	11	403	(49)	(10)	344
Total movements with impact on credit loss allowance charge for the year	**44**	**-**	**31**	**75**	**608**	**-**	**37**	**645**
Movements without impact on credit loss allowance charge the year								
Unwinding of discount (for Stage 3)	-	-	5	5	-	-	5	5
Modification of original cash flows	-	-	-	-	-	-	-	-
At 31 December 2019	**57**	**10**	**46**	**113**	**940**	**21**	**52**	**1,013**
Loans to IE and SME								
At 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movements with impact on credit loss allowance charge for the year								
New originated or purchased	8	-	-	8	155	-	-	155
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(3)	11	-	8	(25)	25	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	10	10	(10)	-	10	-
Movements other than transfers and new originated or purchased loans	8	(1)	-	7	212	(4)	-	208
Total movements with impact on credit loss allowance charge for the year	**13**	**10**	**10**	**33**	**332**	**21**	**10**	**363**
At 31 December 2018	**13**	**10**	**10**	**33**	**332**	**21**	**10**	**363**

9 Loans and Advances to Customers (Continued)

The credit loss allowance charge during the year ended 31 December 2019 presented in the tables above differs from the amount presented in the consolidated statement of profit or loss and other comprehensive income for the year due to RR 3,420 million (2018: RR 4,083 million) recovery of amounts previously written-off as uncollectible, and due to RR 201 million (2018: RR 318 million) charge of ECL for credit related commitments.

The amount of the recovery from written-off loans received during the year was credited directly to the credit loss allowance line in the consolidated statement of profit or loss and other comprehensive income.

The contractual amount outstanding of loans and advances to customers which were written off during the reporting period ended 31 December 2019 and are still subject to enforcement activity is equal to RR 10,095 million (reporting period ended 31 December 2018: RR 16,294 million).

The amount of the ECL for credit related commitments is accounted separately from ECL for credit cards loans and is included in other financial liabilities in the consolidated statement of financial position.

During the year ended 31 December 2019 the Group sold credit-impaired loans to third parties (external debt collection agencies) with a gross amount of RR 1,205 million (2018: RR 454 million) and credit loss allowance of RR 1,123 million (2018: RR 425 million). The difference between the carrying amount of these loans and the consideration received was recognised as losses in the amount of RR 73 million within credit loss allowance for loans and advances to customers and credit related commitments for the year ended 31 December 2019 (2018: losses in the amount of RR 7 million).

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

In units	**31 December 2019**	**31 December 2018**
Credit card limits		
Up to 20 RR thousand	781,128	651,290
20-40 RR thousand	482,343	443,659
40-60 RR thousand	451,425	423,030
60-80 RR thousand	455,978	427,986
80-100 RR thousand	440,139	361,803
100-120 RR thousand	322,726	285,574
120-140 RR thousand	365,750	341,017
140-200 RR thousand	772,992	402,002
More than 200 RR thousand	180,731	109,482
Total number of cards (in units)	**4,253,212**	**3,445,843**

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

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans.

9 Loans and Advances to Customers (Continued)

Loans and advances to customers at 31 December 2019 are disclosed as follows:

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Purchased/ originated credit impaired	Total
Credit card loans					
- Excellent	87,716	-	-	-	87,716
- Good	102,020	1,582	-	-	103,602
- Monitor	8,060	3,722	-	-	11,782
- Sub-standard	-	6,128	6,661	-	12,789
- NPL	-	-	28,712	336	29,048
Gross carrying amount	**197,796**	**11,432**	**35,373**	**336**	**244,937**
Credit loss allowance	(11,704)	(6,853)	(25,572)	-	(44,129)
Carrying amount	**186,092**	**4,579**	**9,801**	**336**	**200,808**
Cash loans					
- Excellent	34,258	-	-	-	34,258
- Good	17,321	3,315	-	-	20,636
- Monitor	346	585	-	-	931
- Sub-standard	-	1,134	758	-	1,892
- NPL	-	-	3,912	636	4,548
Gross carrying amount	**51,925**	**5,034**	**4,670**	**636**	**62,265**
Credit loss allowance	(2,358)	(1,882)	(3,789)	-	(8,029)
Carrying amount	**49,567**	**3,152**	**881**	**636**	**54,236**
Secured Loans					
- Excellent	19,941	-	-	-	19,941
- Good	7,319	1,496	-	-	8,815
- Monitor	106	322	-	-	428
- Sub-standard	-	219	-	-	219
- NPL	-	-	198	-	198
Gross carrying amount	**27,366**	**2,037**	**198**	**-**	**29,601**
Credit loss allowance	(150)	(264)	(82)	-	(496)
Carrying amount	**27,216**	**1,773**	**116**	**-**	**29,105**

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 impaired)	Purchased/ originated credit impaired	Total
POS loans					
- Excellent	19,525	-	-	-	19,525
- Good	4,406	763	-	-	5,169
- Monitor	100	117	-	-	217
- Sub-standard	-	173	26	-	199
- NPL	-	-	632	198	830
Gross carrying amount	**24,031**	**1,053**	**658**	**198**	**25,940**
Credit loss allowance	(298)	(190)	(569)	-	(1,057)
Carrying amount	**23,733**	**863**	**89**	**198**	**24,883**
Car loans					
- Excellent	15,581	-	-	-	15,581
- Good	3,051	702	-	-	3,753
- Monitor	93	157	-	-	250
- Sub-standard	-	201	-	-	201
- NPL	-	-	371	-	371
Gross carrying amount	**18,725**	**1,060**	**371**	**-**	**20,156**
Credit loss allowance	(368)	(285)	(260)	-	(913)
Carrying amount	**18,357**	**775**	**111**	**-**	**19,243**
Loans to IE and SME					
- Excellent	622	-	-	-	622
- Good	314	6	-	-	320
- Monitor	4	6	-	-	10
- Sub-standard	-	9	-	-	9
- NPL	-	-	52	-	52
Gross carrying amount	**940**	**21**	**52**	**-**	**1,013**
Credit loss allowance	(57)	(10)	(46)	-	(113)
Carrying amount	**883**	**11**	**6**	**-**	**900**

9 Loans and Advances to Customers (Continued)

Loans and advances to customers at 31 December 2018 are disclosed as follows:

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Purchased/ originated credit impaired	Total
Credit card loans					
- Excellent	74,078	-	-	-	74,078
- Good	64,388	974	-	-	65,362
- Monitor	7,266	2,212	-	-	9,478
- Sub-standard	-	3,468	4,774	-	8,242
- NPL	-	-	20,723	107	20,830
Gross carrying amount	**145,732**	**6,654**	**25,497**	**107**	**177,990**
Credit loss allowance	(9,266)	(4,708)	(19,322)	-	(33,296)
Carrying amount	**136,466**	**1,946**	**6,175**	**107**	**144,694**
Cash loans					
- Excellent	22,238	-	-	-	22,238
- Good	10,266	1,274	-	-	11,540
- Monitor	147	207	-	-	354
- Sub-standard	-	295	72	-	367
- NPL	-	-	695	301	996
Gross carrying amount	**32,651**	**1,776**	**767**	**301**	**35,495**
Credit loss allowance	(1,116)	(545)	(670)	-	(2,331)
Carrying amount	**31,535**	**1,231**	**97**	**301**	**33,164**
POS loans					
- Excellent	10,293	-	-	-	10,293
- Good	4,206	385	-	-	4,591
- Monitor	61	60	-	-	121
- Sub-standard	-	60	6		66
- NPL	-	-	204	105	309
Gross carrying amount	**14,560**	**505**	**210**	**105**	**15,380**
Credit loss allowance	(190)	(81)	(189)	-	(460)
Carrying amount	**14,370**	**424**	**21**	**105**	**14,920**

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 impaired)	Purchased/ originated credit impaired	Total
Car loans					
- Excellent	1,876	-	-	-	1,876
- Good	866	42	-	-	908
- Monitor	12	16	-	-	28
- Sub-standard	-	20	-	-	20
- NPL	-	-	6	-	6
Gross carrying amount	2,754	78	6	**-**	2,838
Credit loss allowance	(56)	(25)	(4)	-	(85)
Carrying amount	**2,698**	**53**	**2**	**-**	**2,753**
Secured loans					
- Excellent	1,805	-	-	-	1,805
- Good	833	1	-	-	834
- Monitor	3	2	-	-	5
Gross carrying amount	**2,641**	**3**	**-**	**-**	**2,644**
Credit loss allowance	(15)	(1)	-	-	(16)
Carrying amount	**2,626**	**2**	**-**	**-**	**2,628**
Loans to IE and SME					
- Excellent	224	-	-	-	224
- Good	103	6	-	-	109
- Monitor	5	9	-	-	14
- Sub-standard	-	6	-	-	6
- NPL	-	-	10	-	10
Gross carrying amount	332	21	10	**-**	363
Credit loss allowance	(13)	(10)	(10)	-	(33)
Carrying amount	**319**	**11**	**-**	**-**	**330**

Stage 3 includes restructured loans that are less than 90 days overdue which are not considered as NPL according to the Group's credit risk grading master scale. Refer to Note 31 for the description of credit risk grading system used by the Group.

Loans in courts are included in Stage 3 and are loans to delinquent borrowers, against which the Group has filed claims to courts in order to recover outstanding balances. As at 31 December 2019 the gross carrying amount of the loans in courts was RR 22,228 million (31 December 2018: RR 15,531 million).

9 Loans and Advances to Customers (Continued)

Description of collateral held for loans to individuals carried at amortised cost is as follows at 31 December 2019:

In millions of RR	Secured loans	Car loans	Total
Loans collateralised by:			
- residential real estate	27,437	-	27,437
- cars	1,904	15,256	17,160
Total	**29,341**	**15,256**	**44,597**
Unsecured exposures	260	4,900	5,160
Total gross carrying amount (representing exposure to credit risk for each class of loans at AC)	**29,601**	**20,156**	**49,757**

Description of collateral held for loans to individuals carried at amortised cost is as follows at 31 December 2018:

In millions of RR	Secured loans	Car loans	Total
Loans collateralised by:			
- residential real estate	2,449	-	2,449
- cars	189	2,095	2,284
Total	**2,638**	**2,095**	**4,733**
Unsecured exposures	6	743	749
Total gross carrying amount (representing exposure to credit risk for each class of loans at AC)	**2,644**	**2,838**	**5,482**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures which arise mainly due to application of a discount in determining the carrying value of collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral on credit impaired assets at 31 December 2019 is as follows.

	Over-collateralised assets		Under-collateralised assets	
In millions of RR	Gross carrying amount of the assets	Value of collateral	Gross carrying amount of the assets	Value of collateral
Credit impaired assets:				
Secured loans	194	442	4	2
Car loans	25	31	346	208

9 Loans and Advances to Customers (Continued)

The effect of collateral on credit impaired assets at 31 December 2018 is as follows.

	Over-collateralised assets		Under-collateralised assets	
In millions of RR	Gross carrying amount of the assets	Value of collateral	Gross carrying amount of the assets	Value of collateral
Credit impaired assets:				
Secured loans	-	-	-	-
Car loans	-	-	6	4

The values of collateral considered in this disclosure are after a valuation haircut of 20% (2018: 20%) for residential real estate and 30% (2018: 30%) for cars applied to consider liquidity and quality of the pledged assets.

All contractual modifications of loans with the lifetime ECL that did not lead to derecognition did not have gains less losses on modification recognised in profit or loss for the year ended 31 December 2019 (2018: same).

Refer to Note 38 for the disclosure of the fair value of loans and advances to customers. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 31. Information on related party balances is disclosed in Note 40.

10 Investments in Securities

In millions of RR	31 December 2019	31 December 2018
Debt securities measured at fair value through other comprehensive income	134,765	94,474
Securities measured at fair value through profit or loss	413	5,666
Total investments in securities	**135,178**	**100,140**

1) Debt securities measured at fair value through other comprehensive income

The table below discloses investments in debt securities measured at FVOCI by classes:

In millions of RR	31 December 2019	31 December 2018
Corporate bonds	72,032	65,140
Russian government bonds	56,382	23,560
Municipal bonds	6,351	5,774
Total debt securities measured at FVOCI	**134,765**	**94,474**
Including credit loss allowance	345	481

10 Investments in Securities (Continued)

1) Debt securities measured at fair value through other comprehensive income (Continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2019, for which an ECL allowance is recognised, based on credit risk grades:

In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Corporate bonds				
- Excellent	411	-	-	411
- Good	61,042	-	-	61,042
- Monitor	8,192	-	-	8,192
Total AC gross carrying amount	69,645	-	-	69,645
Credit loss allowance	(225)	-	-	(225)
Fair value adjustment from AC to FV	2,612	-	-	2,612
Carrying value	**72,032**	**-**	**-**	**72,032**
Russian government bonds				
- Good	54,471	-	-	54,471
Total AC gross carrying amount	54,471	-	-	54,471
Credit loss allowance	(99)	-	-	(99)
Fair value adjustment from AC to FV	2,010	-	-	2,010
Carrying value	**56,382**	**-**	**-**	**56,382**
Municipal bonds				
- Good	5,663	-	-	5,663
- Monitor	422	-	-	422
Total AC gross carrying amount	6,085	-	-	6,085
Credit loss allowance	(21)	-	-	(21)
Fair value adjustment from AC to FV	287	-	-	287
Carrying value	**6,351**	**-**	**-**	**6,351**

10 Investments in Securities (Continued)

1) Debt securities measured at fair value through other comprehensive income (Continued)

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2018, for which an ECL allowance is recognised, based on credit risk grades:

In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Corporate bonds				
- Excellent	896	-	-	896
- Good	53,664			53,664
- Monitor	10,304	1,413	-	11,717
- Sub-standard	14	-	-	14
- Doubtful	-	194	-	194
Total AC gross carrying amount	64,878	1,607	-	66,485
Credit loss allowance	(255)	(128)	-	(383)
Fair value adjustment from AC to FV	(511)	(451)	-	(962)
Carrying value	**64,112**	**1,028**	**-**	**65,140**
Russian government bonds				
- Good	24,021	-	-	24,021
Total AC gross carrying amount	24,021	-	-	24,021
Credit loss allowance	(63)	-	-	(63)
Fair value adjustment from AC to FV	(398)	-	-	(398)
Carrying value	**23,560**	-	-	**23,560**
Municipal bonds				
- Good	4,325	-	-	4,325
- Monitor	1,508	-	-	1,508
Total AC gross carrying amount	5,833	-	-	5,833
Credit loss allowance	(35)	-	-	(35)
Fair value adjustment from AC to FV	(24)	-	-	(24)
Carrying value	**5,774**	-	-	**5,774**

Refer to Note 31 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI

The debt securities at FVOCI are not collateralised.

10 Investments in Securities (Continued)

1) Debt securities measured at fair value through other comprehensive income (Continued)

The following table explains the changes in the credit loss allowance (including those pledged under repurchase agreements) and gross carrying amount for debt securities at FVOCI for the year ended 31 December 2019:

	Credit loss allowance				Gross carrying amount			
In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Corporate bonds								
At 1 January 2019	**255**	**128**	**-**	**383**	**64,951**	**1,607**	**-**	**66,558**
Movements with impact on credit loss allowance charge:								
New originated or purchased	89	-	-	89	25,936	-	-	25,936
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	24	(26)	-	(2)	1,318	(1,318)	-	-
Foreign exchange losses	(12)	(6)	-	(18)	(2,702)	(96)	-	(2,798)
Redemption during the year	(12)	-	-	(12)	(3,609)	-	-	(3,609)
Disposal during the year	(91)	(40)	-	(131)	(16,348)	(193)	-	(16,541)
Interest income accrued	12	4	-	16	4,074	43	-	4,117
Interest received	(12)	(4)	-	(16)	(3,975)	(43)	-	(4,018)
Other movements	(28)	(56)	-	(84)	-	-	-	-
Total movements with impact on credit loss allowance charge	**(30)**	**(128)**	**-**	**(158)**	**4,694**	**(1,607)**	**-**	**3,087**
At 31 December 2019	**225**	**-**	**-**	**225**	**69,645**	**-**	**-**	**69,645**

10 Investments in Securities (Continued)

1) Debt securities measured at fair value through other comprehensive income (Continued)

In millions of RR	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Russian government bonds								
At 1 January 2019	**66**	**-**	**-**	**66**	**25,190**	**-**	**-**	**25,190**
Movements with impact on credit loss allowance charge:								
New originated or purchased	167	-	-	167	81,179	-	-	81,179
Foreign exchange losses	(2)	-	-	(2)	(833)	-	-	(833)
Redemption during the year	(63)	-	-	(63)	(30,858)	-	-	(30,858)
Disposal during the year	(53)	-	-	(53)	(20,414)	-	-	(20,414)
Interest income accrued	4	-	-	4	2,119	-	-	2,119
Interest received	(4)	-	-	(4)	(1,912)	-	-	(1,912)
Other movements	(16)	-	-	(16)	-	-	-	-
Total movements with impact on credit loss allowance charge	**33**	**-**	**-**	**33**	**29,281**	**-**	**-**	**29,281**
At 31 December 2019	**99**	**-**	**-**	**99**	**54,471**	**-**	**-**	**54,471**

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
Municipal bonds								
At 1 January 2019	**35**	**-**	**-**	**35**	**5,833**	**-**	**-**	**5,833**
Movements with impact on credit loss allowance charge:								
New originated or purchased	3	-	-	3	968	-	-	968
Redemption during the year	(1)	-	-	(1)	(482)	-	-	(482)
Disposal during the year	(4)	-	-	(4)	(216)	-	-	(216)
Interest income accrued	2	-	-	2	469	-	-	469
Interest received	(3)	-	-	(3)	(487)	-	-	(487)
Other movements	(11)	-	-	(11)	-	-	-	-
Total movements with impact on credit loss allowance charge	**(14)**	**-**	**-**	**(14)**	**252**	**-**	**-**	**252**
At 31 December 2019	**21**	**-**	**-**	**21**	**6,085**	**-**	**-**	**6,085**

10 Investments in Securities (Continued)

1) Debt securities measured at fair value through other comprehensive income (Continued)

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

	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	-	-	184	27,235	-	-	27,235
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(15)	71	-	56	(1,082)	1,082	-	-
Foreign exchange gains	12	17	-	29	3,039	228	-	3,267
Redemption during the year	(6)	-	-	(6)	(1,040)	-	-	(1,040)
Disposal during the year	(41)	-	-	(41)	(9,856)	-	-	(9,856)
Interest income accrued	15	9	-	24	3,893	80	-	3,973
Interest received	(16)	(7)	-	(23)	(3,901)	(53)	-	(3,954)
Other movements	(94)	21	-	(73)	-	-	-	-
Total movements with impact on credit loss allowance charge	**39**	**111**	**-**	**150**	**18,288**	**1,337**	**-**	**19,625**
At 31 December 2018	**255**	**128**	**-**	**383**	**64,951**	**1,607**	**-**	**66,558**
Russian government bonds								
At 1 January 2018	**36**	**-**	**-**	**36**	**13,686**	**-**	**-**	**13,686**
Movements with impact on credit loss allowance charge:								
New originated or purchased	189	-	-	189	73,217	-	-	73,217
Foreign exchange gains	3	-	-	3	1,108	-	-	1,108
Redemption during the year	(128)	-	-	(128)	(49,829)	-	-	(49,829)
Disposal during the year	(33)	-	-	(33)	(12,649)	-	-	(12,649)
Interest income accrued	4	-	-	4	1,398	-	-	1,398
Interest received	(5)	-	-	(5)	(1,741)	-	-	(1,741)
Total movements with impact on credit loss allowance charge	**30**	**-**	**-**	**30**	**11,504**	**-**	**-**	**11,504**
At 31 December 2018	**66**	**-**	**-**	**66**	**25,190**	**-**	**-**	**25,190**

10 Investments in Securities (Continued)

1) Debt securities measured at fair value through other comprehensive income (Continued)

In millions of RR	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Municipal bonds								
At 1 January 2018	**23**	**-**	**-**	**23**	**4,308**	**-**	**-**	**4,308**
Movements with impact on credit loss allowance charge:								
New originated or purchased	16	-	-	16	1,752	-	-	1,752
Disposal during the year	(1)	-	-	(1)	(240)	-	-	(240)
Interest income accrued	2	-	-	2	382	-	-	382
Interest received	(2)	-	-	(2)	(369)	-	-	(369)
Other movements	(3)	-	-	(3)	-	-	-	-
Total movements with impact on credit loss allowance charge	**12**	**-**	**-**	**12**	**1,525**	**-**	**-**	**1,525**
At 31 December 2018	**35**	**-**	**-**	**35**	**5,833**	**-**	**-**	**5,833**

2) Securities measured at fair value through profit or loss

The table below discloses investments in securities measured at FVTPL by classes:

In millions of RR	31 December 2019	31 December 2018
Perpetual corporate bonds	-	5,666
Other securities	413	-
Total securities measured at FVTPL	**413**	**5,666**

Other securities are represented by assets of the mutual fund which are controlled by the Group and managed by LLC "Tinkoff Capital".

As at 31 December 2019 securities measured at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents Group's maximum exposure to credit risk. The securities measured at FVTPL are not collateralized (2018: same).

Interest rate, maturity and geographical risk concentration analysis of investment in securities are disclosed in Note 31.

11 Guarantee Deposits with Payment Systems

As at 31 December 2019 and 2018 guarantee deposits were placed in favour of MasterCard with Barclays Bank Plc London (A rated), in favour of Visa with United Overseas Bank Ltd Singapore (AA-rated), and in favour of Russia payment card Mir with Russian National payment card system (NSPK).

As at 31 December 2019 the carrying value of guarantee deposits with payment systems was RR 8,877 million (2018: RR 4,603 million).

11 Guarantee Deposits with Payment Systems (Continued)

The table below discloses the credit quality of guarantee deposits with payment systems balances based on credit risk grades:

In millions of RR	31 December 2019	31 December 2018
- Excellent	8,376	4,435
- Good	501	168
Total guarantee deposits with payment systems	**8,877**	**4,603**

The carrying amount of guarantee deposits with payment systems at 31 December 2019 and 2018 also represents the Group's maximum exposure to credit risk on these assets. Refer to Note 31 for the description of credit risk grading system used by the Group. For the purpose of ECL measurement guarantee deposits with payment systems balances are included in Stage 1. Guarantee deposits with payment systems are unsecured financial assets.

The ECL for these balances represents an immaterial amount, therefore the Group did not create any credit loss allowance for guarantee deposits with payment systems. Refer to Note 31 for the ECL measurement approach. Interest rate, maturity and geographical risk concentration analysis are disclosed in Note 31.

12 Tangible Fixed Assets, Intangible Assets, and Right-of-use Assets

In millions of RR	Land	Building	Equip-ment	Leasehold improve-ments	Vehicles	Total tangible fixed assets	Intangible assets
Cost							
At 31 December 2017	**396**	**4,088**	**2,420**	**747**	**41**	**7,692**	**4,559**
Additions	-	131	2,131	789	1	3,052	2,066
Disposals	-	-	(210)	-	-	(210)	-
At 31 December 2018	**396**	**4,219**	**4,341**	**1,536**	**42**	**10,534**	**6,625**
Additions	-	-	1,788	86	46	1,920	2,564
Disposals	-	-	(59)	(2)	-	(61)	(72)
At 31 December 2019	**396**	**4,219**	**6,070**	**1,620**	**88**	**12,393**	**9,117**
Depreciation and amortisation							
At 31 December 2017	**-**	**(48)**	**(1,042)**	**(434)**	**(28)**	**(1,552)**	**(1,503)**
Charge for the year (Note 25)	-	(42)	(695)	(81)	(5)	(823)	(899)
Disposals	-	-	210	-	-	210	-
At 31 December 2018	**-**	**(90)**	**(1,527)**	**(515)**	**(33)**	**(2,165)**	**(2,402)**
Charge for the year (Note 25)	-	(43)	(1,076)	(160)	(8)	(1,287)	(1,331)
Disposals	-	-	9	2	-	11	51
At 31 December 2019	**-**	**(133)**	**(2,594)**	**(673)**	**(41)**	**(3,441)**	**(3,682)**
Net book value							
At 31 December 2018	**396**	**4,129**	**2,814**	**1,021**	**9**	**8,369**	**4,223**
At 31 December 2019	**396**	**4,086**	**3,476**	**947**	**47**	**8,952**	**5,435**

12 Tangible Fixed Assets, Intangible Assets, and Right-of-use Assets (Continued)

Intangible assets additions in the amount of RR 1,212 million related to capitalised the software developments by Tinkoff Software DC during the year ended 31 December 2019 (2018: RR 774 million).

Other intangible assets acquired during the year ended 31 December 2019 and 2018 mainly represent accounting software, retail banking software, insurance software, licenses and development of software.

During 2019 the Group acquired no office building space (2018: RR 131 million, VAT included).

Right-of-use assets and lease liabilities. Right-of-use-assets represented above relate to the office premises leased by the Group. Rental contracts are typically for fixed periods from 1 to 5 years.

The group does not have extension or termination options of its lease agreements other than lease agreements of low value items.

The right of use assets by class of underlying items is analysed as follows:

In millions of RR	**Office premises**
Carrying amount at 1 January 2019	**1,671**
Additions	1,071
Depreciation charge (Note 25)	(1,134)
Carrying amount at 31 December 2019	**1,608**

Prior to 1 January 2019 Group's leases of premises and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

Expenses relating to leases of low-value assets in the amount of RR 390 million are included in administrative and other operating expenses (Note 25). Total cash outflow for leases during the year ended 31 December 2019 was RR 1,087 million.

13 Other Financial and Non-financial Assets

In millions of RR	**31 December 2019**	**31 December 2018**
Other Financial Assets		
Settlement of operations with plastic cards	16,384	12,694
Other	5,289	2,948
Total Other Financial Assets	**21,673**	**15,642**
Other Non-Financial Assets		
Prepaid expenses	1,223	2,360
Other	1,287	664
Total Other Non-Financial Assets	**2,510**	**3,024**

Settlement of operations with plastic cards represents balances due from payment agents in respect of payments made by borrowers to reimburse credit card loans and to be settled within 3 days. This amount includes prepayment to the payment systems for operations during holiday period.

At 31 December 2019, included in other financial assets are receivables, investments in associates and subrogation rights (2018: same).

13 Other Financial and Non-financial Assets (Continued)

As at 31 December 2019 and 2018 prepaid expenses consist of prepayments for marketing, IT support, security, TV advertising and ATM-service.

The table below discloses the credit quality of other financial assets based on credit risk grades:

In millions of RR	31 December 2019	31 December 2018
- Excellent	9,219	7,430
- Good	12,454	8,212
Total other financial assets	**21,673**	**15,642**

Refer to Note 31 for the description of the Group's credit risk grading system.

For the purpose of ECL measurement settlement of operations with plastic cards balances and other receivables are included in Stage 1. The ECL for these balances represents an immaterial amount, therefore the Group did not recognise any credit loss allowance. Refer to Note 31 for the ECL measurement approach. Refer to Note 38 for the disclosure of the fair value of other financial assets. The maturity and geographical risk concentration analysis of amounts of other financial assets is disclosed in Note 31.

14 Due to Banks

In millions of RR	31 December 2019	31 December 2018
Sale and repurchase agreements with other banks	640	1,111
Correspondent accounts and overnight placements of other banks	23	1,597
Total due to banks	**663**	**2,708**

Refer to Note 38 for the disclosure of the fair value of amounts due to banks. Interest rate, maturity and geographical risk concentration analysis of due to banks is disclosed in Note 31. Refer to Note 34 and 35 for information on the amounts included in due to banks received under sale and repurchase agreements and fair value of securities pledged.

15 Customer Accounts

In millions of RR	Note	31 December 2019	31 December 2018
Individuals			
- Current/demand accounts		211,661	137,637
- Term deposits		137,292	100,227
IE and SME			
- Current/demand accounts	30	60,174	41,702
- Term deposits	30	1,880	-
Other legal entities			
- Current/demand accounts		495	552
- Term deposits		112	798
Total customer accounts		**411,614**	**280,916**

Refer to Note 38 for the disclosure of the fair value of customer accounts. Interest rate, maturity and geographical risk concentration analysis of customer accounts amounts is disclosed in Note 31. Information on related party balances is disclosed in Note 40.

16 Debt Securities in Issue

In millions of RR	Date of maturity	31 December 2019	31 December 2018
RR denominated bonds issued in April 2019	21 March 2029	10,158	-
RR denominated bonds issued in September 2019	12 September 2029	10,157	-
RR denominated bonds issued in April 2017	22 April 2022	2,468	5,067
EUR denominated ECP issued in December 2019	20 November 2020	1,030	-
RR denominated bonds issued in June 2016	24 June 2021	835	784
EUR denominated ECP issued in February 2019	18 February 2020	831	-
USD denominated ECP issued in December 2019	20 November 2020	599	-
EUR denominated ECP issued in December 2018	19 December 2019	-	2,392
USD denominated ECP issued in December 2018	19 December 2019	-	1,266
RR denominated ECP issued in December 2018	19 December 2019	-	96
Total debt securities in issue		**26,078**	**9,605**

On 3 April 2019 the Bank issued RR denominated bonds with a nominal value of RR 10,000 million at 9.25% coupon rate maturing on 21 March 2029.

On 25 September 2019 the Bank issued RR denominated bonds with a nominal value of RR 10,000 million at 8.25% coupon rate maturing on 12 September 2029.

On 28 April 2017 the Bank issued RR denominated bonds with a nominal value of RR 5,000 million at 9.65% coupon rate maturing on 22 April 2022.

On 30 June 2016 the Group issued RR denominated bonds with a nominal value of RR 3,000 million at 11.7% coupon rate maturing on 24 June 2021.

On 20 December 2019 the Group issued two tranches of Euro-Commercial Paper (ECP) denominated in USD and EUR maturing on 20 November 2020. USD denominated ECP has a nominal value of USD 10 million with a discount of 3.6%. EUR denominated ECP has a nominal value of EUR 15 million with a discount of 1.0%.

On 19 February 2019 the Group issued Euro-Commercial Paper (ECP) denominated in EUR maturing on 18 February 2020. EUR denominated ECP has a nominal value of EUR 12 million with a discount of 1.25%.

On 20 December 2018 the Group issued three tranches of Euro-Commercial Paper (ECP) denominated in USD, EUR and RR maturing on 19 December 2019. USD denominated ECP has a nominal value of USD 19 million with a discount of 4.25%. EUR denominated ECP has a nominal value of EUR 30.5 million with a discount of 1.25%. RR denominated ECP has a nominal value of RR 105 million with a discount of 9.5%. The Group redeemed all outstanding ECP of this issue at maturity.

All RR denominated bonds issued by the Bank are traded on the Moscow Exchange. Refer to Note 38 for the disclosure of the fair value of debt securities in issue. Interest rate, maturity and geographical risk concentration analysis of debt securities in issue are disclosed in Note 31.

17 Subordinated Debt

As at 31 December 2019 the carrying value of the subordinated debt was RR 18,487 million (31 December 2018: RR 20,644 million).

On 15 June 2017 the Group issued perpetual subordinated loan participation notes with a nominal value of USD 300 million with zero premium. The notes have no stated maturity. The Group has a right to repay the notes at its discretion starting from 15 September 2022 and they are repayable in case of certain events other than liquidation. The notes bear a fixed interest rate of 9.25% p.a. payable quarterly starting from 15 September 2017. Interest payments may be cancelled by the Group at any time.

The claims of lenders against the Group in respect of the principal and interest on these bonds are subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation.

17 Subordinated Debt (Continued)

The perpetual subordinated loan participation notes are traded on the Global Exchange Market. Interest rate, maturity and geographical risk concentration analysis of subordinated debt is disclosed in Note 31. Refer to Note 38 for the disclosure of the fair value of financial instruments.

18 Insurance Provisions

In millions of RR	31 December 2019	31 December 2018
Insurance Provisions		
Provision for unearned premiums	3,938	1,760
Loss provisions	2,342	1,099
Total Insurance Provisions	**6,280**	**2,859**

Movements in provision for unearned premiums for the year ended 31 December 2019 and 2018 are as follows:

	2019			**2018**		
In millions of RR	**Gross provision**	**Reinsurer's share of provision**	**Provision net of reinsurance**	**Gross provision**	**Reinsurer's share of provision**	**Provision net of reinsurance**
Provision for unearned premiums as at 1 January	**1,760**	**(3)**	**1,757**	**1,117**	**(1)**	**1,116**
Change in provision, gross	2,178	-	2,178	643	-	643
Change in reinsurers' share of provision	-	(8)	(8)	-	(2)	(2)
Provision for unearned premiums as at 31 December	**3,938**	**(11)**	**3,927**	**1,760**	**(3)**	**1,757**

Movements in loss provisions for the year ended 31 December 2019 and 2018 are as follows:

In millions of RR	**Note**	**OCP and IBNR**	**URP**	**Provision for claims handling expenses**	**Total loss provisions**
Loss provisions as at 1 January 2018		**518**	**83**	**82**	**683**
Losses incurred in the current reporting period		1,921	-	-	1,921
Changes in OCP and IBNR provisions related to prior periods losses		(61)	-	(28)	(89)
Insurance claims paid	24	(1,413)	-	-	(1,413)
Claims handling expenses accrued		-	-	372	372
Claims handling expenses paid	24	-	-	(301)	(301)
Unexpired risk provision charge		-	(65)	-	(65)
Unexpired risk provision written off		-	(9)	-	(9)
Loss provisions as at 31 December 2018		**965**	**9**	**125**	**1,099**
Losses incurred in the current reporting period		4,026	-	-	4,026
Changes in OCP and IBNR provisions related to prior periods losses		(138)	-	(39)	(177)
Insurance claims paid	24	(2,923)	-		(2,923)
Claims handling expenses accrued		-	-	862	862
Claims handling expenses paid	24	-	-	(733)	(733)
Unexpired risk provision charge		-	253	-	253
Unexpired risk provision written off		-	(65)	-	(65)
Loss provisions as at 31 December 2019		**1,930**	**197**	**215**	**2,342**

19 Other Financial and Non-financial Liabilities

In millions of RR	31 December 2019	31 December 2018
Other financial liabilities		
Settlement of operations with plastic cards	6,427	4,904
Trade payables	4,621	3,189
Credit related commitments (Note 33)	2,242	2,041
Other	1,358	1,067
Total other financial liabilities	**14,648**	**11,201**
Other non-financial liabilities		
Lease liabilities	1,694	-
Taxes payable other than income tax	1,321	1,212
Accrued administrative expenses	1,277	1,438
Other	582	791
Total other non-financial liabilities	**4,874**	**3,441**

Settlements of operations with plastic cards include funds that were spent by customers of the Bank by usage of plastic cards but have not yet been compensated to payment systems by the Bank. Accrued administrative expenses are mainly represented by accrued staff costs.

Interest expense on lease liabilities was RR 134 million during 2019 (Note 21).

Movements in the credit loss allowance for credit related commitments were as follows for the year ended 31 December 2019:

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Gross committed amount
At 31 December 2018	**2,024**	**17**	**-**	**2,041**
Movements with impact on provision for credit related commitments charge for the year:				
New originated or purchased	840	-	-	840
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(23)	9	-	(14)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(45)	(7)	-	(52)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	5	(15)	-	(10)
Changes to ECL measurement model assumptions and estimates	(163)	-	-	(163)
Movements other than transfers and new originated or purchased loans	(410)	10	-	(400)
Total charge to profit or loss for the year	**204**	**(3)**	**-**	**201**
At 31 December 2019	**2,228**	**14**	**-**	**2,242**

19 Other Financial and Non-financial Liabilities (Continued)

Movements in the credit loss allowance for credit related commitments were as follows for the year ended 31 December 2018:

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	**1,701**	**22**	**-**	**1,723**
Movements with impact on credit loss allowance for credit related commitments charge for the year:				
New originated or purchased	893	-	-	893
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(23)	18	-	(5)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(53)	(7)	-	(60)
- recovered (from Stage 3 to Stage 2 and from Stage 2 to Stage 1)	5	(16)	-	(11)
Movements other than transfers and new originated or purchased loans	(499)	-	-	(499)
Total movements with impact on credit loss allowance for credit related commitments charge for the year	**323**	**(5)**	**-**	**318**
At 31 December 2018	**2,024**	**17**	**-**	**2,041**

The main movements in the table presented above are described as follows:

- new originated or purchased category represents the day one 12-month ECL for the undrawn part of the purchased loans and loans to new borrowers (for this particular product) before the first payment became due;
- transfers between Stage 1, 2 and 3 due to undrawn limits experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL. Transfers present the amount of credit loss allowance for loan commitments charged or recovered at the moment of transfer of a loan commitment among the respective stages;
- movements other than transfers and new originated or purchased loans category represents all other movements of ECL for loan commitments in particular related to changes in gross carrying amounts of associated loans, ECL model assumptions and other.

Interest rate, maturity and geographical risk concentration analysis of other financial liabilities is disclosed in Note 31. Refer to Note 38 for disclosure of fair value of other financial liabilities. Refer to Note 33 for analysis of loan commitments by credit risk grades.

20 Share Capital

In millions of RR except for the number of shares	Number of authorised shares	Number of outstanding shares	Ordinary shares	Share premium	Treasury shares	Total
At 1 January 2018	**190,479,500**	**182,638,825**	**188**	**8,623**	**(1,587)**	**7,224**
Increase of authorized shares	1,291,266	-				
GDRs buy-back	-	-	-	-	(2,455)	(2,455)
GDRs and shares transferred under MLTIP	-	-	-	-	372	372
At 31 December 2018	**191,770,766**	**182,638,825**	**188**	**8,623**	**(3,670)**	**5,141**
Shares issued	18,263,882	16,666,667	42	18,874	-	18,916
Secondary public offering costs	-	-	-	(499)	-	(499)
GDRs and shares transferred under MLTIP	-	-	-	-	506	506
At 31 December 2019	**210,034,648**	**199,305,492**	**230**	**26,998**	**(3,164)**	**24,064**

During three months ended 31 March 2019 Altoville Holdings Limited converted 6,385,310 Class B shares into Class A (on a one-to-one basis), which was 3.49% of its share, and then sold them to the market.

On 2 July 2019 the Group completed a SPO on the London Stock Exchange plc. and issued 16,666,667 "Class A" shares of the Company in the form of GDRs at a price of USD 18.00 per GDR, raising aggregate gross proceeds of USD 300 million (RR 18,916 million). All issued ordinary shares are fully paid.

All the incurred SPO costs were primary direct expenses accounted within share premium.

At 31 December 2019 the total number of outstanding shares is 199,305,492 shares (2018: 182,638,825 shares) with a par value of USD 0.04 per share (2018: USD 0.04 per share).

In June 2019 the Company's shareholders approved a resolution to increase authorised share capital to USD 8,401,385.92 by the creation of 18,263,882 new undesignated ordinary shares of nominal value USD 0.04 each. At 31 December 2019 the total number of authorised shares is 210,034,648 shares (2018: 191,770,766 shares) with a par value of USD 0.04 per share (2018: USD 0.04 per share).

As at 31 December 2019 and 2018 treasury shares represent GDRs of the Group repurchased from the market for the purposes permitted by Cyprus law including contribution to MLTIP. Refer to Note 40.

At 31 December 2019 the total number of treasury shares is 4,185,166 (2018: 6,604,353).

During the year ended 31 December 2019 no GDRs were repurchased by the Group (2018: 2,094,126 GDRs at market price for RR 2,455 million).

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. For the purpose of calculating diluted earnings per share the Group considered the dilutive effect of share options granted under MLTIP.

20 Share Capital (Continued)

Earnings per share are calculated as follows:

In millions of RR except for the number of shares	2019	2018
Profit for the year attributable to ordinary shareholders of the Company	36,122	27,088
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation (thousands)	186,559	176,425
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation (thousands)	190,070	182,070
Basic earnings per ordinary share (expressed in RR per share)	**193.62**	**153.54**
Diluted earnings per ordinary share (expressed in RR per share)	**190.05**	**148.78**

Information on dividends is disclosed in Note 28.

Reconciliation of the number of shares used for basic and diluted EPS:

In thousands	Note	2019	2018
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation		**186,559**	**176,425**
Number of shares attributable for MLTIP	40	9,940	9,849
Number of shares transferred out of treasury shares upon vesting under the MLTIP to retained earnings or forfeited	40	(6,158)	(3,671)
Number of shares that would have been issued at fair value		(271)	(533)
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation		**190,070**	**182,070**

21 Net Margin

In millions of RR	Note	2019	2018
Interest income calculated using the effective interest rate method			
Loans and advances to customers, including:			
Credit card loans		83,352	64,446
Cash loans		11,878	4,029
POS loans		3,452	1,454
Secured loans		2,285	41
Car loans		1,512	38
Loans to IE and SME		325	68
Debt securities and repurchase receivables at FVOCI		6,705	5,753
Placements with other banks and non-bank credit organizations with original maturities of less than three months		463	440
Total Interest income calculated using the effective interest rate method		**109,972**	**76,269**
Other similar income			
Debt securities and repurchase receivables at FVTPL		118	456
Total interest income		**110,090**	**76,725**
Interest expense calculated using the effective interest rate method			
Customer accounts, including:			
Individuals			
- Current/demand accounts		8,988	5,963
- Term deposits		7,006	5,283
IE and SME	30	1,421	1,212
Other legal entities		40	90
Subordinated debt		1,846	2,089
RR denominated bonds		1,282	706
Due to banks		634	92
Euro-Commercial Paper		100	124
Total Interest expense calculated using the effective interest rate method		**21,317**	**15,559**
Other similar expense			
Lease liabilities		134	-
Total interest expense		**21,451**	**15,559**
Expenses on deposit insurance		1,870	1,174
Net margin		**86,769**	**59,992**

22 Fee and Commission Income and Expense

In millions of RR	**2019**	**2018**
Fee and commission income		
IE and SME current accounts commission	8,483	6,943
Acquiring commission	6,616	4,162
Fee for selling credit protection	5,550	5,601
Interchange fee	3,473	3,046
SMS fee	3,244	2,256
Foreign currency exchange transactions fee	3,024	1,785
Card to card commission	1,980	1,279
Income from MVNO services	890	186
Brokerage operations	819	210
Cash withdrawal fee	720	885
Marketing services fee	340	108
Placement fee	141	167
Mortgage agency fee	136	419
Other fees receivable	626	376
Total fee and commission income	**36,042**	**27,423**

IE and SME current accounts commission represents commission for services to individual entrepreneurs and small to medium businesses. Fee for selling credit protection represents fee which the Bank receives for selling voluntary credit insurance to borrowers of the Group. Acquiring commission represents commission for processing card payments from online and offline points of sale. Income from MVNO services represents income from providing mobile services such as full coverage across Russia and international roaming, offering a number of value-added options such as virtual numbers, music and video streaming services, etc.

In millions of RR	**2019**	**2018**
Fee and commission expense		
Payment systems	12,745	8,430
Service fees	2,043	1,429
Payment channels	1,327	1,209
Costs of MVNO services	910	246
Banking and other fees	423	456
Total fee and commission expense	**17,448**	**11,770**

Payment systems fees represent fees for MasterCard, Visa and other payment systems' services. Service fees represent fees for statement printing, mailing service, sms services and others. Payment channels represent fees paid to third parties though whom borrowers make loan repayments. Costs of MVNO services represent expenses for the traffic, telecommunications service and roaming.

Refer to Note 3 that describes the types of revenues recognized on a point in time basis and on the over time basis.

23 Customer Acquisition Expense

In millions of RR	2019	2018
Marketing and advertising	8,106	5,672
Staff costs	5,916	5,509
Taxes other than income tax	1,413	1,107
Partnership expenses	979	768
Credit bureaux	697	535
Cards issuing expenses	411	260
Telecommunication expenses	326	285
Other acquisition	329	86
Total customer acquisition expenses	**18,177**	**14,222**

Customer acquisition expenses represent expenses paid by the Group on services related to origination of customers which are not directly attributable to the recognised assets and are not incremental. The Group uses a variety of different channels for the acquisition of new customers.

Staff costs represent salary expenses and related costs of employees directly involved in customer acquisition. Included in staff costs are statutory social contributions to the state non-budgetary funds in the amount of RR 1,561 million for the year ended 31 December 2019 (2018: RR 1,341 million).

24 Insurance Premiums Earned and Claims Incurred

In millions of RR	2019	2018
Insurance premiums earned		
Insurance premiums on insurance, co-insurance and reinsurance operations	16,289	7,315
Change in provision for unearned premiums	(2,178)	(643)
Reinsurers' share	(1)	2
Total Insurance premiums earned	**14,110**	**6,674**
Insurance claims incurred		
Insurance claims on insurance, co-insurance and reinsurance operations	(2,923)	(1,413)
Changes in loss provisions	(1,243)	(416)
Claims handling expenses	(733)	(301)
Reinsurers' share	8	4
Total Insurance claims incurred	**(4,891)**	**(2,126)**

The Insurance company provides following types of insurance:

Personal accident insurance and collective insurance against accidents, illnesses or loss of work provides compensation and financial protection in the event of injuries, disability, death or loss of loss of work of the borrower. It is different from life insurance and medical and health insurance. In accordance with the terms of individual insurance contracts, the policyholder and beneficiary is an individual who has entered into an insurance contract. In accordance with the terms of the collective insurance contract, the insurer is the Bank that has concluded the collective insurance contract with the Insurance Company, the beneficiary is the insured individual.

Motor vehicle insurance and property insurance provides compensation for damage to a client's vehicle or other property.

24 Insurance Premiums Earned and Claims Incurred (Continued)

Compulsory third party liability insurance (CTP) contracts provide the insured with financial protection from the risk of civil liability of vehicle owners, which may occur as a result of harm to life, health or property of others when using vehicles.

Voluntary third party (VTP) risk insurance contracts provide the insured with financial protection in case of insufficiency of insurance payment for compulsory third party liability insurance of motor vehicle owners (CTP) to compensate for harm caused to life, health and / or property.

Travel insurance provides compensation in case of medical or other unforeseen expenses of the client while being away from their place of permanent residence.

Staff and administrative expenses for insurance operations are included in Note 25.

25 Administrative and Other Operating Expenses

In millions of RR	Note	2019	2018
Staff costs		19,204	15,602
Taxes other than income tax		1,473	1,148
Amortization of intangible assets	12	1,331	899
Depreciation of fixed assets	12	1,287	823
Depreciation of right-of-use assets	12	1,134	-
Information services		787	570
Professional services		773	333
Operating lease expense		410	799
Stationery		383	263
Communication services		280	254
Security expenses		167	171
Collection expenses		165	168
Other provisions		60	-
Other administrative expenses		398	469
Total administrative and other operating expenses		**27,852**	**21,499**

The total fees charged by the Company's statutory auditor for the statutory audit of the annual consolidated and separate financial statements of the Company for the year ended 31 December 2019 amounted to RR 2.8 million (2018: RR 2.7 million). The total fees charged by the Company's statutory auditor for the year ended 31 December 2019 for other assurance services amounted to RR 3.8 million (2018: RR 4.7 million), for tax advisory services amounted to RR 2.3 million (2018: RR 5.7 million) and for other non-assurance services amounted to RR 2.2 million (2018: nil).

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

In millions of RR	2019	2018
Statutory social contribution to the non-budget funds	3,398	2,582
Share-based remuneration	469	630

The average number of employees employed by the Group during the reporting year, including those who are working under civil contracts, was 26,780 (2018: 21,577).

26 Other Operating Income

In millions of RR	2019	2018
Income from payment systems under marketing agreement	3,298	2,060
Subrogation fee	218	122
Other	1,197	789
Total other operating income	**4,713**	**2,971**

27 Income Taxes

Income tax expense comprises the following:

In millions of RR	2019	2018
Current tax	13,844	4,639
Deferred tax	(4,431)	3,463
Total income tax expense	**9,413**	**8,102**

The income tax rate applicable to the majority of the Group's income is 20% (2018: 20%). The operations of the Group are subject to multiple tax jurisdictions. The income tax rate applicable to the Russian subsidiaries of the Company is 20%. The income tax rate applicable to the Company registered in Cyprus is 12.5% (2018: 12.5%).

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

In millions of RR	2019	2018
Profit before tax	**45,536**	**35,224**
Theoretical tax expense at statutory rate of 20% (2018: 20%)	9,107	7,045
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	272	311
- Other expenses including dividend tax	38	740
Unrecognised tax losses	226	177
Effects of different tax rates:		
- Income on government securities taxed at different rates	(214)	(165)
- Results of companies of the Group taxed at different statutory rates	(16)	(6)
Income tax expenses for the year	**9,413**	**8,102**

Differences between IFRS and taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. As all of the Group's temporary differences arise in Russia, the tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2018: 20%).

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss.

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

27 Income Taxes (Continued)

The tax effect of the movements in temporary differences for the year ended 31 December 2019 is detailed below.

In millions of RR	31 December 2018	1 January 2019 (IFRS 16 adoption)	Credited/ (charged) to profit or loss	Charged to OCI	31 December 2019
Tax effect of deductible and taxable temporary differences					
Loans and advances to customers	696	-	2,819	-	3,515
Tangible fixed assets	(601)	-	(3)	-	(604)
Right-of-use assets	-	(334)	12	-	(322)
Intangible assets	(285)	-	14	-	(271)
Revaluation of debt investment at FVOCI	(487)	-	702	(1,234)	(1,019)
Revaluation of debt investment at FVTPL	1	-	(1)	-	-
Accrued expenses and other temporary differences	(773)	-	586	-	(187)
Lease liabilities	-	333	6	-	339
Customer accounts	(21)	-	(23)	-	(44)
Debt securities in issue	(40)	-	(22)	-	(62)
Financial derivatives	(324)	-	364	-	40
Insurance provisions	13	-	(23)	-	(10)
Net deferred tax (liabilities)/assets	**(1,821)**	**(1)**	**4,431**	**(1,234)**	**1,375**

The tax effect of the movements in temporary differences for the year ended 31 December 2018 is detailed below.

In millions of RR	31 December 2017	(Charged) /credited to profit or loss	Credited directly to equity	Credited to OCI	31 December 2018
Tax effect of deductible and taxable temporary differences					
Loans and advances to customers	223	(1,636)	2,109	-	696
Tangible fixed assets	(344)	(257)	-	-	(601)
Intangible assets	(312)	27	-	-	(285)
Revaluation of debt investment at FVOCI	(327)	(827)	-	667	(487)
Revaluation of debt investment at FVTPL	-	1	-	-	1
Accrued expenses and other temporary differences	(199)	(919)	345	-	(773)
Customer accounts	(30)	9	-	-	(21)
Debt securities in issue	(55)	15	-	-	(40)
Financial derivatives	(435)	111	-	-	(324)
Insurance provisions	-	13	-	-	13
Net deferred tax liabilities	**(1,479)**	**(3,463)**	**2,454**	**667**	**(1,821)**

28 Dividends

The movements in dividends during the year ended 31 December 2019 and 2018 are as follows:

In millions of RR	2019	2018
Dividends payable at 1 January	**760**	**377**
Dividends declared during the year	5,856	12,265
Dividends paid during the year	(5,601)	(11,946)
Dividends paid under MLTIP after vesting date	(524)	(144)
Foreign exchange loss on dividends payable	91	208
Dividends payable at 31 December	**582**	**760**
Dividends per share declared during the year (in USD)	**0.49**	**1.07**
Dividends per share paid during the year (in USD)	**0.49**	**1.07**

Dividends declared in the tables above represent dividends declared by the Board of Directors are reduced by RR 25 million for the year ended 31 December 2019 due to dividends on GDRs acquired by the Company from the market not for the immediate purposes of the existing MLTIP.

On 13 May 2019 the Board of Directors declared an interim dividend of USD 0.17 (RR 11.09) per share/per GDR amounting to USD 31.05 million (RR 2,026 million). Declared dividends were paid in USD on 28 and 30 May 2019.

On 11 March 2019 the Board of Directors declared an interim dividend of USD 0.32 (RR 21.11) per share/per GDR amounting to USD 58.4 million (RR 3,855 million). Declared dividends were paid in USD on 25 and 27 March 2019.

On 27 August 2018 the Board of Directors declared a regular interim dividend of USD 0.24 (RR 16.27) per share/per GDR amounting to USD 43.9 million (RR 2,972 million). Declared dividends were paid in USD on 24, 28 and 29 September 2018.

On 29 May 2018 the Board of Directors declared a regular interim dividend of USD 0.24 (RR 14.95) per share/per GDR amounting to USD 43.8 million (RR 2,730 million). Declared dividends were paid in USD on 21 and 27 June 2018.

On 9 March 2018 the Board of Directors declared a regular interim dividend of USD 0.31 (RR 17.61) per share/per GDR amounting to USD 56.6 million (RR 3,216 million). Declared dividends were paid in USD on 4 and 9 April 2018.

Dividends were declared and paid in USD throughout the years ended 31 December 2019 and 2018. Dividends payable at 31 December 2019 related to treasury shares acquired under MLTIP amounting to RR 582 million are included in other non-financial liabilities (31 December 2018: RR 760 million).

On 11 June 2019 the Group announced suspension of dividend payments for the three months ended 30 June and 30 September 2019 to ensure the Group will have the necessary capital to further support credit portfolio growth.

29 Reconciliation of Liabilities Arising from Financing Activities

The table below sets out an analysis of the Group's debt and the movements in the Group's debt for each of the periods presented. The debt items are those that are reported as financing in the consolidated statement of cash flows.

	Liabilities from financing activities				
In millions of RR	Debt securities in issue	Perpetual subordinated bonds	Other subordinated debt	Lease liabilities	Total
At 1 January 2018	**10,819**	**17,115**	**4,886**	**-**	**32,820**
Cash flows	(1,803)	(49)	(5,209)	-	(7,061)
Foreign exchange adjustments	580	3,553	382	-	4,515
Other non-cash movements	9	25	(59)	-	(25)
At 31 December 2018	**9,605**	**20,644**	**-**	**-**	**30,249**
Adoption of IFRS 16	-	-	-	1,665	1,665
Cash flows	16,671	46	-	(1,087)	15,630
Foreign exchange adjustments	(432)	(2,267)	-	-	(2,699)
Other non-cash movements	234	64	-	1,116	1,414
At 31 December 2019	**26,078**	**18,487**	**-**	**1,694**	**46,259**

30 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the Group. The functions of CODM are performed by the Management of the Bank and the Management of the Insurance Company.

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of 4 main business segments:

Retail banking – representing customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans, car loans, secured loans and brokerage services to individuals.

IE and SME accounts services – representing customer current accounts, savings, deposits services and providing loans to individual entrepreneurs and small to medium businesses.

Insurance operations – representing insurance services provided to individuals, such as personal accident insurance, personal property insurance, travel insurance and vehicle insurance (Note 24).

MVNO services - providing full coverage across Russia and international roaming, offering a number of value-added options such as virtual numbers, music and video streaming services, etc.

Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different services to the customers of the Group. They are managed separately because each business unit requires different marketing strategies and represents different types of businesses.

30 Segment Analysis (Continued)

Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on International financial reporting standards adjusted to meet the requirements of internal reporting. The CODM evaluates performance of each segment based on profit before tax.

Information about reportable segment profit or loss, assets and liabilities

Segment reporting of the Group's assets and liabilities as at 31 December 2019 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Elimina-tions	Total
Cash and cash equivalents	31,098	25,524	3,851	43	(2,720)	57,796
Mandatory cash balances with the CBRF	3,448	-	-	-	-	3,448
Due from other banks	250	-	1,834	-	-	2,084
Loans and advances to customers	330,905	900	-	-	(2,630)	329,175
Financial derivatives	390	-	-	-	-	390
Investments in securities	90,566	41,950	2,662	-	-	135,178
Guarantee deposits with payment systems	8,877	-	-	-	-	8,877
Current income tax assets	807	-	8	-	-	815
Deferred income tax assets	1,517	-	-	-	-	1,517
Tangible fixed assets and right-of-use assets	10,454	-	-	106	-	10,560
Intangible assets	4,105	823	196	311	-	5,435
Other financial assets	20,429	444	1,768	87	(1,055)	21,673
Other non-financial assets	2,034	-	592	187	(303)	2,510
Total reportable segment assets	**504,880**	**69,641**	**10,911**	**734**	**(6,708)**	**579,458**
Due to banks	663	-	-	2,630	(2,630)	663
Customer accounts	352,280	62,054	-	-	(2,720)	411,614
Debt securities in issue	26,078	-	-	-	-	26,078
Financial derivatives	590	-	-	-	-	590
Deferred income tax liabilities	142	-	-	-	-	142
Subordinated debt	18,487	-	-	-	-	18,487
Insurance provisions	-	-	6,280	-	-	6,280
Other financial liabilities	14,091	-	700	912	(1,055)	14,648
Other non-financial liabilities	5,067	-	52	58	(303)	4,874
Total reportable segment liabilities	**417,398**	**62,054**	**7,032**	**3,600**	**(6,708)**	**483,376**

30 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2019 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Elimina-tions	Total
External revenues:						
Interest income calculated using the effective interest rate method	107,021	2,629	322	-	-	109,972
Other similar income	118	-	-	-	-	118
Fee and commission income						
- IE and SME current accounts commission	-	8,483	-	-	-	8,483
- Fee for selling credit protection	5,550	-	-	-	-	5,550
- Acquiring commission	6,397	219	-	-	-	6,616
- SMS fee	3,244	-	-	-	-	3,244
- Interchange fee	2,674	799	-	-	-	3,473
- Foreign currency exchange transactions fee	2,713	311	-	-	-	3,024
- Card to card commission	1,980	-	-	-	-	1,980
- Cash withdrawal fee	720	-	-	-	-	720
- Income from MVNO services	-	-	-	890	-	890
- Brokerage operations	819	-	-	-	-	819
- Mortgage agency fee	136	-	-	-	-	136
- Marketing services fee	340	-	-	-	-	340
- Placement fee	141	-	-	-	-	141
- Other fees receivable	626	-	-	-	-	626
Timing of fee and commission income recognition:						
- At point in time	22,096	9,726	-	890	-	32,712
- Over time	3,244	86	-	-	-	3,330
Total fee and commission income	25,340	9,812	-	890	-	36,042
Net gains from foreign exchange translation	2,216	-	-	-	-	2,216
Net gains from disposals of debt securities at FVOCI	301	-	-	-	-	301
Net gains from debt instruments at FVTPL	389	-	-	-	-	389
Insurance premiums earned	318	-	13,792	-	-	14,110
Credit loss allowance for debt securities at FVOCI	139	-	-	-	-	139
Other operating income	4,355	69	288	1	-	4,713
Total external revenues	**140,197**	**12,510**	**14,402**	**891**	**-**	**168,000**

30 Segment Analysis (Continued)

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Elimina-tions	Total
Revenues from other segments:						
Interest income calculated using the effective interest rate method	146	-	83	1	(230)	-
Fee and commission income:						
- Acquiring commission	6	-	-	-	(6)	-
- Income from MVNO services	-	-	-	250	(250)	-
- Other fees receivable	83	-	-	-	(83)	-
Insurance premiums earned	-	-	453	-	(453)	-
Other operating income	62	-	-	-	(62)	-
Total revenues from other segments	**297**	**-**	**536**	**251**	**(1,084)**	**-**
Total revenues	**140,494**	**12,510**	**14,938**	**1,142**	**(1,084)**	**168,000**
Interest expense calculated using the effective interest rate method	(19,979)	(1,421)	-	(147)	230	(21,317)
Other similar expense	(129)	-	-	(5)	-	(134)
Expenses on deposit insurance	(1,659)	(211)	-	-	-	(1,870)
Credit loss allowance for loans and advances to customers and credit related commitments	(27,169)	(75)	-	-	-	(27,244)
Fee and commission expense	(14,755)	(2,022)	(14)	(910)	253	(17,448)
Customer acquisition expense	(15,361)	(1,272)	(1,091)	(986)	533	(18,177)
Net losses from derivatives revaluation	(2,563)	-	-	-	-	(2,563)
Net losses from operations with foreign currencies	(952)	-	(16)	-	-	(968)
Insurance claims incurred	-	-	(4,891)	-	-	(4,891)
Administrative and other operating expenses	(23,124)	(2,774)	(1,185)	(837)	68	(27,852)
Segment result	**34,803**	**4,735**	**7,741**	**(1,743)**	**-**	**45,536**

30 Segment Analysis (Continued)

Segment reporting of the Group's assets and liabilities as at 31 December 2018 is set out below:

In millions of RR	**Retail banking**	**SME accounts services**	**Insurance operations**	**MVNO services**	**Elimina-tions**	**Total**
Cash and cash equivalents	19,621	13,110	3,537	15	(2,481)	33,802
Mandatory cash balances with the CBRF	2,435	-	-	-	-	2,435
Due from other banks	-	-	776	-	-	776
Loans and advances to customers	199,513	330	386	-	(1,740)	198,489
Financial derivatives	1,710	-	-	-	-	1,710
Investments in debt securities	68,375	30,394	1,371	-	-	100,140
Repurchase receivables	1,182	-	-	-	-	1,182
Guarantee deposits with payment systems	4,603	-	-	-	-	4,603
Current income tax assets	1,104	-	-	-	-	1,104
Tangible fixed assets	8,280	-	-	89	-	8,369
Intangible assets	3,214	547	264	198	-	4,223
Other financial assets	15,316	173	542	46	(435)	15,642
Other non-financial assets	2,344	-	618	150	(88)	3,024
Total reportable segment assets	**327,697**	**44,554**	**7,494**	**498**	**(4,744)**	**375,499**
Due to banks	2,708	-	-	1,344	(1,344)	2,708
Customer accounts	242,092	41,702	-		(2,878)	280,916
Debt securities in issue	9,605	-	-	-	-	9,605
Financial derivatives	3	-	-	-	-	3
Current income tax liabilities	51	-	-	-	-	51
Deferred income tax liabilities	1,821	-	-	-	-	1,821
Subordinated debt	20,644	-	-	-	-	20,644
Insurance provisions	-	-	2,859	-	-	2,859
Other financial liabilities	9,746	-	1,711	213	(469)	11,201
Other non-financial liabilities	3,367	-	63	64	(53)	3,441
Total reportable segment liabilities	**290,037**	**41,702**	**4,633**	**1,621**	**(4,744)**	**333,249**

30 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2018 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Elimina-tions	Total
External revenues:						
Interest income calculated using the effective interest rate method	74,283	1,807	179	-	-	76,269
Other similar income	456	-	-	-	-	456
Fee and commission income:						
- SME current accounts commission	-	6,943	-	-	-	6,943
- Fee for selling credit protection	5,601	-	-	-	-	5,601
- Acquiring commission	4,078	84	-	-	-	4,162
- Interchange fee	2,595	451	-	-	-	3,046
- SMS fee	2,256	-	-	-	-	2,256
- Foreign currency exchange transactions fee	1,576	209	-	-	-	1,785
- Card to card commission	1,279	-	-	-	-	1,279
- Cash withdrawal fee	885	-	-	-	-	885
- Mortgage agency fee	419	-	-	-	-	419
- Brokerage operations	210	-	-	-	-	210
- Income from MVNO services	-	-	-	186	-	186
- Placement fee	167	-	-	-	-	167
- Marketing services fee	108	-	-	-	-	108
- Other fees receivable	376	-	-	-	-	376
Timing of fee and commission income recognition:						
- At point in time	17,294	7,469	-	186	-	24,949
- Over time	2,256	218	-	-	-	2,474
Total fee and commission income	19,550	7,687	-	186	-	27,423
Net gains from derivatives revaluation	1,784	-	-	-	-	1,784
Net gains from operations with foreign currencies	363	-	18	-	-	381
Net gains from disposals of debt securities at FVOCI	378	-	-	-	-	378
Insurance premiums earned	320	-	6,354	-	-	6,674
Other operating income	2,726	39	202	4	-	2,971
Total external revenues	**99,860**	**9,533**	**6,753**	**190**	**-**	**116,336**

30 Segment Analysis (Continued)

In millions of RR	Retail banking	SME accounts services	Insurance operations	MVNO services	Elimina-tions	Total
Revenues from other segments:						
Interest income calculated using the effective interest rate method	50	-	71	-	(121)	-
Fee and commission income						
- Acquiring commission	40	-	-	-	(40)	-
- Income from MVNO services	-	-	-	53	(53)	-
- Other fees receivable	17	-	-	-	(17)	-
Net gains from disposals of debt securities at FVOCI	79	-	-	-	(79)	-
Insurance premiums earned	-	-	311	-	(311)	-
Other operating income	59	-		-	(59)	-
Total revenues from other segments	**245**	**-**	**382**	**53**	**(680)**	**-**
Total revenues	**100,105**	**9,533**	**7,135**	**243**	**(680)**	**116,336**
Interest expense calculated using the effective interest rate method	(14,418)	(1,212)	-	(50)	121	(15,559)
Expenses on deposit insurance	(1,090)	(84)	-	-	-	(1,174)
Credit loss allowance for loans and advances to customers and credit related commitments	(11,574)	(33)	-	-	-	(11,607)
Credit loss allowance for debt securities at FVOCI	(192)	-	-	-	-	(192)
Fee and commission expense	(10,453)	(1,125)	-	(246)	54	(11,770)
Customer acquisition expense	(11,189)	(2,374)	(772)	(254)	367	(14,222)
Net losses from foreign exchange translation	(2,153)	-	-	(2)	-	(2,155)
Net losses from debt instruments at FVTPL	(808)	-	-	-	-	(808)
Insurance claims incurred	-	-	(2,126)	-	-	(2,126)
Administrative and other operating expenses	(17,372)	(2,370)	(1,002)	(814)	59	(21,499)
Segment result	**30,856**	**2,335**	**3,235**	**(1,123)**	**(79)**	**35,224**

31 Financial and Insurance Risk Management

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks by the management of the Bank and Insurance Company. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimize operational and legal risks.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets. The Group grants retail loans and IE and SME loans to customers across all regions of Russia, therefore its credit risk is broadly diversified.

31 Financial and Insurance Risk Management (Continued)

The management of the Group takes special measures to mitigate growing credit risk such as decreasing of credit limits for unreliable clients, diversifying of modes of work with overdue borrowers, toughening of scoring for the new borrowers etc., giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines, the maximum exposure to credit risk is the amount of the commitment (Note 33).

The Bank created a credit committee, which establishes general principles for lending to individual borrowers. According to these principles, the minimum requirements for potential customers are listed below:

- Citizenship of the Russian Federation;
- Age from 18 to 70 y.o., but not older than 70 y.o. at the time of loan repayment;
- Availability of a cell-phone;
- Permanent employment;
- Permanent income.

For cash loans, minimum requirements are listed below:

- The requested loan term is from 3 to 36 months;
- Cash loan volumes range between RR 50 thousand and RR 2,000 thousand.

For POS loans minimum requirements are listed below:

- The requested loan amount should exceed RR 3 thousand;
- The requested loan term is from 3 to 36 months;
- The amount of one POS loan does not exceed RR 200 thousand.

For secured loans minimum requirements are listed below:

- The requested loan secured with a car amount should be between RR 100 thousand and RR 3,000 thousand, loan term is from 3 months to 5 years. The requirement for the car is in good condition of driving with an age not more than 15 years;
- The requested loan secured with a real estate amount should be between RR 200 thousand and RR 15,000 thousand, loan term is from 3 months to 15 years. The requirement for the real estate is an apartment in the apartment building within the Russian Federation, which is free from any encumbrances.

For car loans minimum requirements are listed below:

- The requested loan term is from 1 to 5 years;
- Car loan volumes up to RR 2,000 thousand;
- The requirement for the car is with an age not more than 18 years.

For loans to SME minimum requirements are listed below:

- Working capital loan: loan volumes up to RR 10,000 thousand and loan term to 6 months;
- Credit for individual entrepreneurs for any purpose: loan volumes up to RR 2,000 thousand and loan term to 36 months;
- Credit for individual entrepreneurs secured by real estate: loan volumes up to RR 15,000 thousand and loan term to 15 years. The requirement for the real estate is an apartment in the apartment building within the Russian Federation, which is free from any encumbrances;

31 Financial and Insurance Risk Management (Continued)

- Investment credit line secured by real estate: loan volumes up to RR 15,000 thousand and loan term to 5 years. The requirement for the real estate is an apartment in the apartment building within the Russian Federation, which is free from any encumbrances.

A credit decision process includes:

- Validation of the application data. The system checks the validity of the data provided (addresses, telephone numbers, age, if the applicant already uses any other products of the Bank);
- Phone verification of the application information about the potential customer, his/her employment, social and property status, etc. This step may be omitted for POS loans;
- Requesting of the previous credit history of the applicant from the three largest credit bureaus in Russia – Equifax, UCB (United Credit Bureau) and NBCH (National Bureau of Credit Histories).
- Based on all available information, the credit score of the applicant is calculated and a final decision is made about the approval of the credit product;
- The approved loan amount, loan term and tariff plan are calculated depending on the score and declared income.

Management of the Group manages the credit risk on unused limits on credit cards in the following way:

a) if the credit card loan is overdue for more than 7 days, its account will be blocked till repayment;

b) if the borrower had lost his/her source of income, then borrower account might be blocked till verification of his/her new employment;

c) if borrower’s loan debt burden in other banks is substantially bigger than at the time of loan origination or the credit quality of the borrower decreases significantly then the borrower’s limit for credit might be reduced accordingly.

When a customer experiences serious difficulties with his/her current debt servicing, he/she may be offered loan restructuring. In this case the Bank stops accrual of interest, commissions and fines and the debt amount is restructured according to a fixed instalment payment plan with not more than 36 equal monthly payments. Another way of working with overdue loans is initiation of the state court process. This collection option statistically gives greater recovery than the sale of credit-impaired loans. Defaulted clients that could be subject to the court process are chosen by the Bank’s Collection Department considering the following criteria:

a) the client’s account balance was fixed, accrual of interest stopped;

b) information about the client is considered to be up to date;

c) the client denied restructuring program;

d) term of limitation of court actions has not expired;

e) court process is economically justified.

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.

31 Financial and Insurance 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)
Excellent	AAA, AA+ to AA-, A+ to A-
Good	BBB+ to BBB-, BB+
Monitor	BB to B+
Sub-standard	B, B-
Doubtful	CCC+ to CC-
Default	C, D

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

- *Excellent* – high credit quality with lowest or very low expected credit risk;
- *Good* - good credit quality with currently low expected credit risk;
- *Monitor* – adequate credit quality with a moderate credit risk;
- *Sub-standard* – moderate credit quality with a satisfactory credit risk;
- *Doubtful* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

For measuring credit risk and grading loans and advances to customers, credit related commitments and those financial instruments which do not have risk grades estimated by external international rating agencies, the Group applies risk grades and the corresponding range of probabilities of default (PD):

Master scale credit risk grade	Corresponding interval
Excellent	For credit cards: non-overdue with PD < 5%; for other types of loans: non-overdue for the last 12 months with PD < 5% or with early repayments
Good	all other non-overdue loans
Monitor	1-30 days overdue for all types of loans or without first due date for credit card loans
Sub-standard	31-90 days overdue or restructured loans 0-90 days overdue
NPL	90+ days overdue

The condition of early repayments is satisfied, as described in the table above, if cumulative amount of early repayments exceed 5% of the gross carrying amount at the date of recognition of the loan

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

- *Excellent* – strong credit quality with minimum expected credit risk;
- *Good* – adequate credit quality with low expected credit risk;
- *Monitor* – adequate credit quality with a moderate credit risk and credit cards loans before the first due date;
- *Sub-standard* – low credit quality with a substantial credit risk, includes restructured loans that are less than 90 days overdue;
- *NPL* – non-performing loans, credit-impaired loans more than 90 days overdue.

The rating models are regularly reviewed by the Credit Risk Department, backtested on actual default data and updated if necessary. Despite the method used, the Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

31 Financial and Insurance Risk Management (Continued)

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.

31 Financial and Insurance 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. 18-month period was determined as the weighted average period of the most recent date where the credit limit was revised by at least 25%, which is considered to be a substantial revision.

For all other loans:

- 30 days past due; or
- if the loans were past due for more than 30 days during the last 6 months or if the loans fell past due during the last 4 months more than once.

If the SICR criteria are no longer met, the instrument will be transferred back to Stage 1.

General principle of techniques applied

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether or not the credit risk of the borrower has increased significantly since initial recognition.

This approach can be summarised in a three-stage model for ECL measurement:

- Stage 1 – a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition, the loss allowance is based on 12-month ECLs;
- Stage 2 – if since the date, which was assumed to be the date of initial recognition is identified a SICR, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired, the loss allowance is based on lifetime ECLs;
- Stage 3 – if the financial instrument is credit-impaired or restructured, the financial instrument is then moved to Stage 3 and the loss allowance is based on lifetime ECLs.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Group only recognises the cumulative changes in lifetime expected credit losses.

The Group carries out two separate approaches for ECL measurement:

- for loans and advances to customers: assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) are applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio;
- for all other financial assets except FVTPL: assessment based on external ratings.

The Group performs an assessment on a portfolio basis for the retail loans. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information, such as delinquency, the historical data on losses and other.

31 Financial and Insurance Risk Management (Continued)

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.

The EADs are determined based on the expected payment profile, on an individual basis. For revolving products, the EAD is predicted by taking the current withdrawn balance and adding a “credit conversion factor” that accounts for the expected drawdown of the remaining limit of utilised loans by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics. For other products EAD is equal to current exposure as there is no credit limit to utilize.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months. This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historic default data using borrower-specific behavioural characteristics and adjusted for forward-looking information when appropriate. Based on borrower-specific PDs the exposures are allocated to segments to which average PD for the segment is applied.
- Lifetime PDs – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs for Stage 2 and Stage 3 exposures. An assessment of a lifetime PD is based on the latest available historic default data using product specific lifetime periods defined above. To calculate Lifetime PD, the Group developed lifetime PD curves based on the 12-month PD data.

31 Financial and Insurance Risk Management (Continued)

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. For credit card loans, cash loans and POS loans LGDs are calculated on portfolio basis based on recovery statistics of defaulted loans over the period of 24 or 36 months. For secured loans, car loans and loans to SME LGDs are calculated using current market data in relation to the expected recoveries.

ECL measurement for loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment. CCF for undrawn credit limits of credit cards and overdrafts is defined based on statistical analysis of exposures at default.

Principles of assessment based on external ratings – the principles of ECL calculations based on external ratings are the same as for their assessment on a portfolio basis. Credit risk parameters (PD and LGD) are taken from the default and recovery statistics published by international rating agencies (Fitch and in case of their absence - Moody's or Standard & Poor's).

Forward-looking information incorporated in the ECL models. The calculation of ECLs incorporates forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECLs for each portfolio. The list of variables:

- Russian stock market index MOEX;
- Moscow Prime Offered Rate;
- Debt load of Russian population based on statistics from bureaus of credit history.

The impact of these economic variables on the ECL has been determined by performing statistical regression analysis in order to understand the way how changes in these variables historically impacted default rates. Three different scenarios are used: base, optimistic and pessimistic. The scenarios are weighted accordingly with base scenario having the 90.8% weight, optimistic scenario having the 1.3% weight and pessimistic scenario having the 7.9% weight.

Backtesting – the Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed on a quarterly basis.

The results of backtesting the ECL measurement methodology are communicated to Group Management and further steps for refining models and assumptions are defined after discussions between authorised persons.

Market risk. The Group takes on exposure to market risks. Market risks of the Group arise from open positions in (a) currency and (b) interest rate, both of which are exposed to general and specific market movements. The priority goal of market risk management is to maintain the risks assumed by the Group at a level determined by the Group in accordance with its own strategic objectives. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, the management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

31 Financial and Insurance Risk Management (Continued)

The table below summarizes the Group's exposure to foreign currency exchange rate risk at the end of the year:

In millions of RR	At 31 December 2019				At 31 December 2018			
	Non-derivative monetary financial assets	Non-derivative monetary financial liabilities	Derivatives	Net position	Non-derivative monetary financial assets	Non-derivative monetary financial liabilities	Derivatives	Net position
RR	491,635	(390,010)	(12,995)	88,630	307,617	(264,073)	(5,283)	38,261
USD	46,930	(62,098)	13,422	(1,746)	37,550	(47,539)	7,245	(2,744)
Euro	18,902	(20,261)	(595)	(1,954)	11,318	(13,773)	(233)	(2,688)
GBP	677	(675)	(32)	(30)	571	(586)	(22)	(37)
Others	87	(788)	-	(701)	13	(202)	-	(189)
Total	**558,231**	**(473,832)**	**(200)**	**84,199**	**357,069**	**(326,173)**	**1,707**	**32,603**

Derivatives presented above are monetary financial assets or monetary financial liabilities but are presented separately in order to show the Group's gross exposure. Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 37.

The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

In millions of RR	At 31 December 2019		At 31 December 2018	
	Impact on profit for the year	Impact on total equity	Impact on profit for the year	Impact on total equity
USD strengthening by 20% (2018: by 20%)	(277)	(277)	(417)	(417)
USD weakening by 20% (2018: by 20%)	277	277	417	417
Euro strengthening by 20% (2018: by 20%)	(310)	(310)	(408)	(408)
Euro weakening by 20% (2018: by 20%)	310	310	408	408
GBP strengthening by 20% (2018: by 20%)	(5)	(5)	(6)	(6)
GBP weakening by 20% (2018: by 20%)	5	5	6	6

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Group is exposed to prepayment risk through providing fixed rate loans, which give the borrower the right to repay the loans early. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2018: no material impact).

31 Financial and Insurance 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 2019						
Total financial assets	136,206	153,392	66,962	121,755	80,306	558,621
Total financial liabilities	(199,880)	(155,323)	(62,923)	(44,109)	(12,187)	(474,422)
Net interest sensitivity gap at 31 December 2019	**(63,674)**	**(1,931)**	**4,039**	**77,646**	**68,119**	**84,199**
31 December 2018						
Total financial assets	103,449	124,541	35,930	31,883	62,976	358,779
Total financial liabilities	(200,101)	(56,301)	(40,080)	(3,743)	(25,951)	(326,176)
Net interest sensitivity gap at 31 December 2018	**(96,652)**	**68,240**	**(4,150)**	**28,140**	**37,025**	**32,603**

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

The aim of interest rate risk management is to maintain the risks assumed by the Group within the limits determined by the Group in accordance with its own strategic objectives. The interest rate risk is managed by setting caps and floors in relation to interest rates on financial assets and liabilities depending on their types and maturities and balancing the assets and liabilities which are sensitive to changes in interest rates.

The assessment of the magnitude of interest rate risk is carried out by performing a sensitivity analysis which imply assessment of impact on net interest income of a shift in interest rates by 200 basis points. At 31 December 2019, if interest rates at that date had been 200 basis points lower/higher (2018: 200 basis points), with all other variables held constant, profit for the year would have been RR 1,684 million (2018: RR 652 million) lower/higher, equity would have been RR 1,684 million (2018: RR 652 million) lower/higher.

The Group monitors interest rates for its financial instruments. The table below summarizes interest rates for the years 2019 and 2018 based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2019					2018			
In % p.a.	RR	USD	EURO	GPB	Other	RR	USD	EURO	GPB
Assets									
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	37.2	-	-	-	-	42.7	-	-	-
Due from banks	5.3	1.6	-	-	-	5.9	-	-	-
Investment in securities	7.9	4.3	2.4	-	-	8.5	4.5	3.2	-
Repurchase receivables	-	-	-	-	-	7.4	4.3	-	-
Liabilities									
Due to banks	6.2	0.0	-	-	-	7.0	2.4	-	-
Customer accounts	5.1	1.0	0.1	0.1	0.0	5.2	0.9	0.4	0.3
Debt securities in issue	9.0	3.8	1.2	-	-	9.9	4.4	1.4	-
Subordinated debt	-	10.0	-	-	-	-	10.0	-	-

31 Financial and Insurance Risk Management (Continued)

The sign "-" in the table below means that the Group does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Group has exposure to equity price risk. Transactions with equity instruments are monitored and authorised by the Group's Treasury function. At 31 December 2019, if equity prices at that date had been 20% lower (higher) with all other variables held constant, profit for the year would have been RR 83 million lower (higher).

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2019 is set out below:

In millions of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	54,893	2,903	-	-	57,796
Mandatory cash balances with the CBRF	3,448	-	-	-	3,448
Due from other banks	2,084	-	-	-	2,084
Loans and advances to customers	329,175	-	-	-	329,175
Financial derivatives	390		-	-	390
Investments in securities	134,765	413	-	-	135,178
Repurchase receivables	-	-	-	-	-
Guarantee deposits with payment systems	501	8,376	-	-	8,877
Other financial assets	8,272	13,401	-	-	21,673
Total financial assets	**533,528**	**25,093**	**-**	**-**	**558,621**
Financial liabilities					
Due to banks	663	-	-		663
Customer accounts	411,504	-	110	-	411,614
Debt securities in issue	2,460	-	-	23,618	26,078
Financial derivatives	590	-	-	-	590
Subordinated debt	-	-	-	18,487	18,487
Insurance provisions	2,342				2,342
Other financial liabilities	14,589	59	-	-	14,648
Total financial liabilities	**432,148**	**59**	**110**	**42,105**	**474,422**
Credit related commitments (Note 33)	**168,059**	**-**	**-**		**168,059**

31 Financial and Insurance Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2018 is set out below:

In millions of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	31,911	1,891	-	-	33,802
Mandatory cash balances with the CBRF	2,435	-	-	-	2,435
Due from other banks	776	-	-	-	776
Loans and advances to customers	198,489	-	-	-	198,489
Financial derivatives	1,710	-	-	-	1,710
Investment in debt securities	100,126	-	14	-	100,140
Repurchase receivables	1,182	-	-	-	1,182
Guarantee deposits with payment systems	168	4,435	-	-	4,603
Other financial assets	8,212	7,430	-	-	15,642
Total financial assets	**345,009**	**13,756**	**14**	**-**	**358,779**
Financial liabilities					
Due to banks	2,708	-	-	-	2,708
Customer accounts	280,118	-	798	-	280,916
Debt securities in issue	3,754	-	-	5,851	9,605
Financial derivatives	3	-	-	-	3
Subordinated debt	-	-	-	20,644	20,644
Insurance provisions	1,099	-	-	-	1,099
Other financial liabilities	11,018	183	-	-	11,201
Total financial liabilities	**298,700**	**183**	**798**	**26,495**	**326,176**
Credit related commitments (Note 33)	**110,478**	**-**	**-**	**-**	**110,478**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption "Russia".

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group did not have any such significant risk concentrations at 31 December 2019 and 2018.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from unused limits on issued credit cards, retail deposits from customers, current accounts and due to banks. The Group does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place and it can be predicted with a high level of certainty. Liquidity risk is managed by the Financial Committee of the Bank. The Group seeks to maintain a stable funding base primarily consisting of amounts due to institutional investors, corporate and retail customer deposits and debt securities. The Group keeps all available cash in diversified portfolios of liquid instruments such as a correspondent account with CBRF and overnight placements in high-rated commercial banks, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The available cash at all times exceeds all accrued financing costs falling due within half a year plus two months of regular operating costs.

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.

31 Financial and Insurance Risk Management (Continued)

The liquidity analysis takes into account the covenant requirements and ability of the Group to waive any potential breaches within the grace period. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the CBRF. The Bank has complied with these ratios throughout 2019 and 2018. The CFO receives information about the liquidity profile of the financial assets and liabilities. This includes daily, weekly, monthly and quarterly updates on the level of credit card transactions and repayments, statistics on credit card issuance and credit card limit utilisation, inflow and outflow of retail deposits, changes in the investment securities portfolio, level of expected outflows such as operating costs and financing activities. The CFO then ensures the availability of an adequate portfolio of short-term liquid assets, made up of an amount on the correspondent account with the CBRF and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole. Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behaviour is reviewed by the CFO.

The table below shows liabilities at 31 December 2019 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

In millions of RR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities						
Due to banks	663	-	-	-	-	663
Customer accounts	189,176	84,108	70,530	60,627	11,605	416,046
Debt securities in issue	168	338	487	2,082	23,795	26,870
Subordinated debt	149	291	440	891	18,541	20,312
Insurance provisions	463	917	438	296	228	2,342
Other financial liabilities	14,648	-	-	-	-	14,648
Financial derivatives	-	199	203	399	19,833	20,634
Credit related commitments (Note 33)	168,059	-	-	-	-	168,059
Total potential future payments for financial obligations	**373,326**	**85,853**	**72,098**	**64,295**	**74,002**	**669,574**

The maturity analysis of financial liabilities at 31 December 2018 is as follows:

In millions of RR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities						
Due to banks	2,708	-	-	-	-	2,708
Customer accounts	191,308	24,257	32,600	34,571	1,719	284,455
Debt securities in issue	55	106	162	4,175	5,906	10,404
Subordinated debt	167	320	493	998	20,865	22,843
Insurance provisions	213	422	217	156	91	1,099
Other financial liabilities	11,201	-	-	-	-	11,201
Financial derivatives	-	92	92	185	9,706	10,075
Credit related commitments (Note 33)	110,478	-	-	-	-	110,478
Total potential future payments for financial obligations	**316,130**	**25,197**	**33,564**	**40,085**	**38,287**	**453,263**

31 Financial and Insurance Risk Management (Continued)

Financial derivatives receivable and payable are disclosed in the Note 37. The tables above present only the gross payables.

Insurance provisions are disclosed in the table above based on their expected maturities.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group takes on exposure to liquidity risk, which is the risk of cash surplus in case of assets-liabilities cash-flow profile mismatch. Exposure to liquidity risk arises as a result of the Group's borrowing and operational activities that assume cash payment obligations. The Group uses daily, short-term and long-term reporting, stress-testing and forecasting practices to monitor and prevent potential liquidity problems. The Group is actively increasing the number of counterparties for interbank lending, looks for new wholesale markets, improves and creates additional debit and credit products to have more instruments over cash-flow management. The recent economic situation has resulted in increased liquidity risk. In response the management of the Group preserves cash safety cushions for possible cash outflows and has planned Group's liquidity position for the next year to ensure it can cover all upcoming payment obligations.

The expected maturity analysis of financial instruments at carrying amounts as monitored by management at 31 December 2019 is presented in the table below.

In millions of RR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Assets							
Cash and cash equivalents	57,796	-	-	-	-	-	57,796
Mandatory cash balances with the CBRF	1,508	510	346	513	571	-	3,448
Due from other banks	-	-	46	-	2,038	-	2,084
Loans and advances to customers	48,391	63,640	63,466	61,884	79,105	12,689	329,175
Financial derivatives	-	-	-	-	390	-	390
Investments in securities	135,178	-	-	-	-	-	135,178
Guarantee deposits with payment systems	1,304	1,717	1,712	1,669	2,133	342	8,877
Other financial assets	21,569	63	20	10	11	-	21,673
Total financial assets	**265,746**	**65,930**	**65,590**	**64,076**	**84,248**	**13,031**	**558,621**
Liabilities							
Due to banks	663	-	-	-	-	-	663
Customer accounts	180,017	60,879	41,259	61,298	68,161	-	411,614
Debt securities in issue	-	411	599	1,008	12,463	11,597	26,078
Financial derivatives	-	-	-	-	590	-	590
Subordinated debt	-	158	-	-	18,329	-	18,487
Insurance provisions	463	917	438	296	228	-	2,342
Other financial liabilities	14,648	-	-	-	-	-	14,648
Total financial liabilities	**195,791**	**62,365**	**42,296**	**62,602**	**99,771**	**11,597**	**474,422**
Net liquidity gap at 31 December 2019	**69,955**	**3,565**	**23,294**	**1,474**	**(15,523)**	**1,434**	**84,199**
Cumulative liquidity gap at 31 December 2019	**69,955**	**73,520**	**96,814**	**98,288**	**82,765**	**84,199**	**-**

31 Financial and Insurance Risk Management (Continued)

Provision for unearned premiums in the amount of RR 3,938 million is not included in the insurance provisions stated above. Refer to Note 18.

The expected maturity analysis of financial instruments at carrying amounts as monitored by management at 31 December 2018 is presented in the table below.

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets							
Cash and cash equivalents	33,802	-	-	-	-	-	33,802
Mandatory cash balances with the CBRF	1,602	66	106	298	363	-	2,435
Due from other banks	13	206	-	431	126	-	776
Loans and advances to customers	33,496	44,272	43,675	40,612	35,292	1,142	198,489
Financial derivatives	-	-	-	-	1,710	-	1,710
Investment in debt securities	100,140	-	-	-	-	-	100,140
Repurchase receivables	1,182	-	-	-	-	-	1,182
Guarantee deposits with payment systems	1,084	1,463	1,138	735	183	-	4,603
Other financial assets	15,542	63	21	11	5	-	15,642
Total financial assets	**186,861**	**46,070**	**44,940**	**42,087**	**37,679**	**1,142**	**358,779**
Liabilities							
Due to banks	2,708	-	-	-	-	-	2,708
Customer accounts	119,413	42,478	28,554	43,657	46,814		280,916
Debt securities in issue	-	-	274	4,027	5,304	-	9,605
Financial derivatives	-	-	-	-	3	-	3
Subordinated debt	-	114	-	-	20,530	-	20,644
Insurance provisions	213	422	217	156	91	-	1,099
Other financial liabilities	11,201	-	-	-	-	-	11,201
Total financial liabilities	**133,535**	**43,014**	**29,045**	**47,840**	**72,742**	**-**	**326,176**
Net liquidity gap at 31 December 2018	**53,326**	**3,056**	**15,895**	**(5,753)**	**(35,063)**	**1,142**	**32,603**
Cumulative liquidity gap at 31 December 2018	**53,326**	**56,382**	**72,277**	**66,524**	**31,461**	**32,603**	**-**

Provision for unearned premiums in the amount of RR 1,760 million is not included in the insurance provisions stated above. Refer to Note 18.

As at the 31 December 2019 all the investment in debt securities are classified within demand and less than one month as they are easy repoable in CBR or on the open market securities and can provide immediate liquidity to the Group. All current accounts of individuals are classified within demand and less than one month (2018: the same).

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.

31 Financial and Insurance Risk Management (Continued)

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Insurance risk. Insurance risk is the risk associated with insurance contracts, consisting in the possibility of the occurrence of an insurance event and the uncertainty of the amount and time of occurrence of the loss associated with it.

The insurance risk management process covers all stages, from the stage of development of insurance rates to the settlement of losses.

The main steps in the insurance risk management process include:

- Underwriting and regulation of tariff policy;
- Efficiency of the loss settlement process;
- Diversification of the insurance portfolio.

Tariff policy. The process of underwriting and regulation of the tariff policy includes the formation of tariffs for certain areas of activity based on the analysis of results for previous periods, existing market conditions and the Insurance Company's strategy.

The insurance tariff is set on the basis of the analysis of the expected loss ratio based on Group's insurance portfolio and similar products on the market, the commission ratio based on the analysis of product profitability and commission rates for similar products on the market, and the analysis of the average market rate. When developing tariffs, factors such as expected inflation and changes in the legislation of the Russian Federation are also taken into account.

The Insurance Company monitors the correctness of the calculation of the insurance premium under the insurance contract by analyzing, on a regular basis, the deviations of the actual received premiums from the estimated premiums.

Loss settlement process. In accordance with the insurance contract, the policyholder is obliged to notify the insurance company of a loss within a certain period of time. Losses are settled by specialized units, other than selling business units. The insurance claims will be paid only after receiving all the necessary documents confirming the fact of the insured event. Also, if necessary, economic security department and legal department are involved in checking documents for settlement of losses. If at the time of payment of the insurance claims the policyholder had outstanding debt of the insurance premium, the unpaid part is deducted from the amount of compensation.

If there is a third party that caused an insurance loss to the insured client, the Group has a right to pursue third parties responsible for loss for payment of some or all costs related to the claims settlement process of the Group.

Diversification of the insurance portfolio. To reduce insurance risk, the Group also uses the diversification of its insurance portfolio - it insures a large number of small risks, which, in particular, is achieved through the remote provision of insurance services almost throughout the Russian Federation. The company does not operate outside the Russian Federation and is exposed to risks associated with the geographical features of the regions of the Russian Federation.

Sensitivity analysis. The following analyses the possible changes in the key assumptions used in the calculation of insurance liabilities under contracts other than life insurance, provided that the other assumptions are constant. This analysis reflects the impact on gross and net liabilities, profit before tax and equity of the Group.

31 Financial and Insurance Risk Management (Continued)

Effect of changes in the key assumptions as at 31 December 2019:

In millions of RR except for the number of claims	**Change in assumptions**	**Effect on insurance obligations other than life insurance**	**Effect on the reinsurers' share in insurance obligations other than life insurance**	**Effect on profit before tax**	**Effect on equity**
The average cost of insurance claims	– 10%	(193)	-	193	154
	+ 10%	193	-	(193)	(154)
The average number of claims	– 10%	193	-	(193)	(154)
	+ 10%	(193)	-	193	154

Effect of changes in the key assumptions as at 31 December 2018:

In millions of RR except for the number of claims	**Change in assumptions**	**Effect on insurance obligations other than life insurance**	**Effect on the reinsurers' share in insurance obligations other than life insurance**	**Effect on profit before tax**	**Effect on equity**
The average cost of insurance claims	– 10%	(97)	-	97	77
	+ 10%	97	-	(97)	(77)
The average number of claims	– 10%	(97)	-	97	77
	+ 10%	97	-	(97)	(77)

32 Management of Capital

The Group's objectives when managing capital are (i) for the Bank to comply with the capital requirements set by the Central Bank of Russian Federation (CBRF), (ii) for the Insurance Company to comply with the capital requirements set by the legislation of the Russian Federation, (iii) for the Group to comply with the financial covenants set by the terms of securities issued; (iv) to safeguard the Group's ability to continue as a going concern.

The Group considers total capital under management to be equity attributable to shareholders of the Company as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2019 was RR 95,979 million (31 December 2018: RR 42,014 million).

Compliance with capital adequacy ratios set by the CBRF is monitored daily and submitted to the CBRF monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually. The amount of regulatory capital of Tinkoff Bank calculated in accordance with the methodology set by CBRF as at 31 December 2019 was RR 99,731 million, and the equity capital adequacy ratio (N1.0) was 12.12% (31 December 2018: RR 74,375 million and 13.92%). Minimum required statutory equity capital adequacy ratio (N1.0) was 8% as at 31 December 2019 (31 December 2018: 8%).

32 Management of Capital (Continued)

The Group also monitors capital requirements including capital adequacy ratio under the Basel III methodology of the Basel Committee on Banking Supervision: global regulatory framework for more resilient banks and banking systems (hereinafter "Basel III"). The composition of the Group's capital calculated in accordance with the methodology set by Basel Committee with capital adjustments as set out in Basel III is as follows:

In millions of RR	**31 December 2019**	**31 December 2018**
Share capital	230	188
Share premium	26,998	8,623
Treasury shares	(3,164)	(3,670)
Share-based payment reserve	1,039	1,232
Retained earnings	66,880	36,785
Revaluation reserve for investments in debt securities	3,996	(1,144)
Less intangible assets	(5,435)	(4,223)
Non-controlling interest	103	236
Common Equity Tier 1 (CET1)	**90,647**	**38,027**
Additional Tier 1	18,487	20,644
Tier 1 capital	**109,134**	**58,671**
Total capital	**109,134**	**58,671**
Risk weighted assets (RWA)		
Credit risk	412,741	276,875
Operational risk	152,881	109,818
Market risk	4,603	6,626
Total risk weighted assets (RWA)	**570,225**	**393,319**
Common equity Tier 1 capital adequancy ratio (CET1/ Total RWA), %	**15.90%**	**9.67%**
Tier 1 capital adequacy ratio (Tier 1 capital / Total RWA), %	**19.14%**	**14.92%**
Total capital adequacy ratio (Total capital / Total RWA), %	**19.14%**	**14.92%**

The Group and the Bank have complied with all externally imposed capital requirements throughout the years ended 31 December 2019 and 2018.

The Insurance Company has complied with all capital requirements set by the legislation of the Russian Federation throughout the years ended 31 December 2019 and 2018.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material unprovided losses will be incurred in respect of claims.

33 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 2019 and 31 December 2018 no material tax risks were identified.

Future lease payments related to leases where leased asset is of low value at 31 December 2019. The future cash outflows to which the Group is exposed and which are not reflected in the lease liabilities amounted to RR 59 million at 31 December 2019 and relate primarily to leases of assets which are of low value.

Maturity analysis of lease liabilities. The expected maturity analysis of lease liabilities at carrying amounts at 31 December 2019 is presented in the table below.

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Lease liabilities	11	109	111	209	1,254	**1,694**

Compliance with covenants. The Group is subject to certain covenants related primarily to its subordinated perpetual debt. Non-compliance with such covenants may result in negative consequences for the Group. Management believes that the Group was in compliance with all such covenants as at 31 December 2019 and 31 December 2018.

33 Contingencies and Commitments (Continued)

Credit related commitments and performance guarantees issued. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of credit card loans, guarantees. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down.

Most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses a scoring model to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows.

Outstanding credit related commitments and performance guarantees are as follows:

In millions of RR	**31 December 2019**	**31 December 2018**
Unused limits on credit card loans	168,059	110,478
Credit loss allowance	(2,242)	(2,041)
Total credit related commitments, net of credit loss allowance	**165,817**	**108,437**
Performance guarantees issued	660	44
Provisions	(3)	-
Total performance guarantees issued, net of provisions	**657**	**44**

The total outstanding contractual amount of unused limits on contingencies and commitments liability does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. In accordance with credit card service conditions the Group has a right to refuse the issuance, activation, reissuing or unblocking of a credit card, and is providing a credit card limit at its own discretion and without explaining its reasons.

The following table contains an analysis of credit related commitments by credit quality at 31 December 2019 based on credit risk grades.

In millions of RR	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Credit related commitments				
- Excellent	145,154	-	-	145,154
- Good	12,285	84	-	12,369
- Monitor	10,360	176	-	10,536
Unrecognised gross amount	**167,799**	**260**	**-**	**168,059**
Credit loss allowance	(2,228)	(14)	-	(2,242)
Unrecognised net amount	**165,571**	**246**	**-**	**165,817**

33 Contingencies and Commitments (Continued)

The following table contains an analysis of credit related commitments by credit quality at 31 December 2018 based on credit risk grades.

In millions of RR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Credit related commitments				
- Excellent	94,144	-	-	94,144
- Good	7,274	71	-	7,345
- Monitor	8,827	162	-	8,989
Unrecognised gross amount	**110,245**	**233**	**-**	**110,478**
Credit loss allowance	(2,024)	(17)	-	(2,041)
Unrecognised net amount	**108,221**	**216**	**-**	**108,437**

Also, the Group may decide to increase or decrease a credit card limit using a scoring model, which is based on the client's behaviour model. Therefore, the fair value of the contractual amount of revocable unused limits on contingencies and commitments is close to zero. Credit related commitments are denominated in RR.

The following table contains an analysis of performance guarantees issued by credit quality based on credit risk grades.

In millions of RR	2019 Stage 1 (12-months ECL)	2018 Stage 1 (12-months ECL)
Performance guarantees issued		
- Excellent	415	44
- Good	245	-
Unrecognised gross amount	**660**	**44**
Provisions	(3)	-
Unrecognised net amount	**657**	**44**

Mandatory cash balances with the CBRF of RR 3,448 million as at 31 December 2019 (31 December 2018: RR 2,435 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

34 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2019:

In millions of RR	Gross amounts before offsetting	Gross amounts set off in the consolidated statement of financial position	Net amount after offsetting in the consolidated statement of financial position	Amounts subject to master netting and similar arrangements not set off in the consolidated statement of financial position: Financial instruments	Amounts subject to master netting and similar arrangements not set off in the consolidated statement of financial position: Cash collateral	Net amount of expo-sure
Assets						
Reverse repurchase agreements	20,681	-	20,681	22,369	-	(1,688)
Due from banks	204	-	204	227	-	(23)
Financial derivatives	20	-	20	-	23	(3)
Total assets subject to offsetting, master netting and similar arrangement	**20,905**	**-**	**20,905**	**22,596**	**23**	**(1,714)**
LIABILITIES						
Due to banks	663	-	663	20	-	643
Financial derivatives	227	-	227	-	204	23
Total liabilities subject to offsetting, master netting and similar arrangement	**890**	**-**	**890**	**20**	**204**	**666**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2018:

In millions of RR	Gross amounts before offsetting	Gross amounts set off in the consolidate d statement of financial position	Net amount after offsetting in the consolidated statement of financial position	Amounts subject to master netting and similar arrangements not set off in the consolidated statement of financial position: Financial instruments	Amounts subject to master netting and similar arrangements not set off in the consolidated statement of financial position: Cash collateral	Net amount of expo-sure
Assets						
Reverse repurchase agreements	11,147	-	11,147	12,389	-	(1,242)
Repurchase receivables	1,182	-	1,182	-	1,111	71
Financial derivatives	1,706	-	1,706	-	1,598	108
Total assets subject to offsetting, master netting and similar arrangement	**14,035**	**-**	**14,035**	**12,389**	**2,709**	**(1,063)**
LIABILITIES						
Correspondent accounts and overnight placements of other banks	1,598	-	1,598	1,706	-	(108)
Sale and repurchase agreements	1,111	-	1,111	1,182	-	(71)
Total liabilities subject to offsetting, master netting and similar arrangement	**2,709**	**-**	**2,709**	**2,888**	**-**	**(179)**

34 Offsetting Financial Assets and Financial Liabilities (Continued)

As at 31 December 2019 the Group has master netting arrangements with counterparty banks, which are enforceable in case of default. The Group also made margin deposits with clearing house counterparty as collateral for its outstanding derivative positions. The counterparty may set off the Group's liabilities with the margin deposit in case of default (2018: same). The disclosure does not apply to loans and advances to customers and related customer deposits.

35 Transfers of Financial Assets

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

The table below shows the amount of operations under sale and repurchase agreements which the Group enters into in the normal course of business:

		31 December 2019		31 December 2018	
In millions of RR	**Notes**	**Carrying amount of the assets**	**Carrying amount of the associated liabilities**	**Carrying amount of the assets**	**Carrying amount of the associated liabilities**
Debt securities at FVOCI pledged under repurchase agreements	14	-	-	1,182	1,111
Securities of clients pledged under repurchase agreements	14	683	640	-	-
Total		**683**	**640**	**1,182**	**1,111**

In the normal course of business, the Group makes borrowings on interbank market using different financial instruments as collateral to support its everyday operations in terms of liquidity.

The Group also enters into reverse sale and repurchase agreements. The summary of such operations is provided in the table below:

	31 December 2019		31 December 2018	
In millions of RR	**Amounts granted under repo agreements**	**Fair value of securities received as collateral**	**Amounts granted under repo agreements**	**Fair value of securities received as collateral**
Cash and cash equivalents	20,681	22,369	11,147	12,389
Total	**20,681**	**22,369**	**11,147**	**12,389**

36 Non-Controlling Interest

The following table provides information about each subsidiary that has non-controlling interest:

In millions of RR	**Place of business (and country of incorpo-ration if different)**	**Proportion of non-controlling interest**	**Proportion of non-controlling interest's voting rights held**	**Profit or loss attribu-table to non-controlling interest**	**Accumu-lated non-controlling interest in the subsidiary**	**Dividends paid to non-controlling interest during the year**
Year ended 31 December 2019						
LLC "Cloudpayments"	Russia	5%	5%	1	103	-
Year ended 31 December 2018						
LLC "Cloudpayments"	Russia	45%	45%	34	236	-

36 Non-Controlling Interest (Continued)

The summarised financial information of these subsidiaries was as follows:

In millions of RR	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total compre-hensive income	Cash flows
Year ended 31 December 2019								
LLC "Cloudpayments"	329	301	136	-	512	91	91	2
Year ended 31 December 2018								
LLC "Cloudpayments"	180	376	43	-	226	30	30	23

37 Financial Derivatives

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forwards and swap contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

	31 December 2019		31 December 2018	
In millions of RR	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: discounted notional amounts, at the end of the reporting period, of				
- USD receivable on settlement (+)	8,768	8,888	9,373	-
- USD payable on settlement (-)	(1,570)	(2,664)	(1,146)	(982)
- RR receivable on settlement (+)	1,896	2,971	1,619	1,360
- RR payable on settlement (-)	(8,388)	(9,474)	(7,666)	(596)
- EUR receivable on settlement (+)	-	-	-	596
- EUR payable on settlement (-)	(301)	(294)	(459)	(370)
- GBP payable on settlement (-)	(15)	(17)	(11)	(11)
Fair value of foreign exchange forwards and swaps	**390**	**(590)**	**1,710**	**(3)**

Included in financial derivatives held by the Group as at 31 December 2019 are three outstanding swap contracts with total positive fair value of RR 380 million and three outstanding swap contracts with total negative fair value of RR 586 million (2018: three outstanding swap contracts with total positive fair value of RR 1,706 million).

38 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

38 Fair Value of Financial Instruments (Continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2019				31 December 2018			
In millions of RR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
Financial derivatives	-	390	-	390	-	1,710	-	1,710
Investments in securities	133,239	1,939	-	135,178	94,647	5,493	-	100,140
Repurchase receivables	-	-	-	-	1,182	-	-	1,182
Total assets recurring fair value measurements	**133,239**	**2,329**	**-**	**135,568**	**95,829**	**7,203**	**-**	**103,032**
LIABILITIES AT FAIR VALUE								
Financial derivatives	-	590	-	590	-	3	-	3
Total liabilities recurring fair value measurements	**-**	**590**	**-**	**590**	**-**	**3**	**-**	**3**

Investments in securities categorised in level 2 are represented by liquid debt securities classified in "Good" credit risk grade.

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2019 are as follows:

In millions of RR	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Investments in securities	1,939	Observable quotes for comparable securities adjusted by multiplicator depending on the degree of the market activity	Quotes from the automated fair value system for financial instruments of NSD Price Center*
Foreign exchange swaps and forwards	390	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. EUR Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**2,329**		
LIABILITIES AT FAIR VALUE			
Foreign exchange swaps and forwards	590	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. EUR Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**590**		

38 Fair Value of Financial Instruments (Continued)

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2018 are as follows:

In millions of RR	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Investments in securities	5,493	Observable quotes for comparable securities adjusted by multiplicator depending on the degree of the market activity	Quotes from the automated fair value system for financial instruments of NSD Price Center*
Foreign exchange swaps and forwards	1,710	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**7,203**		
LIABILITIES AT FAIR VALUE			
Foreign exchange swaps and forwards	3	Discounted cash flows adjusted for counterparty credit risk	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**3**		

* NSD Valuation Center is a fair value measurement service for bonds and other financial instruments, accredited by the CBRF.

There were no changes in the valuation techniques for level 2 recurring fair value measurements during the year ended 31 December 2019. Level 2 derivatives comprise foreign exchange forwards and swaps.

The foreign exchange forwards have been fair valued using forward exchange rates that are quoted in an active market. Foreign exchange swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for level 2 derivatives.

38 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 not measured at fair value are as follows:

In millions of RR	31 December 2019				31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL ASSETS CARRIED AT AMORTISED COST								
Cash and cash equivalents								
- Cash on hand	11,118	-	-	11,118	5,839	-	-	5,839
- Cash balances with the CBRF (other than mandatory reserve deposits)	-	16,599	-	16,599	-	11,158	-	11,158
- Placements with other banks and non-bank credit organizations with original maturities of less than three months	-	30,079	-	30,079	-	16,805	-	16,805
Mandatory cash balances with the CBRF	-	3,448	-	3,448	-	2,435	-	2,435
Due from other banks	-	2,084	-	2,084	-	776	-	776
Loans and advances to customers	-	-	329,340	329,175	-	-	199,041	198,489
Guarantee deposits with payment systems	-	-	8,877	8,877	-	-	4,603	4,603
Other financial assets								
Settlement of operations with plastic cards receivable	-	16,384	-	16,384	-	12,694	-	12,694
Other receivables	-	5,289	-	5,289	-	2,948	-	2,948
Total financial assets carried at amortised cost	**11,118**	**73,883**	**338,217**	**423,053**	**5,839**	**46,816**	**203,644**	**255,747**

38 Fair Value of Financial Instruments (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

In millions of RR	31 December 2019 Level 1	Level 2	Level 3	Carrying value	31 December 2018 Level 1	Level 2	Level 3	Carrying value
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST								
Due to banks	-	663	-	663	-	2,708	-	2,708
Customer accounts								
Individuals								
-Current/demand accounts	-	211,661	-	211,661	-	137,637	-	137,637
-Term deposits	-	139,114	-	137,292	-	102,829	-	100,227
SME								
-Current/demand accounts	-	60,174	-	60,174	-	41,702	-	41,702
-Term deposits	-	1,879	-	1,880	-	-	-	-
Other legal entities								
-Current/demand accounts	-	495	-	495	-	552	-	552
-Term deposits	-	112	-	112	-	847	-	798
Debt securities in issue								
RR Bonds issued on domestic market	24,442	-	-	23,618	5,919	-	-	5,851
Euro-Commercial Paper	-	2,460	-	2,460	-	3,754	-	3,754
Subordinated debt								
Perpetual subordinated bonds	19,604	-	-	18,487	20,505	-	-	20,644
Other financial liabilities								
Settlement of operations with plastic cards	-	6,427	-	6,427	-	4,904	-	4,904
Trade payables	-	4,621	-	4,621	-	3,189	-	3,189
Credit related commitments	-	-	-	2,242	-	-	-	2,041
Other financial liabilities	-	1,358	-	1,358	-	1,067	-	1,067
Total financial liabilities carried at amortised cost	**44,046**	**428,964**	**-**	**471,490**	**26,424**	**299,189**	**-**	**325,074**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

As at 31 December 2019 and 31 December 2018 the fair value of the debt securities in issue and subordinated debt has been calculated based on quoted prices from the Moscow Exchange MICEX-RTS and Global Exchange Market, where the Group's debt securities are listed and traded.

38 Fair Value of Financial Instruments (Continued)

Weighted average discount rates used in determining fair value as of 30 December 2019 and 2018 are disclosed below:

In % p.a.	31 December 2019	31 December 2018
Assets		
Cash and cash equivalents	0.0	0.0
Due from other banks	5.2	5.9
Loans and advances to customers	37.2	42.7
Investments in securities	4.9	5.5
Repurchase receivables	-	4.3
Liabilities		
Due to banks	0.2	6.0
Customer accounts	3.9	4.4
Debt securities in issue	7.5	7.6
Subordinated debt	6.8	9.8

39 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) financial assets at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets measured at FVTPL mandatorily, and (ii) assets designated as such upon initial recognition.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2019:

In millions of RR	AC	FVTPL	FVOCI	Total
Cash and cash equivalents				
- Cash on hand	11,118	-	-	11,118
- Cash balances with the CBRF (other than mandatory reserve deposits)	16,599	-	-	16,599
- Placements with other banks and non-bank credit organizations with original maturities of less than three months	30,079	-	-	30,079
Mandatory cash balances with the CBRF	3,448	-	-	3,448
Due from other banks	2,084			2,084
Loans and advances to customers	329,175	-	-	329,175
Financial derivatives	-	390	-	390
Guarantee deposits with payment systems	8,877	-	-	8,877
Investment in securities	-	413	134,765	135,178
Other financial assets				
- Settlement of operations with plastic cards receivable	16,384	-	-	16,384
- Other receivables	5,289	-	-	5,289
TOTAL FINANCIAL ASSETS	**423,053**	**803**	**134,765**	**558,621**

39 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2018:

In millions of RR	AC	FVTPL (mandatory)	FVOCI	Total
Cash and cash equivalents				
- Cash on hand	5,839	-	-	5,839
- Cash balances with the CBRF (other than mandatory reserve deposits)	11,158	-	-	11,158
- Placements with other banks and non-bank credit organizations with original maturities of less than three months	16,805	-	-	16,805
Mandatory cash balances with the CBRF	2,435	-	-	2,435
Due from other banks	776	-	-	776
Loans and advances to customers	198,489	-	-	198,489
Financial derivatives	-	1,710	-	1,710
Guarantee deposits with payment systems	4,603	-	-	4,603
Investment in debt securities	-	5,666	94,474	100,140
Repurchase receivables	-	-	1,182	1,182
Other financial assets				
- Settlement of operations with plastic cards receivable	12,694	-	-	12,694
- Other receivables	2,948	-	-	2,948
TOTAL FINANCIAL ASSETS	**255,747**	**7,376**	**95,656**	**358,779**

As of 31 December 2019 and 2018 all of the Group's financial liabilities except derivatives were carried at amortised cost.

40 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The outstanding balances with related parties were as follows:

	31 December 2019		31 December 2018	
In millions of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
ASSETS				
Gross amounts of loans and advances to customers (contractual interest rate: 11.7-25.7% (31 December 2018: 11.7-27.8%))	437	150	9	100
Other financial assets	-	843	-	431
TOTAL ASSETS	**437**	**993**	**9**	**531**
LIABILITIES				
Customer accounts (contractual interest rate: 0.5-7.2% (31 December 2018: 3.8-4.2% p.a.))	1,779	227	1,349	905
Debt securities in issue (yield: 1.0-3.6% (31 December 2018: 1.3-9.5%))	-	2,460	-	3,754
Other non-financial liabilities	521	-	888	-
TOTAL LIABILITIES	**2,300**	**2,687**	**2,237**	**4,659**
EQUITY				
Share-based payment reserve				
- Management long-term incentive program	930	-	1,102	-
TOTAL EQUITY	**930**	**-**	**1,102**	**-**

40 Related Party Transactions (Continued)

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

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

	2019		2018	
In millions of RR	**Key management personnel**	**Other related parties**	**Key management personnel**	**Other related parties**
Interest income calculated using the effective interest rate method	2	27	3	-
Interest expense calculated using effective interest rate method	(64)	(101)	(46)	(165)
Net gains/(losses) from foreign exchange translation	-	31	-	(69)
Other operating income	-	49	-	18
Administrative and other operating expenses	(1,913)	(173)	(2,273)	(89)

Key management compensation is presented below:

In millions of RR	**2019**	**2018**
Short-term benefits:		
- Salaries	906	792
- Short-term bonuses	586	917
Long-term benefits:		
- Management long-term incentive programme	421	564
Total	**1,913**	**2,273**

Management long-term incentive program. On 31 March 2016 the Group introduced a MLTIP as both a long-term incentive and a retention tool for the management of the Group.

On 15 January 2019 the Group granted GDRs to new participants in MLTIP which resulted the total number of GDRs attributable to the Management of 9,940 thousand as at 31 December 2019 (31 December 2018: 9,849 thousand).

Participants of the program receive the vested parts of their grants provided that they are employed by the Group during the vesting period. Participants are entitled to the dividends, if any. Participants who leave the Group lose their right for the unvested parts of the grants.

The fair value of the awards as at grant dates (31 March 2016, 8 February 2017, 22 February 2018 and 15 January 2019) is determined on the basis of market quotes of GDRs as at those dates.

Each grant is divided into 4 equal awards, each award is vested during 4 years in delivered equal tranches. The delivery dates as of which the GDRs are allowed to be sold by the participants correspond to the vesting dates at 14 April 2016 and each subsequent 31 March (with exception of 2019 when the vesting date for all participants was 31 January 2019) until 2022 for participants joining in 2016, until 2023 for participants joining in 2017, then until 2024 for participants joining in 2018, and until 2025 for participants joining in 2019.

40 Related Party Transactions (Continued)

The following table disclose the changes in the numbers of GDRs attributable to the MLTIP between the beginning of the program and the end of the reporting period:

In thousands	Number of GDRs attributable to the MLTIP
Granted during the year	7,425
Vested during the year	(464)
At 31 December 2016	**6,961**
Granted during the year	2,270
Vested during the year	(1,326)
Forfeited during the year	(60)
At 31 December 2017	**7,845**
Granted during the year	154
Vested during the year	(1,805)
Forfeited during the year	(16)
At 31 December 2018	**6,178**
Granted during the year	91
Vested during the year	(2,419)
Forfeited during the year	(68)
At 31 December 2019	**3,782**

41 Events after the End of the Reporting Period

In February 2020 the Group announced plans to invest in a new venture project to set up a fintech company providing a range of services to retail customers in Europe (excluding CIS). The startup will offer non-credit financial products. The project is due to launch in 2020, with the Company as its key seed investor. The Company will have a controlling interest in the new venture. The Company's initial commitment is up to Euro 25 million and will be contributed in tranches as the venture develops.

On 10 March 2020 the Board of Directors declared an interim dividend in line with the current dividend policy of USD 0.21 per share/per GDR with a total amount allocated for dividend payment of around USD 41.9 million.