



SAFMAR

Financial
investments

2019

ANNUAL REPORT

BUSINESS SYNERGIES - SUSTAINABLE GROWTH

ABOUT THIS REPORT

In this Annual Report, the terms PJSC 'SAFMAR Financial investments', 'SFI', 'Company', 'holding company', 'holding' and 'we' in various forms refer to all companies whose results are consolidated in the 2019 IFRS financial statements of PJSC 'SAFMAR Financial investments'. This Annual Report should be read together with our 2019 audited financial statements (IFRS).

This Report has been prepared taking into account the best practices in corporate reporting and disclosure, and in accordance with Bank of Russia Regulation No. 454-P dated December 30, 2014, On information disclosure by issuers of equity securities and recommendations of Bank of Russia Corporate Governance Code.

The list of terms and abbreviations used herein is given at the end of the Annual Report.

This Annual Report was approved by the Board of Directors on 29 April 2020.

Company's Revision Commission confirmed the accuracy of the data presented in this Annual Report.

DISCLAIMER

This Report has been prepared by PJSC SAFMAR Financial investments (the 'Company').

This Report is for information purposes only and does not constitute an offer or a solicitation of an offer to make any transactions in relation to goods, work or services, as well as securities or other investment instruments.

This Report contains certain estimates and forward-looking statements as to financial performance of specific Company's businesses and other matters concerning their operations. Any and all statements which do not contain historical facts are forward-looking by nature and therefore involve certain risks and uncertainties. There is no guarantee that these statements will prove

accurate: actual results in future may differ considerably from the estimates. These statements are based on a balanced assessment of the Company's management. The Company assumes no obligation to update any forward-looking statements.

The Company shall not be held liable for any direct, indirect, consequential, special, punitive or other damages regardless of the type of claim, including, without limitation, claims in contract, negligence or tort which arise in connection with this Report, its contents or otherwise.

The Company's liability to those relying on this Report shall be limited to the maximum extent permitted by the applicable law.

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We are always keen to hear what you think about the **2019 Annual Report of PJSC SAFMAR Financial investments**.

Please send your comments and feedback to: info@safmarinvest.ru



CHAIRMAN'S STATEMENT



Oleg Vyugin

Chairman of the Board of Directors

Dear shareholders,

In the reporting year, the pursuits of SAFMAR Financial investments were underpinned by a robust corporate and operational governance framework. The Board of Directors comprised eleven members, including three independent directors. At its regular meetings held in person and, where necessary, in absentia, the Board of Directors made operational and key strategic decisions, reviewed the Company's progress in achieving financial and other targets approved by the Board's resolutions, and addressed the risks of operating companies. Operations were carried out by a highly skilled financial investment management team led by the CEO.

In the reporting year, the Company continued its consistent progress towards better corporate governance, as described in more detail in the relevant section of this Report. The Company strictly observed all listing disclosure requirements and complied with a vast majority of principles and requirements set forth in the Corporate Governance Code of the Bank of Russia. All members

of the Board's Audit Committee and Remuneration and Nomination Committee were independent directors.

CONSISTENT RESULTS AND DIVIDEND PAYMENTS

Under the dividend policy previously adopted by the Board of Directors, at least 75% of the holding's RAS net profit or free cash flow shall be paid as dividends, which amounted to RUB 14.5 per share based on the 2018 results.

The dividends were secured by robust financial performance of SAFMAR Financial investments' subsidiaries and controlled entities, which, along with the Company's investing activities, kept generating profit and supporting the growth of its assets and business. The total income from operational and financial activities of SFI and the Group companies was up 8% y-o-y, while the value of assets under their management rose to RUB 428 bn. These results were driven by an efficient business model coupled with the consistent

The total income from operational and financial activities of SFI and the Group companies was up 8% y-o-y, while the value of assets under their management rose to RUB 428 bn.

and determined efforts of all controlled entities and the entire holding. Another secret behind the Company's strong performance is the strategic selection of assets under management. Our subsidiaries and controlled entities continued to operate in the fastest growing and most promising segments of the financial market, earning a solid return on capital.

DELIVERING ON STRATEGY

In 2019, the Company worked in accordance with the strategic priorities approved by the Board of Directors in 2018. For the most part, the set targets and objectives were achieved. Our current market position, robust performance, and corporate governance allow us to aim for further business development by expanding our footprint across relevant strategic sectors of the financial market.

Just like with other public companies, the key objective of the Board of Directors and management team of SAFMAR Financial investments is a progressive shareholder value growth. To this end, the Company both enhanced its financial performance and ensured continuous business efficiency improvements for its subsidiaries and controlled entities, while also increasing transparency and disclosing its operational and investment policies.

SHARES BUYBACK AND GLOBAL TRENDS

Due to the ongoing turbulence in economy and financial markets, both in Russia and internationally, the market stock prices do not give a fair representation of the Company's fundamental value. For this reason, in 2019, the management team proposed and the Board of Directors approved a programme to buy back the outstanding shares. The programme

was properly deployed in accordance with regulations applicable to this type of corporate actions. Majority shareholders opted not to join the programme. Thus, stock market investors got an opportunity to make the optimal decision on the monetisation of their shareholdings, while the Company could make a better use of capital markets for creating an adequate market value for its business in the future. I am convinced that today, when capital markets have been greatly affected by the SARS-COV-2 pandemic, this programme will be of particular value for our minority shareholders and investors.

LOOKING TO THE FUTURE WITH CONFIDENCE

Finally, as the Chairman of the Board of Directors, I would like to reassure our shareholders that the Company will overcome the global financial and economic challenges caused by the virus spread and continue its progress towards maximising its investor and shareholder value.

In 2019, the Company worked in accordance with the strategic priorities approved by the Board of Directors in 2018. For the most part, the set targets and objectives were achieved.

CEO'S STATEMENT



Avet Mirakyan

Chief Executive Officer

Dear shareholders,

This Annual Report focuses on the results achieved by SAFMAR Financial investments in 2019. Traditionally, the CEO's statement summarises the performance of the holding company and its subsidiaries as at the end of the reporting year. However, the first half of 2020 saw an outbreak of a new coronavirus disease that brought about a systemic crisis in the global economy. This means that the readers of this Report are likely to be more interested in how the Company will combat the COVID-19 pandemic consequences than in the past year's results.

STABLE OPERATIONS IN TOUGH TIMES

One of the main advantages of our holding is a thorough analysis of the assets we invest in. We have always evaluated not only the current results of the companies, but also the prospects and risks of the markets in which these companies operate. We paid special attention to assets in the banking business: it takes

the first hit from economic crises as the cost of funding rises, on the one hand, and customers have difficulties repaying their loans, on the other hand. Thanks to our portfolio of assets we have enough resilience even in a serious economic slowdown. And in today's situation the continued operations of our subsidiaries given us the confidence in our balanced approach to the implementation of the holding's investment strategy.

OUR ADVANTAGES IN TIMES OF CRISIS

Europlan's portfolio comprises passenger cars and commercial vehicles which boast the highest liquidity among all other leased assets. This means these vehicles can be quickly sold in the open market even if some of our customers withdraw from financial leases. What's more, the advance of e-commerce driven, according to many experts, by temporary offline retail restrictions and self-isolation of the majority of economically active population will force delivery companies and logistics

On behalf of SAFMAR Financial investments' management, I would like to thank you for your trust in our actions and the strategy we pursue to help the holding grow. Following our well-chosen path, we were able to build on the success of the first years of operation and reaffirm our stability in a very challenging environment seen in the first half of 2020.

operators to act fast and increase their fleet. Many of them will definitely turn to Europlan as the leader in the motor vehicle leasing market.

A window of opportunity will open up for NPF SAFMAR, as well. Having amassed a substantial cash cushion over the last years thanks to its conservative investment policy, the fund can now benefit from purchasing cheap assets with clear upside potential. No doubt, we need to do some analysis and weigh the risks before we decide on the timing and amount of investments, but provided the economy recovers in the second half of the year, we expect to see an increase in the price of the acquired assets. This should translate into positive returns for prospective pensioners and good financial result for the fund.

The half of VSK Insurance House portfolio remains in motor segment (CMTPL and MHI), and in times of reduced activity of the population this may significantly increase the yield of this segment due to fewer road accidents during the spring months. This is the reason the company expects a significant decline in insurance claims at the end of the year. This will undoubtedly be reflected positively in the financial results of VSK.

Last but not least, a surge in consumer lending driven by higher prices for imported goods on the back of rouble weakening will give an impetus to the growth of Direct Credit Centre (DCC) which collaborates with numerous major online and offline retailers. Amid a continuous decline of lending rates throughout 2019, many customers deferred making purchases on credit in hope for better terms. However, given the uncertainty in the financial markets,

they may apply for loans earlier than planned. Most of this demand will come from the customers of retailers that partner with DCC, which means the company will receive its share of fees.

DIGITAL TRANSFORMATION

Importantly, companies of the holding have been consistently transforming their operations for several years, as digitalisation suddenly turned from a fashionable management trend into an indispensable tool for business survival and prosperity. This is why they were able to continue serving their customers, mostly through remote channels, without compromising the quality of service. At the holding level, we will encourage further digitalisation of our subsidiaries as we have no doubt that this year's developments will urge all businesses to significantly step up the share of online sales in their revenues.

At the same time, we have no illusions. The management of SAFMAR Financial investments is well aware of the adverse impact the 2020 crisis may have on our operations. However, taking into account the above factors, we are confident that, firstly, we will be able to minimise potential losses through prudent management and preparedness for the upcoming challenges, and secondly, that our companies will be at the forefront of their markets following the acute crisis phase and subsequent recovery. We will build on this new experience to further improve our assets' efficiency.

2019 PERFORMANCE

As for our results in 2019, SAFMAR Financial investments delivered a traditionally solid performance. Our net profit exceeded RUB 9.2 bn, up 4% y-o-y, and our equity went up 6%

to RUB 88.3 bn. I invite you to read this Annual Report to learn more about the performance of individual subsidiaries and key events in the holding.

On behalf of SAFMAR Financial investments' management, I would like to thank you for your trust in our actions and the strategy we pursue to help the holding grow. Following our well-chosen path, we were able to build on the success of the first years of operation and reaffirm our stability in a very challenging environment seen in the first half of 2020.

ABOUT THE COMPANY

BUSINESS OVERVIEW AND KEY HIGHLIGHTS

PJSC SAFMAR Financial investments is a diversified public investment holding company incorporated in 2016. Its core business is to invest and manage financial assets. The holding company is part of SAFMAR Group,¹ one of Russia's largest industrial and financial groups established by Mikail Gutseriev. It comprises industrial, retail and financial companies and manages commercial real estate, construction, development assets, etc.

 For more details on the Company's position in the industries of its portfolio companies, please see Our assets section on **pages 16-65**

ASSET PORTFOLIO²

CAR LEASING	NON-GOVERNMENTAL PENSION FUNDS	INSURANCE	POS LENDING
EUROPLAN 	NPF SAFMAR NPF MOSPROMSTROY-FUND 	VSK INSURANCE HOUSE 	DIRECT CREDIT CENTRE (DCC) 
20 YEARS in the leasing market	>20 YEARS in the pension market	>25 YEARS in the insurance market	SINCE 2011 in the POS lending market
RUB 71.6 BN leasing portfolio net of reserves	RUB 269 BN assets under management ³	RUB 93.3 BN gross written premiums	RUB 80.2 BN loans issued
94,000 companies	4 MLN accounts	>30 MLN retail accounts 500,000 companies	>8 MLN accounts
Absolute car leasing leader in Russia	No. 5 by retirement savings under management No. 5 by the number of clients	Top 10 insurance company in Russia	One of Russia's largest POS lending brokers boasting proprietary cutting-edge software
BB from Fitch	A+(RU) from ACRA	A.pf from the National Rating Agency (NRA)	BB from Fitch AA(RU) from ACRA ruAA from RAEX (Expert RA)

Clients

Ratings



MISSION

Our mission is to maximise shareholder value through investing and effectively managing promising Russian financial companies and projects with a significant upside potential.



INVESTMENT HIGHLIGHTS

- High resilience to macroeconomic fluctuations owing to the diversified investment portfolio
- Focus on leaders in every dedicated segment
- Clear development strategy to ensure strong portfolio synergies
- Value creation model focusing on long-term growth and sustained increases in dividend yields
- Professional team with unique expertise and competencies in the financial industry



KEY STRATEGIC PRINCIPLES

1. Investments in financial companies and related businesses
2. Strategic portfolio management
3. Investments in portfolio asset development
4. Maximisation of value through stronger cross-business synergies
5. Monetisation of portfolio assets through increased dividend flow and capitalisation
6. Sustainably growing market capitalisation



For more information please see Strategy section on **pages 10-13**



FINANCIAL PERFORMANCE (IFRS)

RUB 23.3 BN

total income from operations and finance income

RUB 9.2 BN

net profit

10.8%

return on Equity

RUB 96.1

earnings per share



SHARE CAPITAL

SHARE CAPITAL STRUCTURE⁴, %



The Company's shares are traded on the Moscow Exchange⁵ (ticker code: **SFIN**).

International Securities Identification (ISIN): **RU000AOJW89**.



¹ For more details on SAFMAR Group and its assets, please visit www.safmarinvest.ru/en/.

² As at the end of 2019. For more details on our assets, including business overview, growth plans, financial results and risks, please see Our assets on **pages 16-65**.

³ Retirement savings + pension reserves as at 31 December 2019.

⁴ As of 31 December 2019.
⁵ Public Joint-Stock Company "Moscow Exchange MICEX-RTS" (INN 7702077840, OGRN 1027739387411, licence No. 077-001).



RATING

BB-

from S&P Global Ratings

KEY EVENTS AND DEVELOPMENTS IN 2019

MARCH		NOVEMBER		DECEMBER	
NPF SAFMAR completed reorganisation through the merger with NPF Doverie.		In connection with the liquidation of Invest-Project, a former shareholder in NPF SAFMAR, SFI received a 27.02% stake in the fund. As a result, the Company's share in the authorised capital of NPF SAFMAR increased to 100%.		SAFMAR Financial investments' share in the authorised capital of Direct Credit Centre increased from 75% to 81.25% under the option agreements signed earlier.	
MAY				SFI's Board of Directors extended the buyback programme for another year. The buyback will be funded from the Company's own resources and by borrowing.	
RUB 0.8 bn and RUB 0.01 bn were received in dividends for 2018 from VSK Insurance House and Direct Credit Centre, respectively.				S&P Global Ratings affirmed its credit rating on SAFMAR Financial investments to BB-, but revised its outlook from stable to negative. The revision reflects the change in the Company's zero-leverage policy and its decision to borrow in order to fund the share buyback.	
JUNE					
S&P Global Ratings upgraded its credit rating on SAFMAR Financial investments to BB- with a stable outlook.		Oleg Vyugin was re-elected as Chairman of the Company's Board of Directors.			
Total dividends paid for the 2018 financial year amounted to RUB 1.6 bn (RUB 14.5 per share).		RUB 1.9 bn were received in dividends from Europlan, which represented 100% of Europlan's IFRS net profit for 2018.			

SFI EXPANDS ITS SHARE BUYBACK PROGRAMME

>RUB 30 BN
 total amount of buyback programme

8.44% OF SFI SHARES

consolidated by the operator of the buyback programme at the end of 2019

On 12 December 2019, the Board of Directors of SAFMAR Financial investments approved the extension of its share buyback programme.

The new programme will be in effect for one year. The buyback will be funded from the Company's own resources and by borrowing. The shares will be consolidated on the balance sheet of Weridge Investments Limited acting as the operator of the buyback programme.

In November 2018, the Company's Board of Directors approved a three-year programme to buy back the holding company's shares for up to RUB 6 bn. As at 31 December 2019, the operator consolidated 8.44% of shares in SFI.

OUR HISTORY

PJSC SAFMAR Financial investments is a major financial market player managing leasing, insurance, pension assets and POS lending, all of which lead the charge in their respective business segments. Below are the key milestones in the holding's and its assets history.

2019

- NPF SAFMAR completed reorganisation through the merger with NPF Doverie
- After liquidation of Invest-Project SFI received a 27.02% stake in NPF SAFMAR and became a 100% owner of fund's authorised capital
- SAFMAR Financial investments' share in the authorised capital of Direct Credit Centre increased from 75% to 81.25%

2017

- The holding's leasing operations were spun off into JSC Europlan LC, a subsidiary with a 100% equity participation of SFI
- PJSC Europlan renamed to PJSC SAFMAR Financial investments, which brings a close the long process of building a public financial holding company. Reorganisation proceeded fully in line with the statements made to investors during the public offering in December 2016

2015

- Acquisition of PJSC Europlan, Europlan's IPO on the Moscow Exchange
- Acquisition of NPF Raiffeisen (subsequently rebranded as NPF SAFMAR)

2013

Acquisition of NPF European Pension Fund

2000

Establishment of the Group's insurance business (eventually, B&N Insurance). In 2016, the Group completed the integration of insurance businesses – VSK Insurance House acquired a 100% stake in B&N Insurance

1992

Establishment of VSK Insurance House (JSIC "VSK")

2018

- Acquisition of NPF Doverie. During 2018, SFI controlled NPF Doverie via Invest-Project, which owned 100% of NPF Doverie's authorised capital
- Acquisition of a 75% stake in Direct Credit Centre, a Russian POS lending broker
- Completion of NPF Mospromstroy-Fund reorganisation as a joint-stock pension fund. As part of the reorganisation, 31.7% of NPF Mospromstroy-Fund's shares (100% total issued voting shares) were allocated to SAFMAR Financial investments

2016

- Acquisition of a 49% stake in VSK Insurance House
- Completing the integration of insurance businesses – VSK Insurance House acquired a 100% stake in B&N Insurance
- Incorporation of three pension funds in NPF SAFMAR acquired in 2012–2014
- Europlan's SPO

2014

Acquisition of NPF Regionfond

2012

Acquisition of NPF Obrazovanie i Nauka

1999

Establishment of Europlan Company (formally known as DeltaLeasing until May 18, 2004)

STRATEGIC REPORT

OUR STRATEGY

Our strategy focuses on investments in the premium Russian financial assets leading the charge in dedicated market segments to build a diversified high-performance investment portfolio. Our investment decisions prioritise the companies and innovative teams that create new markets and shape prospective demand giving the holding company a competitive edge in the rapidly changing international and economic environment.

We target financial assets which have the potential to become a valuable addition to our existing assets and enhance the shareholder value.

Company's consolidated development strategy that was approved by the Board of Directors in February 2018.

KEY STRATEGIC PRINCIPLES

1. Investments in financial companies and related businesses

- Ongoing monitoring of the M&A market.
- Putting together a highly professional investment team.
- Investment decision-making based on the following elements:
 - a. a mature business with recurrent and foreseeable earnings;
 - b. a well-balanced risk profile of the investment target (BB- rating or assets with the potential for an upgrade to BB- in the short run);
 - c. complementary nature towards other business lines resulting in synergies.

2. Strategic portfolio management

- For each asset, we pick a team having the best matching competencies to manage it (Board of Directors, management team, CIOs).
- Assets are managed via the Board of Directors and CIOs without getting down to the operations. The key focus is on:
 - a. defining the asset development and monetisation strategy;
 - b. incentivising the management of portfolio companies in line with the asset monetisation strategy.

3. Investments in portfolio asset development

- Monitoring opportunities to minimise cost of funding for portfolio companies.
- Supporting portfolio companies in raising funds.
- Short-term funding in line with the asset's development strategy.

4. Maximisation of value through stronger crossbusiness synergies

- Linking portfolio companies with each other to identify and realise synergies.
- Investment directors reporting to the CEO are industry experts. KPI includes seeking and monetising synergies.
- Incentivising the management team to develop synergies.
- Effective risk management as part of portfolio management (ongoing monitoring of risk management policies, monitoring of assets' operations by the Internal Audit function).

5. Monetisation of portfolio assets through assets-focused dividend policy and capitalisation growth

- Investment horizon: over three years.
- Dividend yield as a priority for portfolio assets
- Monitoring opportunities in line with the new investors attraction strategy.

6. Sustainably growing capitalisation

- Introduction of the dividend policy. Commitment to pay out at least 75% of the holding company's net profit (standalone) / free cash flow of the holding company.
- Efficient management, ongoing cost control.
- Transparent corporate governance framework and an ongoing open dialogue with the investment community.

STRATEGIC GOALS FOR 3-5 YEARS

- ◎ Maximising value for shareholders by paying out dividends and increasing the Company's capitalisation: total shareholder return.
- ◎ High dividend payout ratio from the Company's net profit under RAS.
- ◎ Maximising synergies between portfolio assets.
- ◎ Further diversification of the asset portfolio by industry.
- ◎ International credit rating of BB- for the holding company.
- ◎ Investing available cash in leasing and other financial segments not represented in the existing investment portfolio.

S&P Global Ratings

In June 2019, S&P Global Ratings upgraded its credit rating on SAFMAR Financial investments to BB- with a stable outlook. Previously, the Company had a B+ rating. According to the agency's analysts, the factors that triggered the upward revision included the gradual improvement in the overall quality of the Company's investments and the acquisition of a new asset in 2018 aimed at diversifying SFI's portfolio. In December 2019, S&P revised its outlook from stable to negative due to the Company's decision to borrow in order to fund the share buyback.

INVESTMENT POLICY

Our investment policy aims to implement a value creation model focused on the long-term growth and sustainably rising dividend yields. We carry out ongoing monitoring of the M&A market and keep developing best-in-class investment

and assets management expertise, while also remaining committed to greater transparency of the investment process and corporate actions.

KEY INVESTMENT CONSIDERATIONS

Target industry	Focus on the financial industry only
Target segments	Leasing, insurance, pension funds, financial technologies, and companies complementary to the holding company's other businesses
Geography	Mainly Russian assets of nationwide or regional significance
Maturity of the target companies	Rapidly growing companies or mature business models with a steady dividend flow and an international credit rating of at least BB- (or with the potential for an upgrade to BB- in the short run)
Target ownership	A sizeable minority interest or a controlling stake
Investment horizon	Three years or more
Cross-business synergies	Desirable but not a prerequisite for investment decisions

KEY VALUE DRIVERS AND STRATEGIC GOALS

SAFMAR Financial investments has an in-depth industry expertise and a clear shareholder value creation strategy for each of its assets.

INVESTMENT	DESCRIPTION	VALUE CREATION	STRATEGY ³	2019 RESULTS
	Largest car leasing company in Russia <ul style="list-style-type: none"> Leasing portfolio RUB 71.6 bn net of reserve 94,000 clients >66,000 effective lease contracts 77 representative offices across Russia 	<ul style="list-style-type: none"> Business growth Dividends 	<ul style="list-style-type: none"> Maintaining leadership in the car leasing market High ROE at >25% Payout ratio at >50% Developing competencies in leasing-related high-margin segments: organically or via M&A deals Monetising synergies with the holding company's other businesses, cross sales Maintaining international rating of at least BB- 	<ul style="list-style-type: none"> No. 1 car leasing company in Russia in 2019⁴ NPS at 79% ROE came in at 38.7% Payout ratio at 100% from IFRS net profit BB rating from Fitch
	NPF SAFMAR is engaged in compulsory pension insurance (CPI) and non-state pension plans (NSPP) <ul style="list-style-type: none"> RUB 260 bn of retirement savings and RUB 9 bn of pension reserves¹ 4.0 million client base under CPI and 81,000 under NSPP 	<ul style="list-style-type: none"> Business growth Dividends² 	<ul style="list-style-type: none"> Maintaining and improving the company's position in the CPI and NSPP segments Improving loyalty of the client base. Streamlining internal processes in the combined pension fund Focusing on high return on the investment portfolio while prioritising investment safety Monetising synergies with the holding company's other businesses, cross sales Obtaining international rating of at least BB-. 	<ul style="list-style-type: none"> No. 5 by retirement savings under management NPF SAFMAR delivered 6.7% return on invested retirement savings, while return on pension reserves stood at 9.5%.
	Universal insurance company with a balanced product portfolio <ul style="list-style-type: none"> Client base: retail accounts >30 m, companies >500,000 RUB 93.3 bn total gross written premiums Regional network over 500 branches and offices 	<ul style="list-style-type: none"> Business growth Dividends 	<ul style="list-style-type: none"> Maintaining and improving the company's position in the lucrative insurance segments. High ROE at >25%. Payout ratio at >50%. Monetising synergies with the holding company's other businesses, cross sales. Maintaining international rating of at least BB-. 	<ul style="list-style-type: none"> Top 10 insurance company in Russia with 6.2% market share Top 5 motor insurer with a share of 10.8% and 11.6% in CMTPL and MHI, respectively. ROE came in at 24.3% BB- rating from Fitch
	Russia's largest POS lending broker <ul style="list-style-type: none"> RUB 80.2 bn worth of loans issued Cutting-edge proprietary software 	<ul style="list-style-type: none"> Business growth Dividends 	<ul style="list-style-type: none"> Maintaining leadership in the POS lending market Payout ratio at >50% Business diversification and new product launches Monetising synergies with the holding company's other businesses, cross sales 	<ul style="list-style-type: none"> No. 1 POS lending broker with 20% market share⁵ Payout ratio at 100% from IFRS net profit

¹ The funds' accounting data as at 31 December 2019.

² With due regard to the constraints of the applicable Russian laws regulating non-governmental pension funds.

³ Investment in VSK Insurance House is a strategic partnership with VSK Group. The holding company's stake is 49%. The insurance segment development strategy reflects the vision of SAFMAR Financial investments' management team and is not the official strategy of VSK Insurance House.

⁴ According to the ranking of leasing companies published by Expert RA.

⁵ Management estimates.

BUSINESS MODEL

HOW WE CREATE VALUE

OUR ASSETS



DIVIDENDS FROM PORTFOLIO COMPANIES

The main source of income for SAFMAR Financial Investments as a financial holding is dividends from subsidiaries and affiliates. Dividends form the holding's profit base, allowing it to pay dividends to its shareholders.

>50%
payout ratio

MACROECONOMIC ENVIRONMENT

Given our strong focus on the domestic market, we depend on the economic conditions in Russia in securing financial stability. As globalisation is quickening its pace, any significant deterioration in the global economy is likely to trigger a slowdown in Russia leading to a decline in demand for our financial products. That said, we remain confident that our expertise coupled with continuous monitoring of external factors will enable us to promptly adjust our business processes to any negative changes.

¹ Retirement savings + pension reserves as at 31 December 2019.

As a domestically-focused investment holding, SFI is well-positioned to deliver sustainable financial performance in the challenging economic environment. The Company's business model builds on diversification of the investment portfolio fostering resilience to macroeconomic changes and giving the Company one of its competitive strengths that helps maximise value for our stakeholders. We remain committed to the principles of responsible business and strive to maintain an open dialogue with all stakeholders.

VALUE CREATION

SHAREHOLDERS

RUB 9.2 BN
net profit

10.8%

return on Equity

RUB 1.6 BN

dividends paid in 2019

EMPLOYEES

We strive to create a unique corporate culture promoting the diversity of talents and high ethic and professional standards across our businesses.

CUSTOMERS AND COMMUNITY

RUB 80 BN
charity expenses

 For more details, please see the Corporate Responsibility and Charity section on [pages 72-77](#)

SAFMAR Charitable Foundation

47
dedicated charitable programmes

RUB 2.3 BN
dedicated financing

STAKEHOLDERS

 Shareholders	 Employees
 Financial institutions and potential investors	 Government agencies
 Clients	 Media
 Suppliers and business partners	

OUR COMPETITIVE EDGE



FINANCIAL SUSTAINABILITY

In 2019, SFI demonstrated a robust growth of its key financial indicators together with the increase in profits and improvements in operating performance across the majority of our portfolio.



LOW-RISK ASSETS

We manage to keep our risk exposure low across the portfolio thanks to centralised risk assessment and mitigation, traditionally low leverage, and an impeccable public credit history.



INTELLECTUAL CAPITAL

Professional investment team with a unique expertise and competencies in the financial industry.



BEST-IN-CLASS BRANDS

Our product and service offering boasts a selection of well-known brands leading the charge in their respective industries and having a significant potential to enhance shareholder value, including through portfolio synergies. Our top priority is to promote strong and trustful relations with all customers and partners.



SYNERGY POTENTIAL

We invest in rapidly growing companies or mature business models with a steady dividend flow which have the potential to become a valuable addition to our existing assets.



LEASING OF NEW VEHICLES AND MACHINES AT NO EXTRA CHARGE



**ABSOLUTE
CAR LEASING
LEADER**

in Russia

>38,000

car leasing contracts in 2019

**EUROPLAN LEASING
COMPANY (“EUROPLAN”)
IS A LONG-TIME LEADER
IN RUSSIA’S CAR LEASING
MARKET**

and a top 15 vehicle leasing company in Europe. Launched in 1999, the Company leases out all kinds of cars and special equipment and renders a full range of aftermarket services. In 2019, Europlan was recognised as the leasing company of the year and received the ‘Best in Russia’ business award.

66,400

effective lease contracts

RUB 71.6 BN

leasing portfolio net of reserves

77 OFFICES

across Russia

>2,000

employees



EUROPLAN LEASING COMPANY

BUSINESS OVERVIEW AND KEY HIGHLIGHTS OF 2019



Alexander MIKHAYLOV
CEO, Europlan Leasing Company

"In 2019, Europlan celebrated its 20th anniversary. The Company's time on the market has been marked by continued success, and 2019 was no different, having seen excellent performance and high praise by expert and business communities. Europlan received Best in Russia Award as the Leasing Company of the Year. ACRA upgraded the Company's rating to A+, and Fitch affirmed its BB rating. Europlan's team closed more than 38,000 leasing deals worth over RUB 100 bn, all while maintaining the superior quality of the portfolio."

Europlan Leasing Company ("Europlan") is a long-time leader in Russia's car leasing market and a top 15 vehicle leasing company in Europe. Launched in 1999, the Company leases out all kinds of cars and special equipment and renders a full range of aftermarket services. In 2019, Europlan was recognised as the leasing company of the year and received the 'Best in Russia' business award.

The Company's own client pool comprises approximately 93,700 companies and around 1.5 million prospective corporate clients (ca. 35% of all legal entities registered in Russia), and there are 66,400 effective lease contracts in its portfolio. In addition, concentrations on major lessees are low, which mitigates the portfolio default risk. In 2019, Europlan signed over 38,000 car leasing contracts.

ASSET AT A GLANCE

100% owned by SAFMAR Financial investments

Company Management

Avet Mirakyan (Chairman of the Board of Directors)
Alexander Mikhaylov (Chief Executive Officer)

LARGEST CAR LEASING COMPANY IN RUSSIA

RUB 71.6 BN

leasing portfolio net of reserves

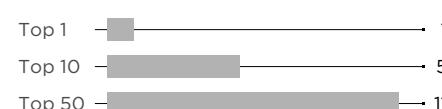
66,400

effective lease contracts

77 OFFICES

across Russia

LEASING PORTFOLIO CONCENTRATIONS ON MAJOR LESSEES BASED ON IFRS PRE-PROVISION NET INVESTMENT BALANCE IN 2019, %



>2,000

employees

79%

NPS in 2019¹

84% OF CLIENTS

would recommend Europlan to their friends and partners

MARKET OVERVIEW

CAR LEASING MARKET IN 2019

As compared to other segments, the car leasing market shows much lower concentrations on both lessors and lessees, with industrial and financial majors keeping a low profile. In addition, this business excels in the number of contracts made, higher standardisation of financial services, higher liquidity of leased assets, and lower average deal values.

Based on research by the RAEX (Expert RA) rating agency, car leasing was the most resilient segment in the industry during the recession of 2014 and 2015. Due to their high liquidity, vehicles became most sought-after among all leased assets as the economy was slowing down. In the past few years, this market has seen both incumbent industry leaders and state-owned companies greatly strengthen their positions, with the latter joining the Top 5 by new business volume.

In 2018 and 2019, the car leasing market continued growing despite a dip in car sales. In 2019, the y-o-y growth came in at 21%, driven by lower cost of funding on the back of the Bank of Russia's reduction of the key rate and government support programme in transportation segments.

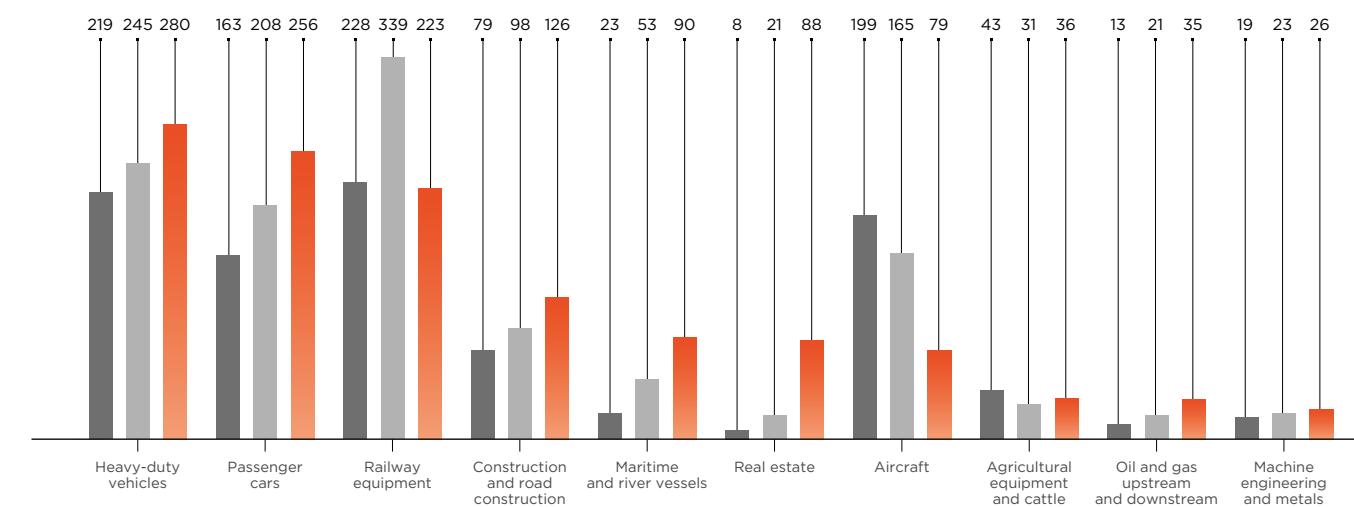
Car leasing market continued growing driven by lower cost of funding on the back of the Bank of Russia's reduction of the key rate and government support programme in transportation segments.

21%

car leasing market growth y-o-y

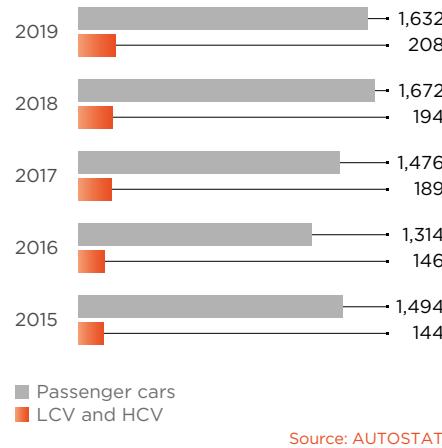
LEASING MARKET SEGMENTS IN 2019: SOLID GROWTH IN CAR LEASING

TOP 10 SEGMENTS BY NEW BUSINESS, RUB bn



¹ Data for December 2019 based on 1,199 responses provided by Europlan's clients.

CAR SALES IN RUSSIA IN 2015-2019,
'000 vehicles



The car sales data over the past 15 years show an ever increasing potential for the market to return to pre-crisis sales in the mid-term. Prior to 2008, passenger car sales used to enjoy double-digit growth rates, outpacing many European markets, including Eastern Europe. Sales of international brands scored a CAGR of 65% between 2003 and 2007. In 2009, car sales suffered a drastic decline across all segments before hitting a new high in 2012. In 2017, following four years of decline, the car market was on the rise, delivering growth of 12% for passenger cars, 17% for light-duty commercial vehicles, and 50% for heavy-duty vehicles, according to the AUTOSTAT analytic agency. For 2019, the Association of European Businesses (AEB) reported a 2.3% y-o-y decline in car sales in Russia (1,759,000 cars). According the AEB's forecast for 2020, car and light commercial vehicle sales in Russia will continue to fall and reach 1.72 m (down 2.1% vs 2019).

PricewaterhouseCoopers expects further market developments to be influenced by the strategies car makers apply during the transition to the new investment regime and to depend on the amount of government support for the industry and the development of the related infrastructure.

EUROPLAN'S POSITION IN THE CAR LEASING MARKET

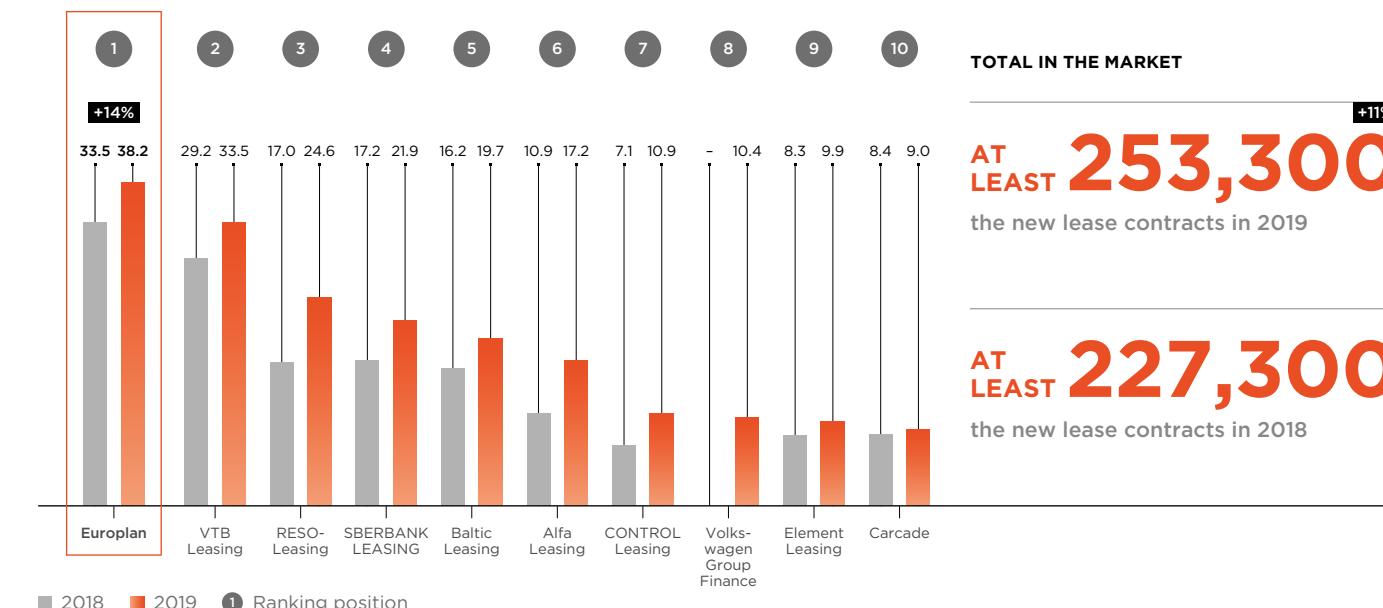
Europlan continues to lead in the car leasing market according to the rankings of leasing companies published by the rating agency Expert RA in 2019. Europlan is "number one" in key business segments – leasing of passenger cars, HCV, and in Russian car leasing in general. The Company's share in the estimated volume of Russian car leasing market in 2019 is about 15% and is 1.5 times higher than the share of the second and third players in this market.

Based on experts' mid-term estimates, the Russian car leasing market will most likely be driven by:

- underlying trends in car sales volumes;
- higher leasing penetration as an alternative to corporate vehicle purchases;
- stronger focus on retail and SME clients;
- product bundles offering simplified and operating leasing options, along with turnkey solutions (involving additional services);
- higher concentration and stronger competition for the most promising deals.

Europlan is "number one" in key business segments – leasing of passenger cars, HCV, and in Russian car leasing in general.

TOP 10 LEASING COMPANIES BY THE NEW LEASE CONTRACTS, '000



STRATEGY AND GROWTH PATHS

On 30 June 2017, the SFI's leasing operations were spun off into JSC Europlan Leasing Company (JSC Europlan LC), a subsidiary with a 100% equity participation of SAFMAR Financial investments.

Europlan will fine-tune its future operations and use its future proceeds to maintain and increase its leasing business volumes, and retain its status of Russia's largest private car leasing company demonstrating high growth rates, operational excellence and financial stability. The leasing subsidiary will remain focused on small-scale leases targeting large, medium and small businesses.

In line with its long-term strategy, the leasing business will specifically seek to:

- develop financial leasing of motor vehicles as its core product;
- develop support services to assist the client in car fleet operation;
- develop operating lease of passenger cars;
- develop business partnerships;
- improve customer experience;
- meet the rising need for skilled workforce through efficient HR recruitment, training, motivation, retention, assessment and development together with business processes automation;
- improve the quality of risk management system;
- improve accounting and reporting systems;
- diversify debt funding.

Europlan will fine-tune its future operations and use its future proceeds to maintain and increase its leasing business volumes, and retain its status of Russia's largest private car leasing company demonstrating high growth rates, operational excellence and financial stability.

SOCIAL POLICY

The HR policy seeks to enhance employee loyalty, protect and enforce their rights and social guarantees, and support efficient HR management.

In its social policy, the company is guided by the principles of transparency and fairness honouring its social responsibilities as required by the applicable laws. The fundamental principles of the social policy are further detailed in the company's Regulation on Social Policy, internal labour regulations, employment contracts and other by-laws governing the relations of the company and its employees. The social policy is part of a higher-level HR policy. Hence, it employs a holistic approach to enhancing both the corporate efficiency and loyalty of each and every employee.

The HR policy seeks to enhance employee loyalty, protect and enforce their rights and social guarantees, and support efficient HR management. Bonuses have been put in place to encourage employees meeting the KPIs or demonstrating outstanding performance. In addition, key executives are entitled to bonuses for their commitment to long-term goals subject to the achievement of business targets confirmed by the annual performance and competency appraisal conducted as per the applicable internal regulations.

SOCIAL PROGRAMMES

In addition to the statutory social safety nets guaranteed by the government, the company runs the following social programmes:

- additional temporary disability benefits;
- voluntary health insurance;
- personal accident insurance;
- financial aid to employees facing various hardships;
- greetings and gifts to employees to commemorate anniversaries and other significant dates;
- New Year events for employees' children;
- perks for the best employees and seniority benefits; and
- sports and recreation activities, corporate events, PR promotion of significant professional achievements and awards for outstanding performance.



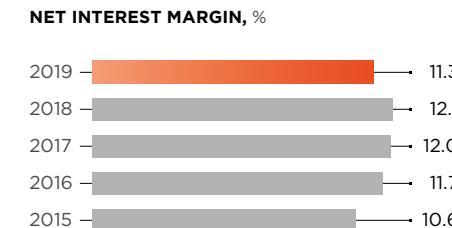
FINANCIAL PERFORMANCE

IFRS FINANCIAL HIGHLIGHTS IN THE LEASING SEGMENT

In 2019, Europlan delivered solid financial performance and high operating efficiency owing to a higher interest margin coupled with effective operating cost management and a low cost of risk.

- Leasing portfolio net of reserves expanded by 26% y-o-y to RUB 71.6 bn;
- Income from operations grew by 30% y-o-y to RUB 11.2 bn;
- Net profit totalled RUB 4.8 bn, up 47% y-o-y;
- Equity stood at RUB 13.9 bn as at 31 December 2019;
- ROE and ROA as at 31 December 2019 were 38.7% and 6.8% respectively;
- Debt to equity ratio came in at 4.2;
- Net interest margin (NIM) totalled 11.3%.

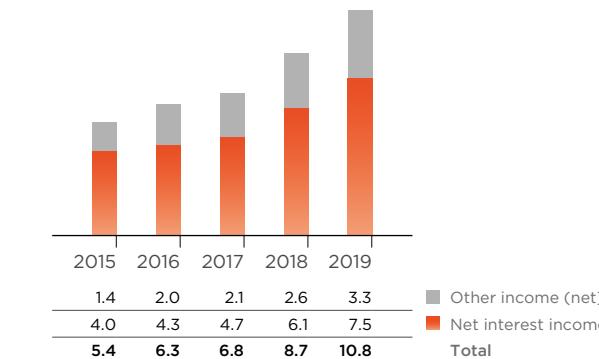
The Company also made exceptional progress generating new business volumes. In 2019, the value of leasing assets purchased for customers as part of new transactions totalled RUB 102.1 bn, up 18% y-o-y, including passenger cars (RUB 51.0 bn) and heavy-duty vehicles (RUB 39.8 bn). Europlan's new business in the SME segment totalled RUB 78.9 bn (including all regions and segments), up 16% y-o-y.



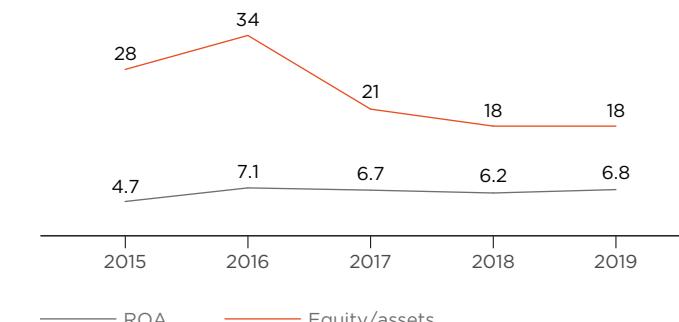
RUB 78.9 BN

Europlan's new business in the SME segment in 2019

OPERATING INCOME DYNAMICS, RUB bn¹



RETURN ON ASSETS AND CAPITAL ADEQUACY LEVEL, %

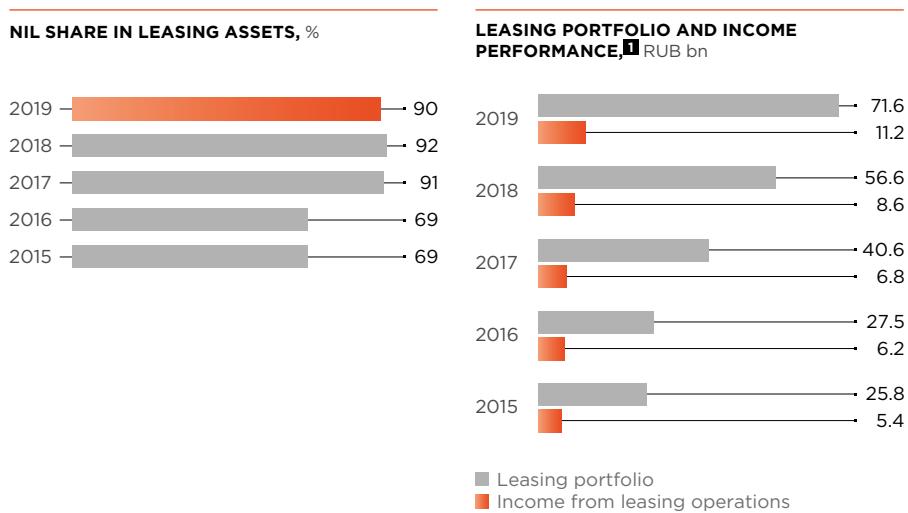


In 2019, Europlan delivered solid financial performance and high operating efficiency.

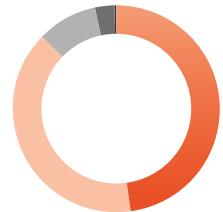
¹ Excluding one-time other income in the amount of RUB 344.6 mln.

LEASING PORTFOLIO

The high-margin leasing portfolio made of net investment in the lease (NIL) accounts for 90.1% of assets in the leasing business. The use of highly liquid assets will ensure the company's financial resilience going forward.



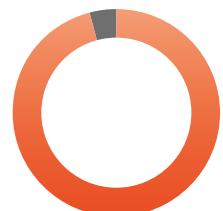
LEASING PORTFOLIO BY TYPE OF LEASED ASSETS IN 2019, %



LEASING PORTFOLIO BY TYPE OF LEASED ASSETS IN 2019

In 2019, the leasing portfolio was represented mostly by liquid assets, including passenger cars (47.8%), commercial vehicles, such as LCV, MCV, HCV and trailers (39.5%), self-propelled machines (9.4%), buses (3.1%), and other assets (0.2%).

PASSENGER CAR LEASING PORTFOLIO BY BRAND IN 2019, %



The passenger car leasing portfolio is dominated by foreign brands (96%), with domestic brands accounting for ca. 4%.

In 2019, the company maintained the share of repeat customers in its NIL portfolio at the previous levels, which demonstrates the efficiency of our policy aimed at retaining high-quality clients with a strong track record. In 2020, the company intends to keep working on the retention of repeat customers as one of its core priorities.

As at the end of 2019, the leasing portfolio was reasonably diversified to include lessees from different revenue categories, industries and geographies. Small businesses accounted for ca. 83% of the investment portfolio.

¹ Leasing portfolio and income performance is shown before changes in the impairment provisions for interest bearing assets of the leasing segment based on the 2015–2019 IFRS financial statements.

KEY RISK FACTORS

The Russian leasing industry has been around for more than 20 years and is thoroughly regulated by domestic laws. From 2011 to 2019, the industry saw no material adverse changes in the leasing legislation. In the current environment, the existing leasing laws may be subject to changes resulting in the licensing of leasing activities or additional requirements from the Bank of Russia. If this happens, the company may face material direct impediments and be forced to reduce the number of new leasing transactions, focusing on the leasing contracts secured by the ownership of leased assets.

INDUSTRY RISKS

As Europlan operates in the Russian Federation, the key industry-specific risks are related to its operations in the domestic market.

As Europlan operates in the Russian Federation, the key industry-specific risks are related to its operations in the domestic market.

THE MOST SIGNIFICANT RISKS

The most significant risks arising from potential deterioration in the industry (including potential material changes) include:

- risks related to increased competition from state-owned leasing companies;
- risks related to inflation and fluctuations of the Russian rouble against major world currencies;
- risks related to the deterioration of economic environment in Russia and the resulting slowdown in investments; and
- risks related to the Russian banking system/industry.

INDUSTRY RISKS MITIGATION

Europlan puts special emphasis on risk analysis and assessment developing mechanisms to mitigate the risks. The company's risk management framework is seamlessly integrated into the corporate business processes. To mitigate the risks related to increased competition, including from competitors tapping into the Russian market, the company continuously assesses and compares its key competitive advantages:

- popular leasing products;
- support services;
- branch network;
- business process automation.

Europlan puts special emphasis on risk analysis and assessment developing mechanisms to mitigate the risks. The company's risk management framework is seamlessly integrated into the corporate business processes.

The existing leasing portfolio is balanced in such a way that the average maturity and structure of the company's payables exceed those of current lease payments. Hence, due to its strong liquidity position, the company will be able to repay the debt even if it suspends all new business and focuses solely on the existing leasing portfolio. If these risks materialise, the company intends to take all the necessary steps to offset and/or mitigate the adverse impact by pursuing a smart and efficient economic policy in its dedicated segment.

The company does not provide leasing services to cash-strapped and newly incorporated businesses. It employs a centralised risk assessment approach, which offers two analysis options:

▪ Analysis based on a verified scoring model

This procedure is used to assess small businesses. Such clients generally lease passenger cars or heavy-duty vehicles, as well as self-propelled machines.

▪ Individual analysis

This procedure is used to assess big clients. The limit per client is capped at 10% from company's equity.

In addition to credit and business risks, all projects are duly analysed to identify property and legal risks. This risk management framework helps to reduce the number of defaults. In case of lessee's default, the company has the right to recover leased assets. All assets recovery cases are resolved by the Moscow Arbitration Court irrespective of the lessee's domicile.

RATINGS



In June 2019, Fitch Ratings CIS Ltd. affirmed the BB ratings of Europlan LC with a stable outlook:

- Long-term local-currency IDR affirmed at BB, stable outlook;
- Long-term foreign-currency IDR affirmed at BB, stable outlook;
- Short-term foreign-currency IDR affirmed at B;
- Senior unsecured debt rating affirmed at BB.



In December 2019, Analytical Credit Rating Agency (ACRA) upgraded the rating of Europlan LC to A+(RU) with a stable outlook.



PRIVATE PENSION FUND WITH TRANSPARENT ASSETS



4 MILLION
clients

>20 YEARS
in the pension market



IN 2019, THE MANAGEMENT OF NPF SAFMAR FOCUSED ON IMPROVING THE QUALITY OF INVESTMENT PORTFOLIOS AS ONE OF ITS PRIORITIES.

As a result, assets rated on par with Russia's sovereign credit rating now account for almost 70% of the fund's portfolios. In 2020, the fund will focus heavily on digitalising its service offering, boosting growth in non-state pension plans and increasing customer loyalty.

9.2%
market share by retirement savings
RUB 269 BN
assets under management

10.4%
market share by number of clients
A.pf WITH POSITIVE OUTLOOK
rating from the National Rating Agency

NON-GOVERNMENTAL PENSION FUNDS

BUSINESS OVERVIEW AND KEY HIGHLIGHTS OF 2019



Denis SIVACHEV

CEO, NPF SAFMAR

"NPF SAFMAR is one of the largest private pension funds in Russia, serving some four million Russian customers. Its mission as a pension fund is to preserve and increase the value of entrusted retirement savings. In 2019, the management of NPF SAFMAR focused on improving the quality of investment portfolios as one of its priorities. As a result, assets rated on par with Russia's sovereign credit rating now account for almost 70% of the fund's portfolios. In February 2020, the fund started disclosing the information on its investment portfolios with granularity up to the issuer level by publishing it on its website. These disclosures are not one-time and are part of the fund's major transformation programme, which includes measures to enhance its corporate governance and service quality. 2020 has presented all pension funds with new challenges. In recent months, the entire world has been experiencing a difficult situation due to the spread of COVID-19 and a significant decline in the majority of the economy sectors. We take increased responsibility for the pension funds entrusted to us and do everything possible to save and multiply them."

The Group's pension assets are SAFMAR Non-Governmental Pension Fund (NPF) and NPF Mospromstroy-Fund.

NPF Doverie was reorganised in March 2019 by becoming part of NPF SAFMAR.

Established in 1994, NPF SAFMAR (formerly Dobroe Delo, in 2004 was included into Raiffeisenbank Group and renamed NPF Raiffeisen; in 2015, renamed NPF SAFMAR and became part of the Group of the same name) is one of Russia's largest private pension funds.

As at the end of 2019, it ranked fifth in terms of retirement savings under management and in terms of total pension accounts of clients under compulsory pension insurance (CPI) and non-statutory pension plans (NSPP).¹

In December 2018, NPF Mospromstroy-Fund completed its reorganisation of a non-profit pension fund into a joint-stock pension fund and became part of the SAFMAR pension group. 100% of NPF Mospromstroy-Fund's shares (100% of total voting shares) are held by SAFMAR Financial Investments.

ASSET AT A GLANCE

100% owned by SAFMAR Financial investments²

Company Management

Mikail Gutseriev (Chairman of the Board of Directors)
Denis Sivachev (Chief Executive Officer)

RUB 269 BN

assets under management
(retirement savings +
pension reserves³)

4 MILLION

clients

266

employees



NPF SAFMAR operates solely in the CPI and NSPP segments. NPF Mospromstroy-Fund offers only NSPP services.

As part of their CPI and NSPP operations, the funds accumulate and invest retirement savings and pension reserves, perform accounting functions, calculate and make CPI payments from retirement savings to the insured and pay non-statutory pensions to NSPP members, as well as make payments to successors of CPI holders and NSPP members and pay transfer values to NSPP members.

As at the end of 2019, total pension assets under management of both funds stood at RUB 269 bn, including more than RUB 260 bn in CPI contributions and RUB 9 bn accumulated under corporate and private pension plans.⁴

RUB 9 BN

pension reserves under corporate and private pension plans

RUB 260 BN

retirement savings under CPI

¹ The Company's own estimates based on data from non-state pension funds.

² The list of the Fund's shareholders and affiliated persons is published on the official website of NPF SAFMAR: <https://www.npfsafmar.ru>.

³ Consolidated data for NPF SAFMAR as of 31 December 2019.

⁴ The funds' accounting data as at 31 December 2019.

MARKET OVERVIEW

RUSSIAN PENSION MARKET IN 2019

KEY TRENDS OF THE PENSION INSURANCE MARKET

TIGHTENED REGULATORY ENVIRONMENT

- **Growing scope and granularity of mandatory disclosures.** The Bank of Russia had issued a regulation on mandatory disclosures by non-state pension funds, and most of its provisions came into force in late September 2019. It requires funds to disclose information about their governance bodies, directors, selected employees and key documents. Funds shall also disclose the structure of their investment portfolios of retirement savings and pension reserves on their websites on a monthly basis within five days following the end of each month. In addition, they are obliged to regularly disclose data on the amount of retirement savings and pension reserves, the amount of payment reserves, the amount of the CPI reserve and insurance reserve, the number of insured persons, depositors and participants. Starting 2020, all non-state pension funds shall disclose on their website the interest earned (accrued) on their clients' savings for the year ended. Website disclosures shall also cover the average indexation of pensions already paid out by the fund. Profitability and indexation disclosures are to be made annually until 31 March and 1 August, respectively. Mandatory requirements to disclose the structure of investment portfolios will apply starting 1 July 2021. NPF SAFMAR made the first public disclosure of its portfolio split by issuer on 10 February 2020.
- **Continued mandatory stress testing for all non-state pension funds.** Stress testing is used to assess financial stability of funds in critical situations, identify sources of potential trouble and avert them. Currently, stress testing is considered passed if 75% of tests run for each scenario show that the fund's assets are sufficient for it to fulfil all its obligations to customers. The Bank of Russia regularly updates its stress testing scenarios.
- **Law on fiduciary liability of private pension funds in place.** Under the law, funds are required to invest retirement savings and pension reserves in assets with an expected risk-weighted return at least equal to that offered by other investment options that were available at the time of making the investment decision. Funds shall also make sure that any assets are acquired and sold on the best terms (including the risk and return ratio) available to the fund as at the date of the transaction. If a breach of the said duty results in a decline in the value of the retirement savings or pension reserves or in the fund failing to receive proceeds from the same that it would have received without the breach taking place, the fund shall use its own resources to compensate the decrease in the value of the retirement savings or pension reserves or the lost income amount. The decision on whether a breach has taken place and on damages is made by the Financial Surveillance Committee of the Bank of Russia based on informed judgement. The fund may challenge such a decision.

NPF SAFMAR made the first public disclosure of its portfolio split by issuer on 10 February 2020.

- **Continued debate over the pension fund rehabilitation bill.** It is expected that the law for pension fund rehabilitation will be similar to rehabilitation laws relating to banks and insurance companies. Rehabilitation criteria will include:
 - unstable financial position of the fund, namely the actuarial deficit of more than 5% of the fund's total liabilities based on the annual actuarial valuation;
 - lack of asset coverage based on stress test results;
 - obstruction of the supervisory body's valuation of the fund's assets and liabilities by the fund's management and other employees.

Pension funds can be rehabilitated through the Pension Sector Consolidation Fund, with resources of consolidation funds both for the banking and pension sectors to be managed by one company that will be injecting capital provided by the Bank of Russia into troubled pension funds. The ownership of rehabilitated funds will transfer to the Bank of Russia.

RETIREMENT AGE

On 1 January 2019, Russia commenced a phased increase in the retirement age (up by one year annually) at which people first become entitled to old age insurance pensions, including individuals who qualify for early old age pensions. By 2023, the retirement age will be 60 years for females and 65 for males. At the same time, the legal age for receiving funded pensions remained unchanged at 55 years for females and 60 years for males. On 31 May 2019, a bill was introduced setting the retirement age thresholds for non-state pensions at 55 and 60 years for females and males, respectively. The bill also removes the insurance record from eligibility criteria and updates the procedure for applying for a non-state pension. In addition, it guarantees and leaves intact the right to receive a non-state pension by females and males under 55 and 60 years of age, respectively, in cases where they qualify for an insurance or state pension at an earlier age, regardless of additional eligibility criteria. At the same time, the bill lets the parties to pension agreements to negotiate different age thresholds for receiving a non-state pension that may not exceed generally applicable age thresholds for receiving an old age insurance pension. It allows setting additional pension eligibility criteria (for example, the length of service).

On 31 May 2019, a bill was introduced setting the retirement age thresholds for non-state pensions at 55 and 60 years for females and males, respectively.

EXTENSION OF THE CPI MORATORIUM THROUGH 2022

The moratorium (full amounts of CPI contributions are allocated to finance insurance pensions) was first declared a one-off measure in 2014 and has been regularly extended ever since. In December 2019, the moratorium was extended through 2022. With no new contributions coming in, the available sources of building up CPI assets by non-state pension funds (other than investment income) include:

- acquiring clients from other CPI providers;
- additional insurance contributions to the funded pension and contributions as part of the government co-financing programme;
- maternity capital.

The moratorium is unlikely to be lifted as the overall social and economic environment remains challenging, the Pension Fund of the Russia still faces a significant budget deficit, the population grows older, and the concept of a guaranteed pension plan is expected to be introduced.

Currently, non-state pension funds and their agent networks shift their focus on the promotion of NSPP offering, including both individual and corporate products.

REVISED TERMS FOR CHANGING CPI PROVIDERS

On 1 January 2019, Federal Law No. 269-FZ of 29 July 2018 On Amending Certain Legislative Acts of the Russian Federation to Ensure the Right of Citizens to Receive Information about the Effects of Termination of Mandatory Pension Insurance Contracts came into effect. It introduced a fundamentally new procedure for the insured to change non-state pension funds. According to clause 2.4 of the law, an individual has the right to apply for a transfer of their retirement savings to a new pension fund or from a non-state pension fund to the Pension Fund of the Russia or back again (including transfers ahead of schedule) by either of two ways:

- via the Public Services portal;
- in person (or by proxy) at a local body of the Pension Fund of Russia.

The application filed via the Public Services portal is also provided to the Pension Fund of Russia, which sends its copy to the fund currently holding the applicant's retirement savings under a CPI agreement and the fund they want to transfer such savings to. The insured shall be informed of the consequences of such a transfer (including the amount of lost investment income on the retirement savings in case of an early transfer) prior to the application being filed with the new fund.

Due to a sharp drop in applications for changing the method of investing retirement savings, the estimated number of applications in the CPI segment satisfied in 2019 totalled 431,000, a fourfold decrease year-on-year. Most applicants ~105,000 – opted for the Pension Fund of Russia. 170,000 of all transfers were associated with applications for a routine change of the insurer filed five years ago. Apart from the Pension Fund of Russia, the leaders in client acquisition as part of the 2019 transfer campaign were NPF VTB Pension Fund, NPF Gazfond Retirement Savings, NPF Otkritie and National NPF.¹

Currently, non-state pension funds and their agent networks shift their focus on the promotion of NSPP offering, including both individual and corporate products.

¹ Based on Kommersant daily's data.

CONSOLIDATION IN THE PRIVATE PENSION MARKET

2019

- NPF Doverie merged with NPF SAFMAR
- NPF Vladimir merged with MNPF Bolshoi
- The Bank of Russia approved the merger of NPF Soglasie, NPF Obrazovanie and NPF Socialnoe Razvitiye with NPF Evolyutsiya

2020

- Merger of NPF Rostvertol with NPF Rostec approved. Subsequent merger of NPF First Industrial Alliance also expected
- Merger between NPF Atomgarant and NPF Atomfond planned
- NPF Magnit fully consolidated by NPF VTB Pension Fund
- Region Group obtained control over NPF Federation

NPF MARKET CONSOLIDATION (CPI)

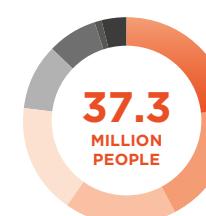
Group/NPF	Retirement savings		Clients	
	RUB bn	Market share, %	Million people	Market share, %
NPF Sberbank	627.4	21.9	8.72	23.4
GAZFOND pensionnie nakopleniya	559.6	19.6	6.46	17.3
Otkritie	525.7	18.4	7.12	19.1
Region	440.8	15.4	6.41	17.2
Future	263.5	9.2	4.29	11.5
Evolyutsiya	128.3	4.5	1.47	3.9
Soglasie	31.1	1.1	0.37	1.0
FEDERATION	6.0	0.2	0.09	0.2
Socialnoe Razvitiye	6.0	0.2	0.08	0.2
Obrazovanie	4.3	0.2	0.10	0.3
Telekom-Soyuz	1.5	0.1	0.02	0.0
SAFMAR	262.8	9.2	3.88	10.4
VTB	259.8	9.1	2.88	7.7
VTB Pension Fund	246.2	8.6	2.66	7.1
Magnit	13.6	0.5	0.23	0.6
Bolshoi	46.4	1.6	0.44	1.2
Other NPFs	136.0	4.8	1.39	3.7
Total	2,858.6	100.0	37.3	100.0

Source: NPFs estimates and preliminary data of the Bank of Russia

RETIREMENT SAVINGS, %



CLIENTS, %



NPF Sberbank	21.9	NPF Sberbank	23.4
Gazfond PN	19.6	Otkritie	19.1
Otkritie	18.4	Gazfond PN	17.3
Region	15.4	Region	17.2
SAFMAR	9.2	SAFMAR	10.4
VTB	9.1	VTB	7.7
Bolshoi	1.6	Bolshoi	1.2
Other NPFs	4.8	Other NPFs	3.7

GOVERNMENT TO GUARANTEE THE SAFETY OF RETIREMENT SAVINGS IN THE VOLUNTARY PENSION SEGMENT

Two options are now available for having one's retirement savings managed by non-state pension funds:

1. Funded pensions accumulated as part of the compulsory pension insurance system. The safety of pension contributions in the CPI system is guaranteed by the government;
2. Non-state pension plans (corporate and individual). The government announced, but not yet implemented the plan to guarantee the safety of pension reserves accumulated as part of non-state pension plans. The Bank of Russia has started drafting a bill to guarantee the obligations of funds offering non-state pension plans.

TAX BENEFITS

The GPP will rely on voluntary contributions made by GPP members (individuals) to non-state pension funds. GPP contributions can be made either directly or through the employer.

It is assumed that the GPP will come along with the following tax benefits:

- a specific approach to calculating income for personal income tax purposes under GPP agreements, including tax deductions of non-state life annuity payments, pension payments and early payments, as well as part of the contributions made by the GPP member's employer in their favour;
- tax incentives for both individuals and employers to encourage GPP contributions.

INTRODUCTION OF A GUARANTEED PENSION PLAN

On 29 October 2019, the Ministry of Finance of Russia launched a public discussion over a set of bills introducing a guaranteed pension plan (GPP) seeking to enable individuals to make personal contributions towards non-state pensions and providing for government stimulus and stronger protection of retirement savings. The GPP is expected to increase the retirement income for non-state pension plan members when they become eligible for a pension. If the bills pass into laws, GPP agreements will be available to clients starting 1 January 2022 or 2023. The GPP concept is seen as replacement for the previously announced individual pension capital concept.

Unlike other concepts, the GPP enables individuals to include their employer's contributions and accumulated CPI retirement savings into the GPP's pension reserves. The payout options have not yet been finalised. In line with the published bill, the basic option includes pension payments guaranteed for 15 years with permitted inheritance both at the accumulation and withdrawal stage. However, as previously commented by the Bank of Russia, the basic option is being debated and may finally provide for inheritance at the accumulation stage only.

The register of the GPP members will be maintained and the GPP pension contributions and other funds administered by a dedicated pension operator, most likely, the National Settlement Depository (NSD). In addition, the bills stipulate that the safety of the GPP retirement savings will be guaranteed in a way similar to CPI savings.

EVOLUTION OF THE PENSION MARKET

CPI MARKET EVOLUTION

Based on preliminary data of the Bank of Russia, in 2019, total retirement savings in private pension funds increased by RUB 263 bn to some RUB 2.9 tn.¹

Total retirement savings and pension reserves under management of private pension funds reached RUB 4.3 tn, while total pension assets in the national economy (including retirement savings managed by the Pension Fund of Russia) stood at RUB 6.1 tn.

According to preliminary data, 430,900 applications for changing the method of investing retirement savings were satisfied in 2019 (including 169,400 applications for urgent transfers without the loss of investment income). Based on our own estimates, net transfers of retirement savings from the Pension Fund of Russia to non-state pension funds in 2019 will not exceed RUB 4 bn.

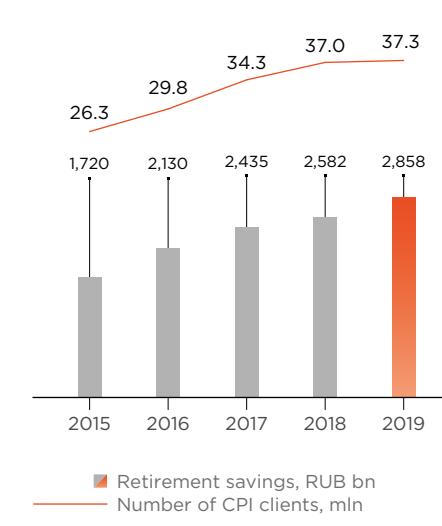
NSPP MARKET EVOLUTION

Based on preliminary data of the Bank of Russia, in 2019, the total pension reserves managed by non-state pension funds increased by RUB 153 bn to exceed RUB 1.4 tn.¹

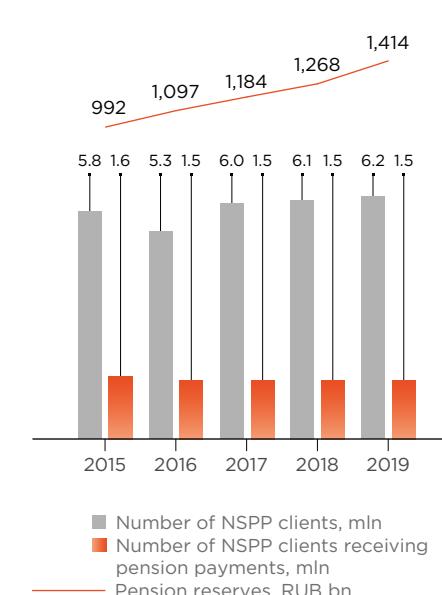
In 2019, amid the restrictions on client acquisition in the CPI segment, selected non-state pension funds launched campaigns to promote private pension plans (PPPs). This was supported by a media discussion around the increased retirement age along with a significant persisting deficit in the statutory pension system despite raising the generally established retirement age for receiving an insurance pension, and improved financial literacy among the general public. As a result, NSPP market players registered more interest from middle-aged and younger people towards financial instruments that help them save money for the future.

This interest may increase significantly following the launch of the GPP system in addition to classical corporate pension plans. The GPP system will rely on non-state and private pension plans, so large non-state pension funds have already launched individual pension products and services.

CPI SYSTEM DYNAMICS IN 2015-2019



NSPP SYSTEM DYNAMICS IN 2015-2019



NPF SAFMAR'S POSITION IN THE PENSION MARKET

Bank of Russia data as at 31 December 2019

No. 5

by retirement savings under management with a market share of 9.2%

No. 5

by the number of clients

¹ Private pension insurance market trends

KEY ACHIEVEMENTS IN 2019 AND GROWTH PLANS FOR 2020

NPF SAFMAR sees its primary goals in strengthening its pension market position, expanding the client base and focusing on the development of personal and corporate pension plans to be ready for the GPP adoption.

NPF SAFMAR's investment policy aims to deliver a consistent upside in its portfolios while ensuring an optimal risk-return profile. Under its long-term strategy, the Fund is committed to providing real value creation, i.e. delivering growth ahead of inflation.

STRATEGIC PRIORITIES

In March 2019, the Fund's Board of Directors approved the following strategic priorities for business development:

- transparency and openness of investments;
- balanced investment policy;
- increased customer loyalty;
- digitalisation;
- improved corporate governance.

In early 2019, NPF SAFMAR completed rebalancing its investment portfolios in order to maximise their protection, reliability and performance. To mitigate risks, the Fund works with a number of reputable asset management companies and has a clear list of appropriate financial instruments and respective limits for its asset management.

PPP/CPP holders and CPI clients remain the target audience of the Fund.

In 2019, the Fund was actively working on improving online services for its clients. At the end of the year, a new NPF SAFMAR website was launched where people can sign NSPP contracts without the need of an office visit. On top of that, the Fund introduced personal accounts and an app that allows users to view accrued returns for the year, check their pension accounts under the existing contracts, and manage their PPP payments.

In March 2019, the Board of Directors of NPF SAFMAR approved strategic priorities for business development aimed at improving the strength and returns of assets under management. The key priorities include transparency and openness of investments, balanced investment policy, increased customer loyalty, digitalisation, and improved corporate governance.

To achieve its strategic goals, the Fund plans to:

- Streamline sales processes;
- Expand distribution channels;
- Expand the NSPP product line;
- Launch cross sales;
- Improve customer experience through centralised, automated and standardised origination, execution and administration of client contracts;
- Develop digital interaction channels following the funds' connection to the Interdepartmental Electronic Interaction System and a remote client identification system;
- Streamline business processes;
- Efficiently control investment risks;
- Improve accounting and reporting systems.

FINANCIAL PERFORMANCE



IFRS FINANCIAL HIGHLIGHTS

Key indicators of NPF SAFMAR's financial performance as at the end of 2019 are presented below:

- Assets: RUB 297.3 bn as at 31 December 2019 vs RUB 192.1 bn as at 31 December 2018
- Liabilities: RUB 260.5 bn as at 31 December 2019 vs RUB 168 bn as at 31 December 2018
- Equity: RUB 36.8 bn as at 31 December 2019 vs RUB 24 bn as at 31 December 2018
- Net profit: RUB 3.3 bn vs RUB 0.04 bn in 2018
- Profit from investment activities: RUB 20 bn

RUB 3.3 BN
net profit in 2019

INVESTMENT ACTIVITIES

The Fund implements a balanced investment strategy aimed at preserving the capital. In 2019, retirement savings and pension reserves were invested via nine asset management companies selected by the Fund. Their solid expertise in pension assets minimises multiple financial and operational risks associated with pension investments.

COMPANIES MANAGING RETIREMENT SAVINGS

- Kapital Asset Management
- IQG Asset Management
- Investment Management Company
- REGION SM Asset Management
- Raiffeisen Capital
- AGANA Asset Management
- ZAO Lider
- TKB Investment Partners
- VTB Capital Asset Management

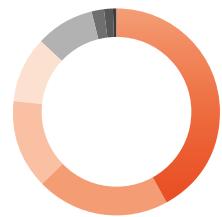


The full version of 2019 IFRS financial statements of NPF SAFMAR is available in the Disclosure section of the corporate website at www.npfsafmar.ru

COMPANIES MANAGING PENSION RESERVES

- Raiffeisen Capital
- IQG Asset Management
- Investment Management Company

**NPF SAMFAR PORTFOLIO STRUCTURE
OF RETIREMENT SAVINGS AS OF 31 DECEMBER
2019, %**



■ Russian corporate bonds	42.2
■ Reverse repo with bonds	20.6
■ Russian shares	14.1
■ Government securities	10.2
■ Reverse repo with shares	9.2
■ Mortgage securities	1.9
■ Deposits	1.5
■ Other	0.3

**NPF SAMFAR PORTFOLIO STRUCTURE
OF PENSION RESERVES AS OF 31 DECEMBER
2019, %**



■ Russian corporate bonds	47.7
■ Russian shares	22.9
■ Government securities	18.9
■ Reverse repo with shares	10.6
■ Other	-0.1

DISCLOSURE ON INVESTMENT PORTFOLIOS AT THE ISSUER LEVEL

>87%

of assets in NPF SAFMAR's portfolio
are rated BB or higher

IN 14 INDUSTRIES

pension assets under management
are invested

NPF SAFMAR initiated the disclosure of its portfolio split by issuer much earlier than required by the Bank of Russia regulations (1 July 2021). Information on portfolio composition will be updated on a regular basis.

Right now, the information on the composition of NPF SAFMAR portfolios at the issuer level is disclosed at [the Fund's website](#), which has breakdowns by investment targets, industries and credit ratings. The scope of disclosure on the issuers of securities covers their shares and credit ratings.

At the date of this Report:

- over 87% of assets in NPF SAFMAR's portfolio are rated BB or higher (equivalent to the S&P Ratings scale);
- 67% of these assets are rated BBB-, i.e. on par with Russia's sovereign credit rating;
- pension assets under the Fund's management are invested in 14 industries;
- the issuers with the largest shares in the investment portfolio include Rosneft, Gazprom Neft, Transneft, Russian Railways, Sberbank, etc.

RETURN ON INVESTED RETIREMENT SAVINGS AND PENSION RESERVES ACCRUED TO CLIENT ACCOUNTS IN 2019

In 2019, NPF SAFMAR delivered a return of 6.7% p.a. for CPI clients, which is double the 2019 inflation rate (3%). As regards NSPP, returns accrued to baseline accounts stood at 9.5% p.a. – more than triple the inflation rate.

NSPP participants and depositors whose contracts fall under the investment strategy with a guaranteed minimum return and who regularly topped up their accounts got 10% p.a., and returns accrued to balanced accounts in 2019 stood at 9.3%.

AVERAGE RETURN ON INVESTMENT OF RETIREMENT SAVINGS ACCRUED TO CLIENT ACCOUNTS, %

Fund	2015	2016	2017	2018	2019	Accumulated 2009-2019
NPF SAFMAR	8.9	8.7	1.8	-11.0	6.7	64.9

Source: NPF SAFMAR accounting data

AVERAGE RETURN ON INVESTMENT OF PENSION RESERVES ACCRUED TO CLIENT ACCOUNTS, %

Fund	2015	2016	2017	2018	2019	Accumulated 2009-2019
NPF SAFMAR	10.8	10.4	8.7	2.2	9.5	120.0
NPF Mospromstroy-Fund	10.9	15.3	4.3	5.5	11.1	144.2

Source: Fund's accounting data

SPECIAL DEPOSITORY

Reliability and capital maintenance are the top priorities in the pension industry. Here the Fund is clearly one step ahead of other collective investment vehicles as it employs additional controls: all investments are monitored on a case-by-case basis along with follow-up control by a special depository, Unified Specialised Depository.

KEY RISK FACTORS

This section details industry risks associated with the operations of NPF SAFMAR and NPF Mospromstroy-Fund.

These risks may affect the funds' financial performance. If the risks materialise, they may affect the indicators of SFI's consolidated financial statements and hence the value of its ordinary shares. The risks that the Company considers the most significant in its CPI and NSPP operations are listed below along with descriptions.

NPF SAFMAR and NPF Mospromstroy-Fund do not run operations outside the Russian Federation, therefore risks relating to possible changes in the international market environment are not described or assessed, and the information below refers only to the risks in the Russian Federation.

It should be noted that the materialisation of these risks can reduce the expected return on equity of the holding company and lead to substantial depreciation of financial investments in NPF's investment portfolio.

There are also potential negative events related to NPF's government regulation to consider. These risks may not only affect the market value of shares, but also make it impossible for the funds to carry on certain operations in their capacity of an NPF.

At the same time in the context of ongoing pension reform and lack of state intentions transparency regarding management of pension funds and regulation, it is impossible to mitigate this risk.

To mitigate NPF-specific risks, the Company thinks it relevant to:

- Develop a portfolio of high-quality assets with a good credit rating in line with the existing investment strategy.
- Limit risks based on a framework of internal limits and key risk indicators.
- Diversify the client base and investment portfolios.
- Timely perform compliance procedures, specifically by monitoring pension industry laws, and comply with regulatory orders.

Special mention needs to be made of actuarial risks that are inherent to any pension fund. With the above approaches in effect, the funds assess the actuarial risks to be minimised.

Developing a portfolio of high-quality assets with a good credit rating in line with the existing investment strategy is one of the Fund's risk mitigation measures.

KEY RISKS

FINANCIAL RISKS

- **Credit risk**, or the risk of losses that may be incurred by the Fund if any party (counterparty, issuer, asset management company, lending institution, etc.) fails to duly perform its financial obligations under a contract or another document governing relations between counterparties.
- **Market risk**, including the price, interest and FX risks, as well as the market liquidity risk.
- **Liquidity risk**, including the current liquidity and the long-term liquidity risks.

NON-FINANCIAL RISKS

- **Operational risks**, including the risks of internal or external fraud, risks related to employment practices and workplace safety, clients, products and business practices, risks of damage to tangible assets, risks of operating system migration, loss of key employees, etc.;
- **Compliance risks** and risks related to tightening of laws, including the risks associated with the extension of a moratorium on the payment of mandatory insurance contributions to finance insurance pensions;
- **Actuarial risks**.

RATING



A.pf WITH POSITIVE OUTLOOK

In March 2020, the National Rating Agency assigned the Fund an "A.pf" Reliability Rating with a positive outlook.

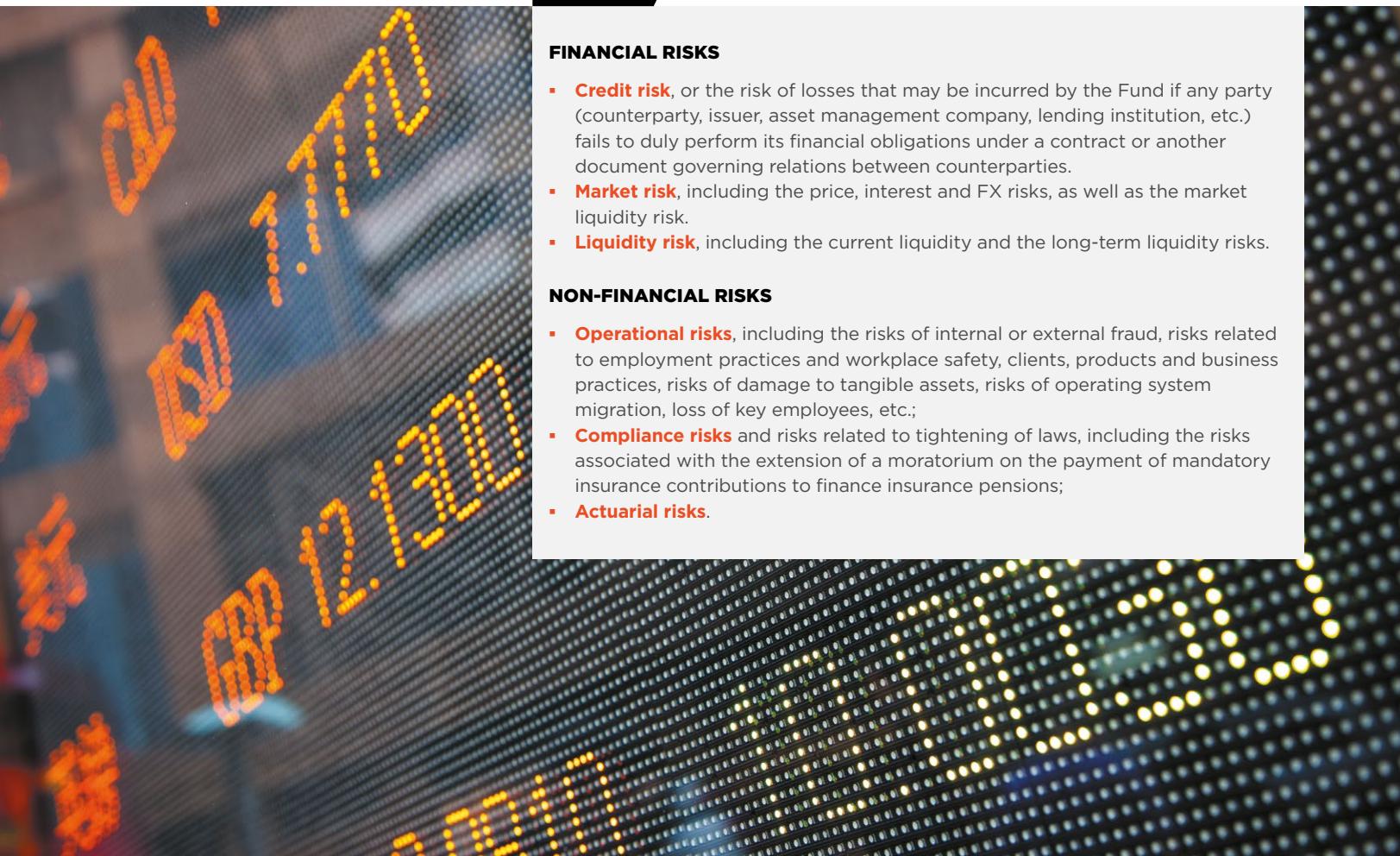
EVENTS AFTER REPORTING DATE

The situation on the stock markets has undergone significant changes in the first quarter of 2020 due to the financial crisis related to the spread of coronavirus infection. The Moscow Exchange index fell in March 2020 from 3,000 to 2,430 points.

NPF SAFMAR is well positioned to face the current challenges. At the beginning of the crisis, 28.5% of the retirement savings portfolio and 13.6% of the pension reserves portfolio were held in cash deposits. This is the most reliable protection from the volatility of financial market: cash assets can't be revaluated. A number of high-quality assets can be purchased using this cash cushion at a lower price, which means the Fund may subsequently receive additional income.

A conservative investment strategy also provides protection from the changes in financial markets. At the beginning of the crisis more than half of the assets under managed were invested in government securities and corporate bonds with high credit ratings. The shares in investment portfolios are mainly investments in the most reliable companies in Russia, the so-called 'blue chips'.

The Bank of Russia supports NPFs and has already taken a number of regulatory measures to ensure that the financial crisis does not have a significant impact on funds portfolios.





INSURANCE BASED ON PARTNERSHIP AND TRUST



TOP 10

insurance company
in Russia in all key
segments

>RUB 34 BN
insurance payouts in 2019

**FOR ALMOST 30 YEARS
VSK HAS BEEN KNOWN
FOR ITS SOLID FINANCIAL
PERFORMANCE**, strong
operational profitability and high-quality
assets. In July 2019, Fitch Ratings upgraded
VSK's Financial Strength rating to BB
with a Stable Outlook. The professionalism
of our team and the constant improvement
of our key process management system
have had a positive effect on the business.

>RUB 93.3 BN
gross written premiums

>200
advanced insurance services

7,100
employees

6.2%
VSK Group market share in 2019



VSK INSURANCE HOUSE

BUSINESS OVERVIEW AND KEY HIGHLIGHTS OF 2019



Oleg OVSYANITSKY

Chief Executive Officer
of VSK Insurance House

2010-2019

"For almost 30 years VSK has been known for its solid financial performance, strong operational profitability and high-quality assets as confirmed by the auditor and the leading rating agencies.

In July 2019, Fitch Ratings upgraded VSK's Financial Strength rating to BB with a Stable Outlook.

The upgrade was attributed not only to the high level of service and reliability of the company, but also to its effective efforts in exploring and embracing new technologies. The professionalism of our team and the constant improvement of our key process management system have had a positive effect on the business. We are confident that we are on the right track.

We are committed to maintaining strong operational performance and growth pace while retaining our position in the insurance market."

VSK Insurance House (VSK, VSK Group or the company)

was established in 1992 as a universal insurance company offering services to retail and corporate clients across Russia. The company has consistently ranked among the Top 10 insurance players by gross premium income, leading the way in key segments such as motor insurance and voluntary health insurance (VHI).

ASSET AT A GLANCE

49% owned by SAFMAR Financial investments

Company Management

Sergey Tsikalyuk (Chairman of the Board of Directors)

Oleg Ovsyanitsky (Chief Executive Officer, Chairman of the Management Board)

On 20 January 2020, the General Meeting of Shareholders of VSK resolved to elect Alexander Tarnovsky as Chief Executive Officer of the company. He will take over from Oleg Ovsyanitsky who has held this position for ten years.

Oleg Ovsyanitsky will remain involved in the company's governance as member of the Board of Directors and will oversee a number of the company's strategic development areas, including business growth and relationships with key partners.

Top 10

insurance company in Russia in all key segments

>200

advanced insurance services

7,100

employees

RUB 93.3 BN

gross written premiums



24.3%

return on equity in 2019

VSK INSURANCE PORTFOLIO STRUCTURE BY PRODUCT, %



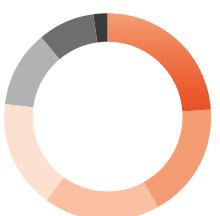
CMTPL	25
MHI	24
Accidents	15
Corporate property	11
VHI	8
Life insurance	7
Personal property	7
Civil liability	3

VSK INSURANCE PORTFOLIO STRUCTURE BY REGION, %



Central	55
Volga	12
Northwestern	9
Southern	8
Siberian	6
Urals	5
Far Eastern	3
North Caucasian	2

VSK INSURANCE PORTFOLIO STRUCTURE BY DISTRIBUTION CHANNEL, %



Direct	24
Agents	18
Banks	18
Dealers	17
Non-financial intermediaries	12
Leasing	9
Online	2

MARKET OVERVIEW

In 2019, the insurance market showed mixed performance. Premiums remained flat amid the contraction in the life insurance segment. For the past four years, the segment has been the main, yet inconsistent, industry growth driver.

The key factors that significantly influenced the insurance market in 2019:

- maturities of investment-linked life insurance policies purchased 3-5 years ago when the segment entered the phase of rapid growth;
- high demand from individuals for consumer loans;
- active development of voluntary health insurance programmes driven by sales of inexpensive products providing cover against serious illness, programmes with comprehensive health check-up and/or excess options.
- widened the rate corridor and updated CMTPL coefficients;
- a decline in car sales.

INSURANCE MARKET IN 2019

INSURANCE MARKET STRUCTURE IN 2019, %



	INSURANCE MARKET STRUCTURE IN 2019, %
Life insurance	27.6
CMTPL	14.5
Accidents and health insurance	12.6
VHI	12.2
Property insurance	11.8
MHI	11.5
Civil liability	2.2
Other	7.6

Gross premium income remained unchanged from the previous year at RUB 1,481.2 bn. Gross premiums mainly came from life insurance (RUB 409.4 bn), CMTPL (RUB 214.9 bn), accident and health insurance (RUB 187.4 bn), VHI (RUB 180.7 bn), MHI (RUB 170.5 bn), property insurance (RUB 175.2 bn) and civil liability insurance (RUB 32.3 bn). With life insurance excluded, the insurance market expanded by 4.4%.

In absolute terms, the insurance market grew by RUB 1.7 bn in 2019. Meanwhile, new upward trends have emerged that may become long-term drivers of the insurance market, namely in VHI (which grew by RUB 28.9 bn in absolute terms) and personal property insurance.

The size of the insurance market in 2020 will largely depend on the pace of increase in loans to individuals and the further promotion of VHI programmes. Another factor that will influence the performance of insurers in 2020 is the expansion of customised rates in compulsory motor insurance.

In 2019, the key types of insurance saw the following changes:¹

- CMTPL market saw a slowdown of 4.9%;
- the life insurance segment contracted by 9.5%;
- personal property insurance rose by 10.9%;
- VHI grew at a faster rate by 19.0%;
- accident and health insurance recorded a 10.5% increase;
- premiums in corporate property insurance expanded by 16.7%;
- premiums in MHI also grew by 1.1%.

A tendency that is spanning across multiple industries, digitalisation of business processes now offers its benefits to insurance as well. The market is driven by fast-paced advances in technology, first and foremost online sales. In 2019, the online channel brought 28% of CMTPL insurance premiums, compared to a share of less than 13% in 2017. Consolidation is still ongoing in the insurance market, with the number of players consistently shrinking. As at the end of 2019, 175 insurance companies were listed in the Unified State Register of Insurers, with 21 firms pulling out of the market in just one year. The reasons for that include failure to comply with regulatory requirements for insurers' financial stability, bankruptcies, and voluntary withdrawals from the business.

There were no major players among those going out of business, so industry concentration in terms of insurance contributions stayed virtually flat. In 2019, the Top 10 insurers dominated 68% of the market.

VSK POSITION IN THE INSURANCE MARKET²

With a market share of 5.6%, VSK Insurance House has invariably ranked among the Top 10 Russian insurance companies across all key products, including as a Top 5 motor insurer with a share of 10.8% and 11.6% in CMTPL and MHI, respectively.

TOP 10 INSURANCE PLAYERS BY GROSS WRITTEN PREMIUMS, RUB bn

SOGAZ	194.3
Sberbank Life	153.4
Alfa	108.4
Ingosstrakh	103.3
RESO	98.0
VTB	87.0
VSK	82.2
RGS	78.0
Alfa Life	55.8
SOGAZ-Life	45.8

In 2019, the company also demonstrated positive premium growth in all key market segments. In MHI, VSK saw an 8.6% rise in premiums, retaining its 4th position in the ranking of major MHI insurers with market share of 11.6%. In addition, VSK demonstrated impressive growth in non-motor insurance segments. Premiums in investment life insurance went up by 45.3%, with market share adding 2.1 pp to 8.9%. In VHI, premiums expanded by 11.1% and the accident and health insurance grew by 29.6%, with market share of 6.5%. Cargo insurance was another strong performing segment as premium income grew by 31.9% and the company's market share reached 10.0% against a 5.3% market growth rate.

NUMBER OF PLAYERS IN THE INSURANCE MARKET

2019	175
2018	196
2017	222
2016	256
2015	326

INSURANCE MARKET CONSOLIDATION, %



Top 10	68
Other	32

INSURANCE COMPANIES MARKET SHARE, %



SOGAZ	13.1
Sberbank Life	10.4
Alfa	7.3
Ingosstrakh	7.0
RESO	6.6
VTB	5.9
VSK	5.6
RGS	5.3
Alfa Life	3.8
SOGAZ-Life	3.1
Other	31.9

In 2019, VSK ranked 7th by gross premium income in Russia, which was up 17.8% y-o-y.

¹ Bank of Russia data.

² Based on data by the Bank of Russia.

STRATEGY AND GROWTH PATHS

The main investment goals of the Company are to receive investment income on an ongoing basis and increase the value of assets.

The choice of an investment strategy for VSK Joint Stock Insurance Company is underpinned by its goals, which harness asset management tools to:

- ensure solvency and high liquidity of assets;
- secure the recoverability of investments and thereby mitigate multiple associated risks; and
- ensure competitive returns on the investment portfolio.

The main investment goals of the Company are to receive investment income on an ongoing basis and increase the value of assets. The Company invests its equity and insurance reserves in accordance with the principles of diversification, liquidity, return and profitability.

To achieve the above, the following conditions must be met:

- the potential investment value grows faster than inflation;
- the investment instruments meet the criteria for being recognised as assets accepted for coverage of insurance reserves and equity to the extent regulated by the Bank of Russia;
- the investment instruments meet the liquidity requirements;
- the unsystematic component of risk is levelled through broad diversification and investment in various asset classes;
- when evaluating the balance of risk to return, greater weight is given to the level of risk.

In 2020, the company will keep working on its core business, relying on proceeds from its operations and expanding its footprint and product line.

NEXT STRATEGY CYCLE

As at the date of this Report, the company has completed the development of a new three-year strategy that aims to ensure that:

- VSK's market share will reach 11% by 2022;
- the client base will grow by more than 1.5 times;
- the aggregated loss ratio will be maintained below 96%;
- NPS will be increased to 50%;
- 90% of transactions will be paperless;
- personnel engagement will exceed 77%.

The above will be achieved through the following:

- strategic programmes across conventional business lines (development of the agency sales channel, breakthrough in VHI, corporate portfolio expansion, mainstream provision of customised offers);

- initiatives promoting new business models (collaborations with partners to launch new service insurance products, availability of insurance and non-insurance products within the company's own ecosystem);
- projects improving operational efficiency through automation and robotisation across most operational functions, centralisation and relocation of support and operational functions;
- deployment of a new microservices-based platform;
- introduction of agile methods to implement changes;
- development of HR brand and the talent management and retention system.

STAFF TRAINING AND EDUCATION

In 2019, the company upgraded its training system for employees from various sales channels and functional units. 1,576 training sessions were held (classroom-based and delivered by video conferencing), bringing together more than 26,000 people. In 2019, the company's employees and agents successfully completed 54,000 digital courses on VSK's corporate portal, a more than two-fold increase from the previous year.

ORGANISATIONAL MANAGEMENT

In 2019, the company's headcount was up by 5%, reaching 6,400 people. The rise in headcount came against the backdrop of high employee performance standards, which resulted in FTE performance improving by 13% against 2018. The churn rate increased by 3% against 2018 as a result of some service functions being moved from Moscow to the Volgograd office.

In 2019, the company continued its organisational development programme developed in 2018. It included, among other things, the re-organisation of the head office and branches to ensure the alignment with the company's target governance model. The organisational changes translated into higher efficiency of the company's management due to fewer subordinate levels, standardisation, reduction of positions and establishment and approval of standard spans of control.

On top of that, in 2019 the company introduced the responsibility matrix identifying functions and responsibilities of its subdivisions, an employee grading system and an employee performance management system. 2019 also saw a number of projects launched in process management, lean production and HR automation. In late 2019, the company started developing a new HR strategy aimed at supporting the company's new business strategy, introducing an agile organisational structure for quick changes, boosting the employee engagement and improving the company's performance.

The new strategic initiatives laid the groundwork for the company's improved HR policy.

In 2019, the Company delivered a large-scale project involving the restructuring of the company's branch network and the transition to a new remuneration policy (based on grades) and a new bonus policy.

> 26,000
 employees completed the training programme in 2019

In 2019, the Company delivered a large-scale project involving the restructuring of the company's branch network and the transition to a new remuneration policy and a new bonus policy.

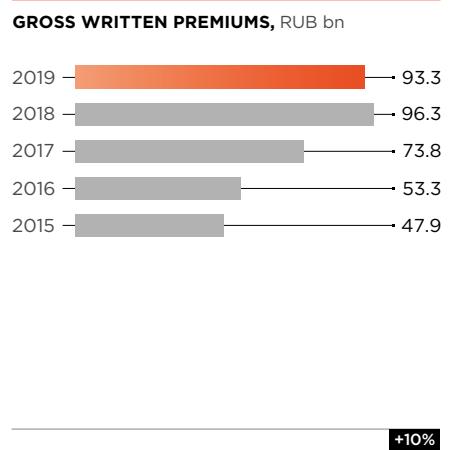
FINANCIAL PERFORMANCE

IFRS FINANCIAL HIGHLIGHTS¹

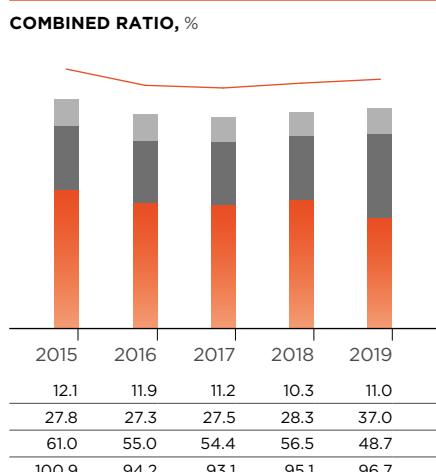
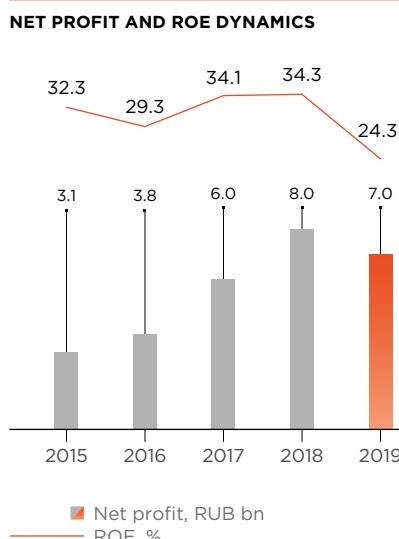
 VSK Insurance House IFRS consolidated annual financial statements for the year ended 31 December 2019 are available at [the official website of the company](#)

In 2019, VSK Group demonstrated solid performance:

- Written insurance premiums totalled RUB 93.3 bn (down 3% y-o-y);
- Insurance payouts stood at RUB 34.3 bn (up 10% y-o-y);
- The portfolio's loss ratio (key quality metric for the insurance portfolio, reinsurance coverage, and tariffs) was 48.7%;
- Net profit totalled RUB 7.0 bn (down 12.6% y-o-y);
- ROE came in at 24.3%;
- Investment income less interest expenses on debt securities outstanding totalled RUB 7.4 bn;
- Combined loss ratio stood at 96.7%.



RUB 34.3 BN
insurance payouts



¹ VSK Group's consolidated financial statements for 2019 include the performance of its subsidiaries: Insurance Company Interi (formerly Insurance Company Europlan), VSK-Liniya Zhizni, B&N Insurance, VSK-Miloserdie, and SINKHRO.

EQUITY

In 2019, VSK Group's equity exceeded RUB 31.2 bn, or 20% of liabilities on the balance sheet.

The breakdown is as follows:

- Revalued authorised capital under IFRS: RUB 3.9 bn (12.5% of equity);
- Retained earnings and other reserves: RUB 27.4 bn (87.5%).

INSURANCE RESERVES

The structure and volume of VSK Group's insurance reserves adequately match its insurance liabilities. The insurance reserves stand at RUB 103.5 bn and make up 66.9% of the liabilities on the balance sheet.

The breakdown is as follows:

- Unearned premium reserve: RUB 51.1 bn (49.4% of insurance reserves);
- Reserves for claims: RUB 15.9 bn (15.4%);
- Reserves for life insurance: RUB 36.5 bn (35.3%).

KEY RISK FACTORS

The key risks affecting the insurance industry include:

- stronger competition, price dumping in certain segments, and the rising role of captive insurance;
- increased role of intermediaries (monopolisation) as core distribution channels: higher agency fees, lower margins;
- market consolidation;
- underwriting risks: risks of deterioration in the quality and structure of insurance portfolio (assessment of risks to be insured, efficiency of the underwriting policy, optimal tariffs, compliance with sales rules, effective pre-contract background checks);
- risks related to third party abuses: loss adjustments (risks of policyholder and third party abuses to benefit from unjustified payouts), support and facilitation of key business processes (risks of internal fraud);
- further sanctions and rising hostility towards Russia: limited access to international reinsurers;
- actuarial risks;

RUB 31.2 BN
VSK Group's equity in 2019

RUB 103.5 BN
insurance reserves

The insurance strategy aims to diversify the portfolio of insured risks so that it could comprise a wide variety of unrelated risks.

- risks related to compulsory motor third-party liability insurance; and
- amendments to laws and regulations governing the insurance business, including those related to:
 - a. easing or lifting of restrictions applied to foreign insurers and their branches in the Russian Federation;
 - b. review of tariffs and conditions in heavily regulated segments (including compulsory motor third-party liability insurance; compulsory liability insurance of hazardous facility owners; compulsory carrier liability insurance against travel damages to the lives, health and property of passengers; developer liability insurance), which is likely to put pressure on gross premiums and margins;
 - c. instability in the insurance market caused by the bankruptcy of small insurers;
 - d. change in legislation in regard to insurance of developers liability;
 - e. increase of state participation in the authorized capital of insurers, including through the implementation of the sanitation mechanism;
 - f. alternative insurance mutual protection mechanisms.

DOWN 2.4%

frequency of loss occurrence under CMTPL vs 2018

RISKS RELATED TO COMPULSORY MOTOR THIRDPARTY LIABILITY INSURANCE

CMTPL remains the most troubled segment of the insurance market. As to average premium and the frequency of loss occurrence show stable dynamics in view of seasonality. The frequency of loss occurrence was down 2.4% y-o-y, however average loss increased by 5.5% y-o-y due to revision of price guides in the United method for determining the cost of repairing a damaged vehicle under CMTPL.

RISKS RELATED TO LIMITED ACCESS TO INTERNATIONAL REINSURERS

The global reinsurance market is highly concentrated in four key markets (which comprise up to 90% of the total):

- Continental Europe (Munich Re, Swiss Re, Hannover Re, SCOR, etc.);
- London (Lloyds, etc.);
- Bermuda (PartnerRe, etc.);
- USA (Berkshire Hathaway, etc.).

Alternative markets mainly include India, China, South Korea, and oil-rich nations of the Middle East. There is a risk that alternative markets will be lacking capacity required to cover Western sanctions-related risks if the access to the key reinsurance markets is limited.

Insurance operations are also exposed to **actuarial risks**. Those are assessed and managed based on the actuarial policy, which aims to:

- determine tariffs for new insurance products;
- monitor portfolio quality across existing insurance products and lines of business;
- assess insurance liabilities;
- assess the quality of the portfolio's reinsurance coverage;
- determine the optimal level of net retention and fair price of reinsurance;
- forecast the volume of insurance payouts, insurance reserves and the quality of insurance portfolio for budgeting purposes.

For an insurance company, industry risks also include **investment risks**, i.e. risks related to the investment activities of insurers, above all the process of investing insurance reserves. These risks include:

- risk of mismatch between assets and liabilities in terms of liquidity/maturity and currency;
- market risk – the risk of losses caused by adverse changes in macroeconomic market factors (exchange rates, interest rates, price indices, etc.);
- credit risk – the risk of losses caused by changes in the creditworthiness of the counterparty, issuer or debtor;
- asset liquidity risk – the risk of losses caused by the inability to promptly sell an asset at its current market value;
- operational risk – the risk of losses caused by errors in the company's processes, imperfections and inadequacies of processes and systems used in the company, negligence, fraud and other external (including physical interference) non-compliance with legal requirements and other internal and external events of a non-financial nature.

If any of the adverse changes in the industry described above materialise, earnings growth may slow down and even a loss might occur (worst-case scenario). To mitigate the above risks, the company employs the insurance and reinsurance strategies to protect its insurance portfolio.

The insurance strategy aims to diversify the portfolio of insured risks so that it could comprise a wide variety of unrelated risks. It also seeks to maximise diversification for each risk type (i.e. each risk is assigned to a portfolio sufficient to minimise the risk of random deviations from the projected number and gravity of insured events).

The reinsurance strategy serves to partially reinsurance the insured risks in order to limit the insurer's exposure to a specific insured event or its cumulative losses from the simultaneous onset of multiple identical events. Reinsurance is one of the keys to maintaining financial stability. VSK boasts one of Russia's most effective risk reinsurance frameworks. The company carefully analyses reinsurance companies and their financial stability to choose the most reliable partners.

Today, VSK has a system of obligatory reinsurance contracts that effectively protect its portfolio from a wide variety of risks. The contracts are signed with the leading Western reinsurers including Swiss Re ("AA-" by S&P), Hannover Re ("AA-" by S&P), Partner Re ("A+" by S&P), SCOR ("AA-" by S&P), Lloyd's syndicates ("A+" by S&P), CUAL ("A+" by S&P) and Aspen Insurance ("A" by S&P). As at 31 December 2019, non-resident reinsurers with an S&P rating of "A-" or higher and resident reinsurers with an Expert RA rating of ruA- or higher made up 95% of the company's insurance portfolio. As at 31 December 2019, non-resident reinsurers with an S&P rating of "A-" or higher and resident reinsurers with an Expert RA rating of ruA- or higher made up 96% of the company's reserves.

Reinsurance is one of the keys to maintaining financial stability. The company carefully analyses reinsurance companies and their financial stability to choose the most reliable partners.

The efficiency of reinsurance protection is proved by the hefty reinsurance payouts received by the company to cover major losses incurred vis-à-vis its insured and reinsured clients.

RUB 1 BN

reinsurers' share in the outstanding claims reserve as of 31 December 2019

The efficiency of reinsurance protection is proved by the hefty reinsurance payouts received by the company to cover major losses incurred vis-à-vis its insured and reinsured clients. As at 31 December 2019, the reinsurers' share in the Outstanding Claims Reserve stood at RUB 1 bn. In 2019, reinsurance payouts exceeded RUB 2.2 bn.

VSK also relies on the following **risk mitigants**:

- regular analysis of terms and conditions offered by competitors while maintaining competitiveness of the product range;
- efficiency improvement and cost control;
- business diversification; expansion and development of business segments, product range, geography and sales channels; development of proprietary sales network, insurance portfolio restructuring to ensure diversification or withdrawal from selected types of insurance;
- regulatory compliance, including activities to ensure compliance if licensing requirements are toughened for selected types of insurance operations;
- managing underwriting risks through risk limits and risk assessment, targeted reviews of insurance contracts that are inside the limits, automated and formalised procedure to assess risks and issue/amend policies for mass insurance products; making decisions on complicated risks by a dedicated committee;
- integrated anti-fraud system (when signing, managing and extending insurance contracts and also in loss adjustments);
- managing investment risks by means of a highly formalised process to initiate applications to make investments, consider and make decisions, make investments and ensure centralised record keeping; compliance with regulatory ratios for risk assessment based on approved methodologies; setting limits for legal entities that act as counterparties and issuers; monitoring the financial status of banks, securities issuers and other corporate borrowers.

RATINGS

FITCH

BB

In 2019, the Fitch rating agency upgraded VSK's Insurer Financial Strength (IFS) rating to BB with a stable outlook. The upgrade reflects Fitch's view of the insurer's regular business portfolio as being significantly healthier and its risk-adjusted capital position as being less vulnerable after the transfer of all yet unexpired surety risks – to be completed in August 2019. The ratings reflect VSK's strong operating profitability and favourable business profile.

EXPERT RA

ruAA

In October 2019, RAEX (Expert RA) affirmed the company's credit rating at ruAA. The outlook is stable.

RAEX described the company's current and adjusted net insurance liquidity ratios as robust. Other rating drivers include solid above-normal solvency margin and excessive spare capital. The company has a high return on equity and investment and moderately strong returns on sales. RAEX also commented on the company's strong reinsurance protection.

Another contributing factor is the company's high quality of assets. The investment portfolio comprises mainly deposits in banks with reliable credit ratings, government securities, and liquid securities of leading corporate issuers. The agency also noted no asset concentration in related parties.

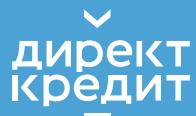
ACRA

AA(RU)

In October 2019, Analytical Credit Rating Agency (ACRA) assigned VSK an AA(RU) rating with a stable outlook.

The rating reflects the company's robust business profile and financial performance coupled with adequate management quality. Key rating drivers include strong market position and solid operating performance.

The robust business profile is underpinned by the company's strong market position and high operating performance. Given the low share of major corporate customers in the insurance portfolio and the wide geographical footprint of the retail portfolio, VSK's client base is viewed as well diversified. The asset quality is assessed as high. ACRA believes VSK is able to meet the market demand for insurance protection against both major property risks and risks to individuals. High operating performance is based on VSK's forecast data. In 2018, the aggregated ratio amounted to 0.92 and is expected to remain below 0.94. Over the past two years, VSK's premiums grew faster than market which is attributable to the company's growth both through M&A and organically. ACRA expects the company to be able to continue growing at least as fast as the market.



AHEAD OF THE CURVE IN POS LENDING



NO. 1

POS lending
service
in Russia

>2 MILLION
PCS

POS loans issued

DIRECT CREDIT CENTRE ('DCC') IS A FINTECH COMPANY

developing
POS lending projects and providing POS lending
services. The company partners with major
federal and regional networks, online and offline
retail points of sale on the one hand, and banks
and insurers providing loans and services
associated with insurance against borrower risks
on the other hand. In 2019, Direct Credit Centre
enhanced its leadership among POS lending
aggregators.

RUB 80.2 BN
total loans issued

~20%
market share in 2019

RUB 2.7 BN
revenue

>8 MILLION
ACCOUNTS
client base



DIRECT CREDIT CENTRE

BUSINESS OVERVIEW AND KEY HIGHLIGHTS OF 2019



Andrey GURIN
 Managing shareholder, DCC

"In 2019, Direct Credit Centre enhanced its leadership among POS lending aggregators. Our platform helped us to provide over RUB 80 bn in loans. However, we cannot rest on our laurels in the rapidly changing market environment. Instead, we have to boost the implementation of innovative technologies to streamline our lending decision-making and provide loans both online and at agents' points of sale which grant loans using our software."

Direct Credit Centre ('DCC') is a fintech company developing POS lending projects and providing POS lending services.¹ The company partners with major federal and regional networks, online and offline retail points of sale on the one hand, and banks and insurers providing loans and services associated with insurance against borrower risks on the other hand.

DCC's client base includes more than 8 million individuals who have ever obtained or attempted to obtain a loan via Direct Credit Centre. In 2019, every third person applying for a loan at DCC's partner stores was a repeat customer.

ASSET AT A GLANCE

81.25% owned by SAFMAR Financial investments

Company Management

Avet Mirakyan (Chairman of the Board of Directors)
Andrey Gurin (Managing shareholder)

THE LARGEST² POS LENDING BROKER IN RUSSIA WITH 20% OF ALL POS LOANS GRANTED

2.1 MILLION PCS
 POS loans issued

RUB 80.2 BN
 total loans issued
 via Direct Credit platform

MARKET OVERVIEW

POS LENDING MARKET IN 2019

According to expert estimates, the POS lending market totalled some RUB 400 bn in 2019, up 4% y-o-y. The Top 5 lenders were Home Credit & Finance Bank, Post Bank, Renaissance Credit, OTP Bank, and MTS Bank.

Market growth drivers in 2019

- In Q4 2019, banks introduced the mandatory control of potential borrowers' debt burden. Although initially intended to cool the market of non-targeted lending with loan amounts above RUB 100,000, these measures also affected POS lending, especially the willingness of banks to grant loans for major purchases. Therefore, the market shrank in Q4 as compared to the previous year, with the aggregate annual growth secured during the first nine months of 2019.
- The statistics do not show loans granted via instalment cards (Sovest, Halva, etc.) thus understating the actual POS lending growth to a certain extent. A part of volumes traditionally lent by banks translates into POS loans issued by microlenders. These loans are not covered by statistics of POS lending market.
- The number of banks in the POS lending market continues to decline, which certainly affects the number of approved POS loan applications and thus reduces the aggregate volume of loans issued.

DIRECT CREDIT CENTRE'S POSITION IN THE BROKERAGE AND AGGREGATION MARKET

According to the management's estimates, Direct Credit Centre remains the leader in the POS brokerage sector, both in the volume of loans and online lending, its key business segment. Virtually, every third loan granted in 2019 was issued online. In 2019, DCC held about 20% of Russia's POS lending market. As estimated by the management, there were no significant changes in the percentage of loans issued via intermediaries (brokers) – 50%–60% of the total POS lending volume. Besides DCC, other major market players include Vsegda Dal, POSCREDIT, and Kreditny Otdel.

~RUB 400 BN
 POS lending market in 2019

20%
 DCC market share in Russia's POS lending market



¹ POS lending is a type of consumer loan issued directly at a POS, at a higher rate and in a shorter lead time.

² As estimated by the management.

Direct Credit Centre remains the leader in the POS brokerage sector, both in the volume of loans and online lending, its key business segment. Virtually, every third loan granted in 2019 was issued online.

Based on the management's mid-term estimates, the Russian POS lending and loan aggregation market will most likely be driven by:

1. for banks and microlenders

- a. selling instalment cards together with or instead of a POS loan as a continuing trend of 2018–2019 with a growing number of banks offering cards at POS;
- b. loan application with integration across the whole range of loan products;
- c. using simple electronic signature to sign loan documentation. The share of such loans is expected to grow;
- d. granting a higher loan limit than required for the purchase for applications submitted at POS;
- e. greater role of biometric technology in countering fraud;

2. for retailers

- a. restricting instalments for purchases without additional services to retain the margin;
- b. higher share of sales via mobile devices, including retailers' mobile apps. Today, most retailers have little sales via mobile apps and some major players have no mobile app at all, though it is possible to purchase from a mobile device using a browser. However, as ordering and paying are going to require a minimum number of steps and data, sales via mobile apps will grow and entail the need for a convenient loan;
- c. online technologies are gaining ground – somewhere they are actively rolled out, and somewhere just piloted in offline sales. Examples include online showcase at MegaFon's mobile stores and RTD (real-time dealing) at M.Video. Offline lending processes are hardly a perfect solution for these relatively new types of customer service, and eventually the best online lending technologies will gain traction in traditional retail too;
- d. customised instalment and lending limit offerings available on customer's personal account or in retailer's app;

3. for POS brokers

- a. product diversification – focusing on non-targeted lending, credit cards, and car loans;
- b. higher concentration and stronger competition. We expect that new online lending solutions will soon enter the market.

STRATEGY AND GROWTH PATHS

The Company retains its focus on POS lending and strategic development of this business across the following areas:

- maximum automation and simplification of loan issue:
 - developing a lending solution for retailers' mobile apps;
 - electronic signing;
 - data recognition from a photo or scanned copy;
- promoting support services associated with lending, primarily insurance;
- adapting the company's POS products to DIY and clothing segments;
- improving customer experience (monitoring the NPS);
- meeting the rising need for skilled workforce through efficient HR recruitment, training, motivation, and assessment;
- countering lending fraud;
- switching to a new system architecture of Direct Credit app to increase reliability and accelerate the development of new products and special features.

To diversify its business, the Company intends to launch a new product – non-targeted cash loan. Such loans are to be piloted in 2020.

SOCIAL POLICY

In its social policy, the company is guided by the principles of transparency and fairness towards its employees. Being a part of a major financial holding, Direct Credit will strive to improve labour relations, promote career growth, social welfare and workplace discipline, create comfortable working environment, establish a corporate culture, and enhance employee loyalty. The company does its best to accommodate the interests of its staff.

The key focus of social benefits is the investment in professional growth, further training and health of the employees.

In addition to the statutory social safety nets guaranteed by the government, the company runs the following social programmes:

- voluntary health insurance and personal accident insurance;
- financial aid to employees facing various hardships;
- greetings and gifts to employees to commemorate anniversaries and other significant dates, including weddings and birth of children;
- New Year events for employees' children;
- perks for the best employees and seniority benefits; and
- sports and recreation activities, corporate events, PR promotion of significant professional achievements and awards for outstanding performance.

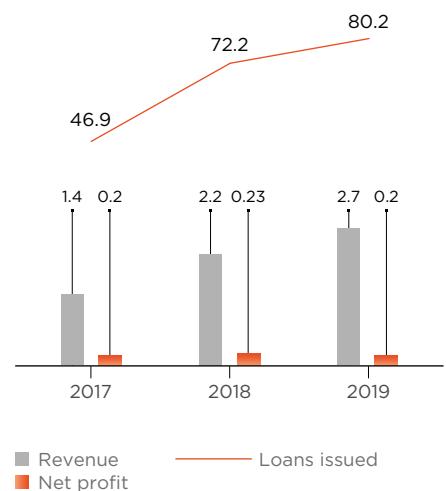
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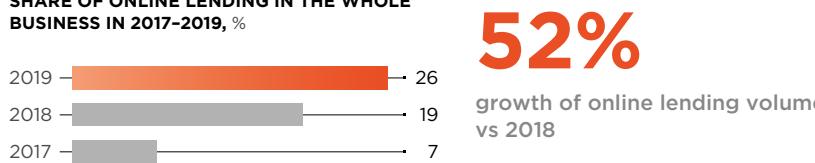
FINANCIAL PERFORMANCE

IFRS FINANCIAL HIGHLIGHTS

LENDING, REVENUE, AND PROFIT IN 2017-2019, RUB bn



SHARE OF ONLINE LENDING IN THE WHOLE BUSINESS IN 2017-2019, %



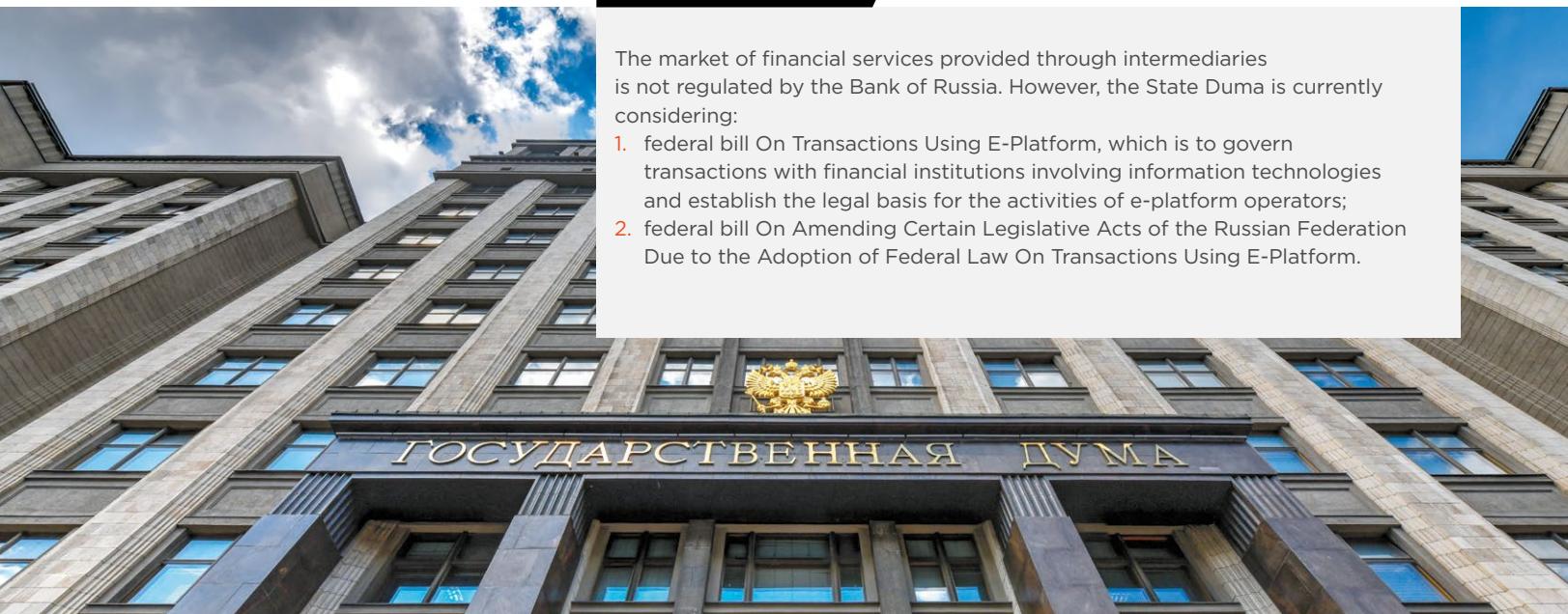
KEY RISK FACTORS

Direct Credit Centre is engaged in brokerage activities in the Russian Federation and is governed by its laws. Due to its focus on POS lending, the company is not involved in any internal transactions.

FEDERAL LAW PROJECTS

The market of financial services provided through intermediaries is not regulated by the Bank of Russia. However, the State Duma is currently considering:

1. federal bill On Transactions Using E-Platform, which is to govern transactions with financial institutions involving information technologies and establish the legal basis for the activities of e-platform operators;
2. federal bill On Amending Certain Legislative Acts of the Russian Federation Due to the Adoption of Federal Law On Transactions Using E-Platform.



POTENTIAL RESPONSE

Should the federal bill mentioned in clause 1 above be adopted, the company plans to obtain the status of an e-platform operator. The key requirement for an e-platform is setting up a capital of RUB 100 m. The company intends to invest this amount from its profit. In addition, if the relevant federal bill is adopted, an e-platform operator will actually become a non-bank financial institution authorised to identify customers for banks. It will also gain access to the Unified Biometric System (UBS) and the Unified Identification and Authentication System (UIAS). This will improve the quality of services and lay the legal foundation for the existence of financial intermediaries. The management believes that the company may win a competitive edge if the above bills are adopted, as they will inevitably drive smaller players out of business.

THE MANAGEMENT'S PERSPECTIVE ON MATERIAL CHANGES IN THE INDUSTRY

- High debt burden on the population and associated efforts of the Bank of Russia to cool the lending market.
- Introduction of intermediary business regulation in a manner different from that stipulated in the bill and potentially putting a cap on the company's opportunities.
- Higher competition and, accordingly, lower profitability of intermediary business.
- Impact of instalment cards on the POS lending market.

POTENTIAL RESPONSE

To mitigate risks associated with a tighter market, Direct Credit Centre actively invests in product development with regular benchmarking to keep its services ahead of the competition. In particular, the benchmarking helps the company modify and add accompanying services for its agents and employees to offer to their customers together with loans.

The management conducts regular SWOT analyses and treats risk management as a process reviewing not only risks but also market opportunities. The company keeps a close eye on the brokerage market in related sectors and analyses the prospects of expanding its product range beyond POS lending. Direct Credit Centre makes efforts to integrate instalment cards into its product range and is currently introducing the issue of such cards either with a POS loan or separately, as a possible alternative to the POS loan.

To mitigate risks associated with a tighter market, Direct Credit Centre actively invests in product development with regular benchmarking to keep its services ahead of the competition.

Direct Credit Centre makes efforts to integrate instalment cards into its product range and is currently introducing the issue of such cards either with a POS loan or separately.

FINANCIAL RESULTS

2019 marked another productive year for SAFMAR Financial

investments. We demonstrated solid growth across all key financial indicators, which is a testament to the strategy that the Company pursues. During 2019, the Company paid RUB 1.62 bn, or RUB 14.5 per share, in dividends to its shareholders for 2018.

Due to the recent fast spread of the COVID-19, many nations introduced lockdown measures, which have had a strong impact on the level and scale of business activity. Both the pandemic itself and the response measures are expected to have grave repercussions for various industries. From March 2020, stock, forex, and commodity markets have seen a strong volatility, with rouble sharply weakening against US dollar and euro. The SFI management is currently evaluating the potential effect of changing macroeconomic conditions on the Company's financial standing and performance.

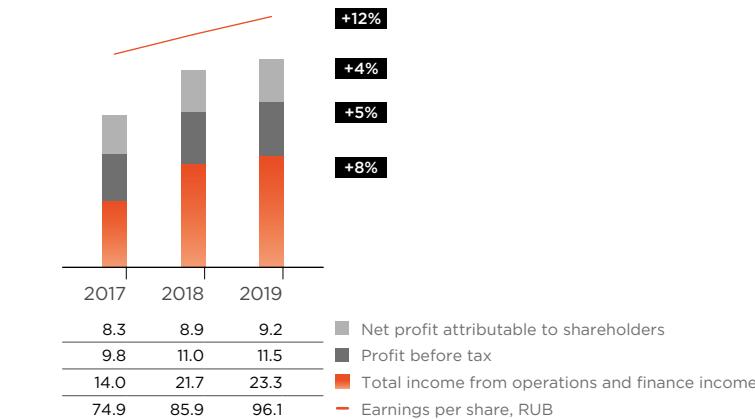
OVERVIEW

10.8%

ROAE

- **Total income from operations and finance income** for 2019 grew by 8% y-o-y to RUB 23.3 bn driven by a higher income from key assets. Of this amount, leasing operations made up some 47% (RUB 10.9 bn), pension business comprised 24% (RUB 5.7 bn), and insurance contributed around 15% (RUB 3.4 bn).
- The holding's **consolidated net profit** increased by 4%, reaching RUB 9.2 bn. Income from leasing activities accounted for 52% of profit or RUB 4.8 bn.
- **Consolidated equity** stood at RUB 88.3 bn as at 31 December 2019 compared to RUB 83.5 bn as at 31 December 2018.
- **ROAE** for 2019 remained largely flat y-o-y at 10.8%.
- **Borrowings and loans** accounted for RUB 51.7 bn of the Company's consolidated liabilities compared to RUB 32.0 bn as at the end of 2018. As at 31 December 2019, the Company pledged 75% + 1 share of NPF SAFMAR to secure its loan obligations.

IFRS CONSOLIDATED FINANCIAL RESULTS IN 2017-2019,¹ RUB bn



RUB 88.3 BN
consolidated equity

+6%

ASSETS AND LIABILITIES

As at 31 December 2019, the holding company's assets stood at RUB 428.3 bn compared to RUB 383.7 bn a year earlier. As at 31 December 2019, liabilities totalled RUB 340.0 bn (compared to RUB 300.2 bn as at 31 December 2018). Importantly, the liabilities under compulsory pension insurance (CPI) contracts and non-state pension plans (NSPP), which account for 76% of the holding company's consolidated liabilities, are the funds owned by pension fund clients, and their performance is crucial for the pension business growth.

Borrowings and loans accounted for RUB 51.7 bn of the Company's consolidated liabilities compared to RUB 32.0 bn as at the end of 2018. The upsurge in the Company's liabilities is attributable to raising funds for share buyback as part of the approved programme. Other factors include a y-o-y increase in bond issues placed by Europlan for around RUB 6 bn.

RUB 428.3 BN

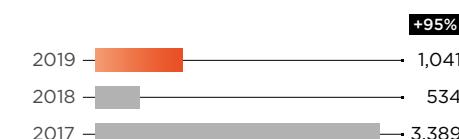
asset value

+12%

RAS PERFORMANCE

Net profit under the Russian Accounting Standards (RAS) is one of the key indicators that the Company's dividends are based on. According to the RAS, the holding company's net profit for 2019 totalled RUB 1,041 m.

RAS NET PROFIT DYNAMICS IN 2017-2019, RUB m



+95%

RISK MANAGEMENT

SFI constantly strives to improve the efficiency of its risk management framework as a way to ensure stable business growth for the benefit of its shareholders and investors.

The Company's risks are managed on an ongoing basis by the Board of Directors, the executive and management teams, and employees. This process embraces all of the Company's operations, focusing on the identification, analysis and assessment of risks, development and implementation of risk management initiatives, and risk monitoring.

SFI constantly strives to improve the efficiency of its risk management framework as a way to ensure stable business growth for the benefit of its shareholders and investors.

The Company uses a vertically integrated approach to risk management, with strategic risks handled by the boards of directors of SFI and its subsidiaries.

The Audit Committee established under the Company's Board of Directors ensures the reliability and effectiveness of the risk management system. On a quarterly basis, the management teams of SFI and its subsidiaries submit the Internal Audit's summary reports to the Audit Committee to share with its members relevant risk management recommendations and risk assessments based on the findings of the Internal Audit's inspections.

Risk appetite is managed by the Company's Investment Committee.

KEY ELEMENTS OF THE RISK MANAGEMENT SYSTEM

- Risk identification and analysis
- Risk management planning and coordination
- Monitoring and controls across all kinds of risks and business units

REVIEW OF KEY RISKS

Key risks that may have a material impact on the Company's performance are indicated below. This Annual Report does not include an exhaustive description of all risks that may affect the holding company's financial position and its business. Other risks not listed in the Annual Report may also be material and have an adverse effect on the Company's performance.

Description of risk	Actions to mitigate the risk
RISK OF ECONOMIC SLUMP	
<p>The Company is registered and carries on its core business in the Russian Federation, meaning that the key country-specific risks affecting its operations are concentrated in Russia. However, in view of the ever-increasing globalisation, any material deterioration in the global economic environment may trigger a severe downfall in the Russian economy, resulting in a lower purchasing power of the portfolio companies' customer base and affecting the Company's operations in general.</p> <p>The sovereign ratings assigned to the Russian Federation by the global credit rating agencies reflect a decline in international commodity prices, heavy economic dependence on the commodity sector, and heightened political risks. The downward revision of investment ratings and outlooks by the world's leading rating agencies poses a risk of economic isolation, with Russia's options to tap into international debt markets significantly reduced. In its turn, this may have dramatic economic and financial consequences for Russia's creditworthiness.</p> <p>Following factors may adversely impact the entire national economy and, consequently, the Company's prospects going forward:</p> <ul style="list-style-type: none"> ▪ significant drop in prices for oil, metals, coal and other natural resources; ▪ new sanctions imposed by EU and the United States that restrict access to international capital markets; ▪ outflow of foreign capital, changes in the RUB to USD and RUB to EUR exchange rates; ▪ decrease in the growth rate of gross domestic product (GDP), slowdown in business activity; ▪ increased inflation, reduced purchasing power. <p>Risks associated with the COVID-19</p> <p>Due to the recent fast spread of the COVID-19, stock, forex, and commodity markets have seen a strong volatility, with rouble sharply weakening against US dollar and euro. Spread of the coronavirus pandemic will most likely cause an economic downturn and slowdown in business activity, leading to a drop in the Company's income.</p>	<p>Based on its ongoing monitoring of the economic environment in Russia and assessment of external economic impacts and risks, the Company makes forecasts for its future operations and financial performance.</p> <p>The Company's priorities include occupational safety, stability of business processes, and optimisation of costs in response to waning business activity in the nearest quarters.</p>

Description of risk	Actions to mitigate the risk	Description of risk	Actions to mitigate the risk
INDUSTRY RISKS <p>For more details on industry risks related to the holding company's assets, please see pages 25, 42, 53 and 64,</p>			
FINANCIAL RISKS <p>The Company's operations have inherent financial risks, which depend on changes in the economic and financial environment. Risks that may affect the Company's performance are currency, credit, market, and operational risks.</p> <ul style="list-style-type: none"> Currency risk relates to the impact of FX rate fluctuations on financial position and cash flows. Credit risk is defined as the risk of loss resulting from contractors' default on, untimely or incomplete performance of contractual financial obligations towards the Company. Market risk means the risk of loss arising from unfavourable changes in the market value of financial instruments in the Company's trading portfolio and derivatives, and exchange rates of foreign currencies (market risk includes price and interest rate risks). Operational risk is defined as the risk of loss resulting from inconsistency of internal procedures and processes for conducting financial and other transactions with the nature and scale of the Company's business and/or requirements of existing laws and regulations, their violation by employees and/or other persons (as a result of poor qualification, unintended or deliberate acts or omission), disproportion/inadequacy of functional capabilities/characteristics of the Company's information, technological and other systems and/or their failure/malfunction, as well as the impact of external events. 	<p>The key objectives of financial risk management are:</p> <ul style="list-style-type: none"> integrating risk accounting into all aspects of the Company's business to build a crisis-resistant model ensuring healthy growth across all business lines; securing a stable return on capital for shareholders and investors; maintaining security and availability of shareholders' funds, including when stress scenarios materialise; improving competitive advantages by increasing capital management efficiency and the market value of the Company thanks to adequate risk assessment and management. <p>The Company discloses the impact of financial risks on the financial statements of portfolio companies in quarterly reports (in Russian only).</p>	STRATEGY RISK <p>This risk implies that the Company may face losses due to mistakes or deficiencies in making decisions on its business and development strategy. They may result in a failure to identify or substantiate its key business opportunities, provide the required financial, physical, technological or human resources and take appropriate management decisions that are required to deliver on its strategic objectives and plans.</p>	<p>Short and mid-term planning is in place to ensure the efficient assessment and implementation of strategic decisions, with contributions from respective functions, which seek to analyse the current performance of the Company, set out priority areas, develop strategic plans, and monitor their implementation. In delivering on the Company's established objectives and plans, certain strategies, under the influence of changes in the external and/or internal market environment, in the event deviations of the calculated criteria from estimates are identified in any segment, adjustments in the Company's strategic plans and/or activities can be made.</p>
LEGAL RISKS <p>The legal risks affecting the Company's operations are the risks related to changes in tax and currency control legislation in Russia.</p> <p>While Company's exposure to the currency control risk is minimal, its relevance will be greater in case of massive capital flight or weakening of the Russian rouble. If raising funding in external markets, the Company will be exposed to currency control risks in respective jurisdictions.</p> <p>Recent developments in Russia suggest that the tax authorities may be taking a more assertive approach in their interpretation and application of tax legislation (including transfer pricing laws), tax audits and additional tax assessments, which is likely to result in claims on previously acceptable transactions or accounting methods. Thus, significant tax amounts, fines and penalties may be assessed. Amounts of potential claims not filed yet and the probability of an unfavourable outcome cannot be determined. The tax authorities are entitled to conduct on-site audits to verify tax calculations and payments, provided that fiscal periods remain open to such tax audits for three calendar years preceding the year when decision about audit is made. Under certain conditions, financial statements over earlier fiscal periods may also be audited.</p> <p>Since 2016, the Bank of Russia toughened regulation of non-credit financial institutions by putting in place an improved and more centralised control framework. The insurance and pension lines of business are now subject to the following requirements:</p> <ul style="list-style-type: none"> the establishment of a clear procedure for the insurance organisations to calculate the statutory liabilities to equity (capital) ratio; the establishment of a clear procedure to transfer the insurance portfolio in cases where insurance organisations become subject to bankruptcy prevention measures or a licence withdrawal; the establishment of a special depository responsible for promptly identifying the insurance organisations' breaches of the applicable laws through daily monitoring of compliance with the requirements for the composition and structure of the assets accepted for coverage of insurance provisions and equity (capital) of an insurer, and with the rules applying to the investment of insurance provisions and equity (capital) of an insurer; introduction of additional requirements to the funds' risk management systems; transition to a unified chart of accounts for non-credit financial institutions; transition to an electronic reporting form based on the XBRL technical standards in line with the best international reporting practices. 	<p>We constantly monitor and analyse proposed projects to amend legislation, as well as Russian legislative and other regulatory requirements, which can affect the Company's operations and financial results. This enables us to quickly adapt our business processes to any changes in the legislative environment, and to operate in full compliance with the current regulatory and legal framework.</p>	REPUTATION RISK <p>Losses arising from negative perceptions of the Company's financial health, the quality of its services, or the nature of its operations generally.</p>	<p>The Company and its portfolio businesses take all steps to have a fair view of their financial sustainability, in due time disclose full and reliable information in accordance with the applicable laws of the Russian Federation, along with additional information, including press releases on key events, comments for the media and the investment community, publication of other materials, information and explanations. On an ongoing basis, we maintain a dialogue with the media, investors, analysts, customers and contractors, government and local authorities, industry associations and other stakeholders.</p>
		OTHER RISKS <p>Risks related to ongoing litigations The Company is not currently involved in litigations that may have a considerable adverse impact on its performance. However, in its ordinary course of business the Company may become a party to various legal and tax proceedings or receive claims some of which are related to market evolution and changes in the taxation and regulatory environment in which the Company operates. As a result, the Company's obligations arising from any potential litigations, other legal proceedings or in connection with other matters may have a significant impact on its financial position, performance or liquidity.</p> <p>Risks related to inability to extend the licence for a certain type of activity or to use items that are limited in circulation (including natural resources) The Company's core business from 30 June 2017 to the date of this report is investment activity as a holding company by way of investing in securities of stakes in business entities for the purpose of owning significant stakes or interests. It is not subject to licensing. The Company is not exposed to risks associated with changes in the requirements for licensing the rights to use items (including natural resources) that are limited in circulation, because it does not possess any of such rights.</p> <p>Risks related to possible liability for debts of third parties, including subsidiaries The Company does not have any liability for the debts of third parties (including its subsidiaries) at the date of reporting. In the Company's opinion, such liability is unlikely to occur as default on obligations by subsidiaries is possible only if their financial position and the situation in their industry deteriorates significantly.</p>	

CORPORATE RESPONSIBILITY AND CHARITY

 For more details on SAFMAR CF, including its governance bodies, please visit our website at <http://safmar.ru>

The companies of SAFMAR Group pursue socially important long-term projects supporting culture, sports, healthcare, arts, education and spirituality via **SAFMAR Charitable Foundation** ('SAFMAR CF').

These projects mainly aim to support complex personal development of individuals, promote healthy lifestyles, and develop large-scale fitness and sports activities. All programmes of the Fund meet the criteria of transparency, clear articulation of strategy, and consistency in implementation. In the course of its activities, the Fund leverages best Russian charitable practices.

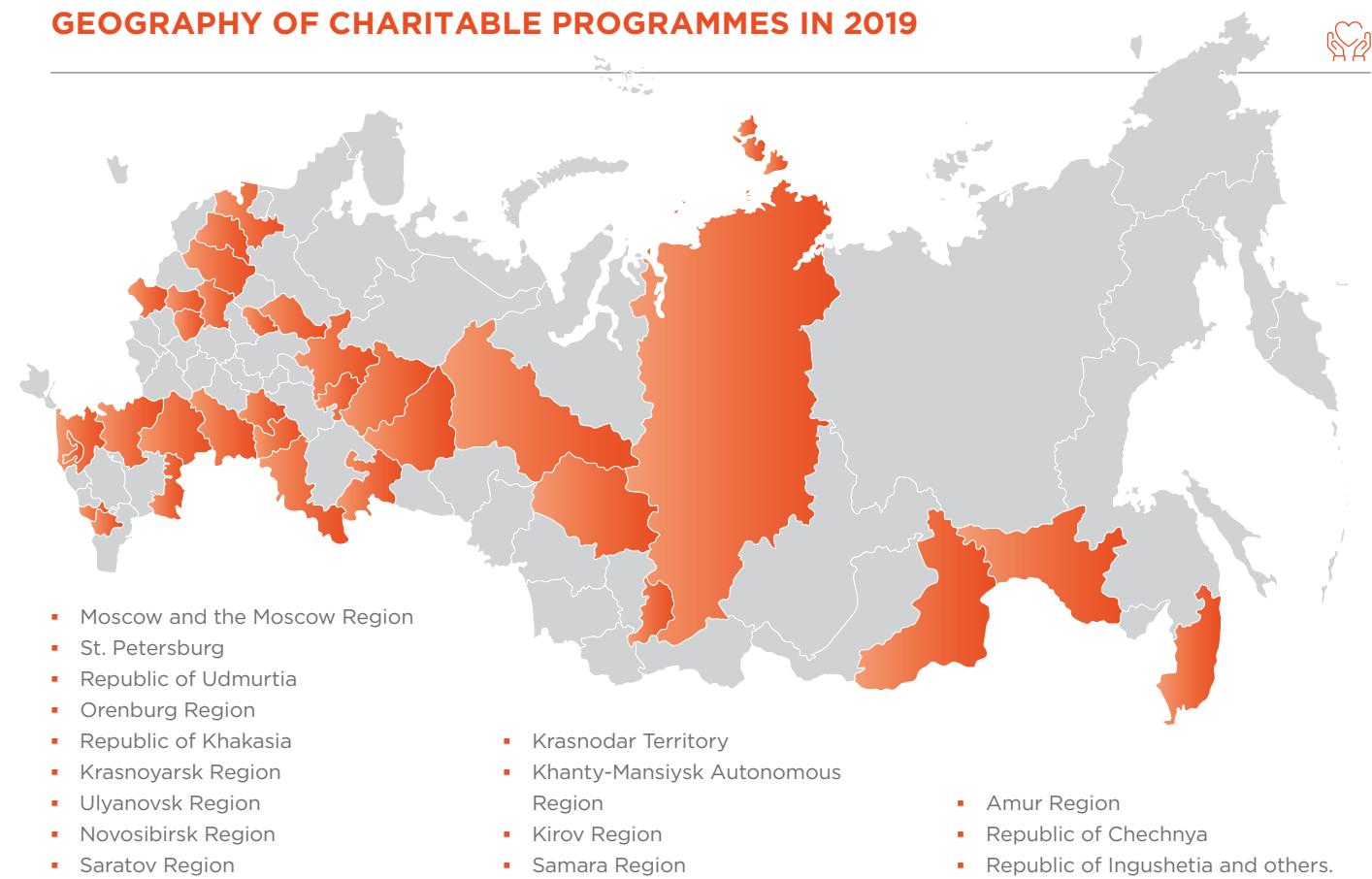
RUB 2.3 BN
of dedicated financing

9
areas of charitable activities

47
dedicated charitable programmes

27
Russian regions covered

GEOGRAPHY OF CHARITABLE PROGRAMMES IN 2019



SAFMAR Charitable Foundation, a non-profit charitable organisation, was established on 16 September 2013 by PJSC RussNeft, which is part of SAFMAR Group and is headed by Mikail Gutseriev, one of most foremost Russian philanthropists.

The Fund is supervised by the Fund Council, the Board of Trustees and the Revision Commission. SAFMAR CF is part of Donors Forum, a non-profit grant-making partnership that unites the largest charitable funds in Russia. The members of Donors Forum strive to bring about a professional charitable community in Russia and promote best charitable practices.

PRINCIPLES OF CHARITABLE ACTIVITIES



The Fund implements its programmes in accordance with the following principles:

- Informational transparency.
- Financial transparency.
- Accountability.
- Targeted aid.
- Expert-based approach.
- Meaningful social impact.

In preparations to launch a charitable programme, the Fund also puts special emphasis on:

1. Staged programme implementation.

Careful review and evaluation of a programme pilot helps identify strengths and weaknesses of its concept and administration and estimate costs to achieve targets.

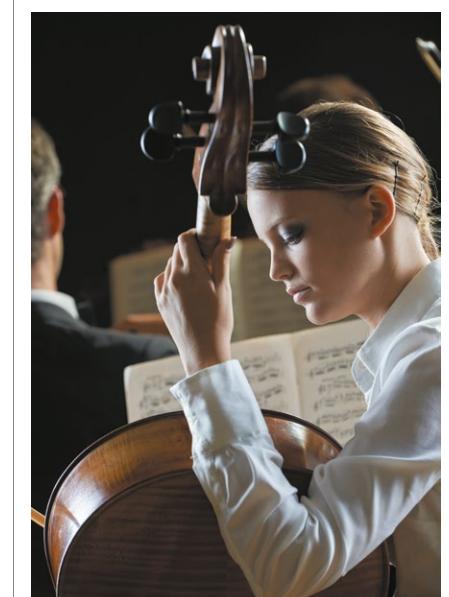
2. Partnership.

Large-scale charitable programmes rely on strong support from a wider range of stakeholders. The Fund is open for cooperation and is ready for a dialogue on an equal footing with all target audiences involved.

3. Innovative approach.

Development and implementation of new approaches, solutions, and techniques to make a difference by better addressing the needs of charity recipients.

KEY AREAS OF CHARITABLE ACTIVITIES OF SAFMAR CF IN 2019



CULTURE

SAFMAR CF supports vibrant cultural forums in Russia, with celebrities of international acclaim among the attendees. In 2019, the foundation helped stage the following events: Moscow Easter Festival directed by Valery Gergiev; Winter International Arts Festival in Sochi organised by the eminent conductor Yuri Bashmet; Moscow Transit variety festival directed by Simon Osiashvili; cultural charitable events held in Sochi as part of the New Wave contest finals, etc.

The foundation also ran joint projects with the Moscow Conservatory and its Central Music School (College). Moreover, SAFMAR CF provided assistance to Glinka Novosibirsk State Conservatory in repairing its grand pipe organ.

The foundation is committed to supporting arts schools and cultural organisations across Russia. It finances charitable classical music events for both young and adult audiences and helps arts schools purchase costumes, props and musical instruments for their talented students. All of this helps promote cultural education, not to mention the preservation and development of the unique Russian culture.

SPORTS

In this domain, SAFMAR CF provides assistance in building sports infrastructure, organising competitions, buying sports equipment and gear for young athletes, and promoting youth sports in Russian regions. The foundation has been sponsoring youth teams in the Samara, Ulyanovsk, Orenburg and other regions. It launched programmes set to foster mass sports and fitness in the Krasnodar and Krasnoyarsk Territories, Amur Region and other places across Russia. One of the most important focus areas for SAFMAR CF is supporting youth hockey in the Republic of Udmurtia. Over the past two years, it has helped commission eight new ice sports facilities across Udmurtia. As one example, the construction of Ice Arena MOZHGA is currently underway in the town of Mozhga.

With its aid, the foundation helps preserve the health of young generations and promote healthy lifestyles.

It launched programmes set to foster mass sports and fitness in the Krasnodar and Krasnoyarsk Territories, Amur Region and other places across Russia.

HEALTHCARE

SAFMAR CF works with both major and minor healthcare providers, including rural hospitals across Russia. It helps them purchase ambulances, state-of-the-art medical equipment and pharmaceuticals, publish medical monographs and run patient schools.

SAFMAR CF provides assistance to disabled people, including children with serious health conditions, by helping them pay for rehabilitation and surgery and purchase the required medical supplies. In 2019, the foundation's programme covered over 150 children, with partners including major health providers such as:

- Adeli, the Republican Rehabilitation Centre for Children and Teenagers with Special Needs (Izhevsk, Republic of Udmurtia);
- National Medical Research Centre for Children's Health under the Russian Ministry of Health (Moscow).

The foundation helps purchase pharmaceuticals and rehabilitation equipment for disabled children with serious health conditions, including the so-called "artificial kidneys". The foundation provides assistance in: conducting medical operations; supplying foreign pharmaceuticals to support genetic diagnostics and preventive vaccination for disabled

children; offering comprehensive healthcare services for children diagnosed with cystic fibrosis and congenital lung malformations.

Each year, the foundation helps Russian medical workers save hundreds of children and adults. Its programmes are designed to enhance facilities and resources of healthcare providers and make high-quality healthcare affordable.

Through its programmes, SAFMAR CF contributes to cultural education and solidifies the system of humanistic values.

MUSEUMS

SAFMAR CF runs a number of significant museum projects. One of its long-standing partners is the Jewish Museum and Tolerance Centre. The cooperation focuses on two key areas:

1. organisation of unique art exhibitions; and
2. staging of Outside Readings, a series of literary evenings.

As part of the Outside Readings initiative, prominent Russian film and theatre actors, including Vladimir Menshov, Vera Alentova, Yelizaveta Boyarskaya, Alexander Filippenko and many others, read classics to the audience.

For a number of years, the museum has been hosting a series of landmark annual exhibition events, each proving a cultural sensation in Moscow. In 2019, visitors had an opportunity to enjoy the following exhibitions:

- Boom! Bam! Playing with Masterpieces: from Henri Matisse to Marina Abramovic;
- Anne Frank. Holocaust Diaries;
- Righteous Among the Nations;
- Library of No-Babel;
- Union of Youth (joint project with the Russian Museum).

The foundation provided support to all of the above events.



EDUCATION

SAFMAR CF supports a wide range of Russian educational institutions, including such majors as:

- New Economic School;
- European University at Saint Petersburg;
- Gubkin Russian State University of Oil and Gas.

The foundation has been running joint initiatives with regional education providers, including secondary schools, gymnasiums and pre-school institutions. Its donations have been used to repair buildings and buy computers, textbooks and library stock. On top of that, in 2019 SAFMAR CF provided assistance in completing the construction of a pre-university school and a dormitory in Saratov.

The foundation has been a contributor to enhancing facilities and resources of educational institutions, improving the education process and promoting a friendly training environment to nurture talent.

CHURCHES

SAFMAR CF lends a helping hand in reviving holy sites, building and restoring churches, mosques and synagogues. In 2019, Mikhail Gutseriev's foundation participated in the opening of a chapel in the Ulyanovsk Region dedicated to Holy Great Martyr Tatiana and contributed to the construction of a temple in the Amur Region paying homage to Holy Great Martyr Barbara. In Orsk (Orenburg Region), the Central Cathedral Mosque (built in 1900) is undergoing reconstruction.

In addition to that, financial aid was provided to Saint Pantaleon's Church in Republic of Udmurtia, Holy Prophet Elias Church and its church school in the Orenburg Region, etc.

Such support is essential to churches, as many of them are of great architectural value and therefore require the utmost care and top restoration talent.

SPIRITUAL VALUES

SAFMAR CF runs a number of projects and programmes to support cultural and educational activities, help preserve the system of core ethical values, and bolster tolerance and humanity. The foundation has built strong partnerships with non-profit, religious and mentoring organisations such as:

- Religious Board of Muslims of the Russian Federation;
- Moscow Jewish Community Centre;
- Torah Mi Tzion, a local Orthodox Judaism organisation, etc.

The foundation has been sponsoring international exhibitions, contests and events, including those aimed at instilling ethical and patriotic values in younger generations. Another important focus area for SAFMAR CF is supporting publishers to reanimate and popularise the reading culture. The foundation provides financial aid to support publishing of socio-cultural and literary and art magazines (including children's) and fiction books with a view to donating them to schools, libraries, non-governmental organisations and orphanages across Russia.

TALENTED YOUTH

SAFMAR CF supports young talents by promoting various creative initiatives for the youth.

To endorse gifted orphans, in 2019, Mikhail Gutseriev, the businessman and philanthropist behind SAFMAR CF, donated apartments to 12 finalists in the third season of the You Are Super international TV song show on the NTV channel. The show's participants are brilliant young singers from orphanages and boarding schools or kids raised by adoptive parents and caretakers. In addition to that, SAFMAR CF provided targeted assistance to young contestants without parental custody and children facing hardships in life.

For a number of years, the foundation has been sponsoring creative sessions for gifted children, including disabled ones, at Rovesnik, a children's camp in Saratov. As part of another project, SAFMAR CF has been organising thematic sessions for orphans in the Moscow Region.

Furthermore, the foundation provides charitable assistance to a children's pop choir called "The Giant" and children's musical band called "Dynamic Guys" (Moscow). As a sponsor, the foundation helps kids procure stage costumes, record new songs, put up vibrant performances and participate in international music contests. In the Russian regions, SAFMAR CF provides aid to regional children's clubs, including scientific and technical ones. Innovative methodologies, dedicated master classes, contests, and knowledge sharing sessions with professionals combine to bring children closer to the world of culture, science and arts and motivates them to aim higher.

AID TO PEOPLE IN NEED

Providing aid to disadvantaged social groups is a priority for the foundation.

It implements various projects with a focus on the social adaptation and career counselling for young people and disabled children in orphanages and boarding schools. The foundation buys them clothes, computers, appliances, art and craft supplies, stationery and much more, while also arranging trips to theatres and museums.

In addition, SAFMAR CF volunteers participate in various cultural, social and other events at orphanages under the foundation's patronage. On each New Year's Eve, SAFMAR CF holds the Wish Upon a New Year Tree event, as well as a series of holiday morning performances for children deprived of parental care. In 2019, more than 250 kids (over half of them with developmental disabilities) benefited from these initiatives and received presents purchased by SAFMAR Group's employees with support from SAFMAR CF.

SAFMAR CF keeps supporting disabled children diagnosed with cystic fibrosis, autism, cerebral palsy, Down syndrome and other diseases. Its donations have been used to publish special textbooks and other educational literature for visually impaired children across Russia.

SPECIAL PROJECTS

In this domain, SAFMAR CF has been rolling out a wide range of relevant initiatives covering various facets of social life. In an effort to preserve and develop the national cultural and historic traditions and the culture of cherishing one's native land, the foundation has been sponsoring vibrant cultural and historical forums, environmental contests, festivals, and traditional Russian celebrations.

SAFMAR CF is also focused on supporting the elderly, including World War II veterans. A significant part of the foundation's projects seeks to perpetuate the memory of those years and celebrate the heroism of simple people who were the main force behind the victory. On top of that, the foundation is committed to strengthening the link between generations and nurturing patriotic feelings and love for homeland among young people.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE FRAMEWORK

In the course of its operations, the Company relies on the principles of corporate conduct set out in the Code of Corporate Governance, which was approved on 21 March 2014 by the Board of Directors of the Bank of Russia and based on the applicable laws of the Russian Federation.



the Company also abides by the principles of corporate governance and the independence criteria for the members of the Board of Directors which are required to be observed by the Listing Rules of the Moscow Exchange.

The Company followed the recommendations set forth by the Bank of Russia's Letter No. IN-06-52/8 dated 17 February 2016 On Disclosure of Compliance with the Principles and Recommendations of the Code of Corporate Governance in Annual Reports by Public Joint Stock Companies as the methodology to assess its compliance with the principles of corporate governance set out in the Bank of Russia's Code of Corporate Governance. The Company analysed the compliance of its Charter and internal documents as well as corporate governance practices with the principles and recommendations of the Bank of Russia's Code of Corporate Governance. The assessment results are described in the Corporate Governance Code compliance report.¹

Since the Company's ordinary registered shares are included in the Level 1 (A1) Quotation List of the Moscow Exchange, the Company also abides by the principles of corporate governance and the independence criteria for the members of the Board of Directors which are required to be observed by the Listing Rules of the Moscow Exchange. In order to maintain its shares in the Level 1 (A1) Quotation List, the Company submits quarterly compliance reports to the Moscow Exchange.

CORPORATE GOVERNANCE MAP

Company's Charter and Quarterly reports (in Russian only) are available on the corporate web site at: www.safmarinvest.ru/en/

In accordance with its Charter, PJSC SAFMAR Financial investments had the following governance bodies:

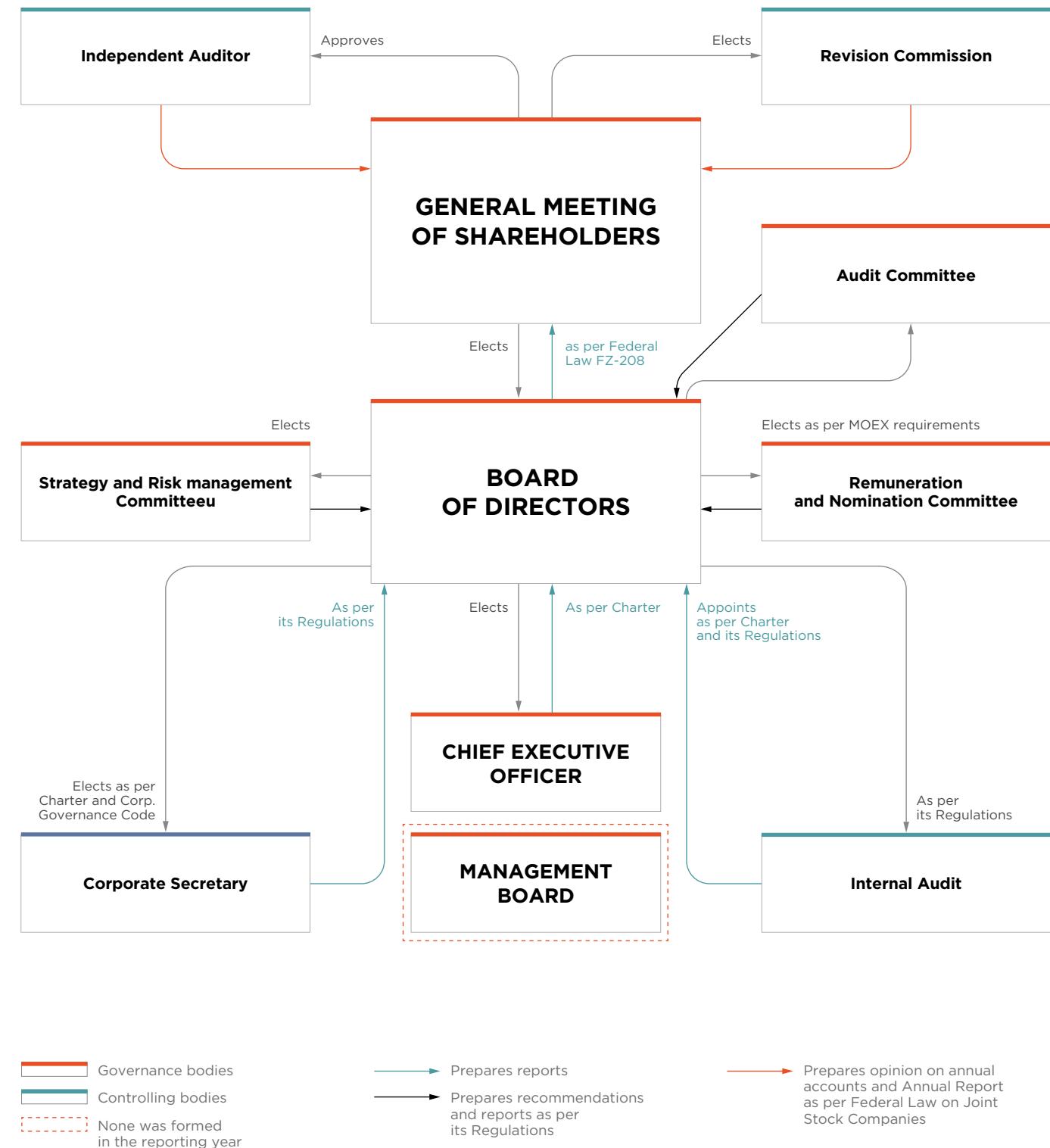
- General Meeting of Shareholders;
- Board of Directors; and
- Management Board;²
- Chief Executive Officer – CEO (sole executive body).

Details of powers of governance bodies are described in PJSC SAFMAR Financial investments Charter and Company's quarterly reports.

¹ To view the Company's Corporate Governance Code compliance report (in Russian only), please see Appendix 1 to this Report.
² In the reporting year, the Management Board was not formed.

CORPORATE GOVERNANCE STRUCTURE OF PJSC SAFMAR FINANCIAL INVESTMENTS

as at 31 December 2019



GENERAL MEETING OF SHAREHOLDERS

UNDERLYING PRINCIPLES

Pursuant to the Federal Law On Joint Stock Companies and the Charter of the Company, the General Meeting of Shareholders is the Company's supreme governance body. The activities and the remit of the General Meeting of Shareholders are governed by the joint stock company laws of the Russian Federation, Charter provisions, and the Regulation on the Procedure for Convocation and Holding of General Meetings of Shareholders of SAFMAR Financial investments (version 2). Notices to shareholders on the upcoming meeting include voting ballots.

All our shareholders receive materials for the General Meeting of Shareholders under the statutory procedure.

All our shareholders receive materials for the General Meeting of Shareholders under the statutory procedure.

The remit of the general meeting of shareholders includes the following:

- amending and supplementing the Company's Charter and approving the revised Charter (except as provided in Article 12 of the Federal Law On Joint Stock Companies);
- reorganising the Company;
- liquidating the Company, appointing the liquidation commission and approving the interim and final liquidation balance sheets;
- determining the number of the Company's directors, electing them and terminating their powers early;
- resolving on the delegation of powers vested in the Company's sole executive body to a business entity (management company) or a sole proprietor (manager) under a contract; resolving on the early termination of the powers of the management company or the manager;
- determining the number, nominal value, type (class) of the authorised shares and rights they confer;
- reducing the Company's authorised capital through reducing the par value of shares, through the Company's purchase of part of the shares to reduce their total number, and through redemption of the acquired or repurchased shares;
- increasing the Company's authorised capital by raising the par value of its shares;
- increasing the Company's authorised capital by offering additional shares through a private subscription;
- increasing the Company's authorised capital through an open subscription for ordinary shares comprising more than 25% of the outstanding ordinary shares;
- offering, through an open subscription, issue-grade securities which may be converted into ordinary shares comprising more than 25% of the outstanding ordinary shares;
- increasing the Company's authorised capital by offering additional shares funded out of the Company's assets;
- offering the Company's convertible issue-grade securities through a private subscription;

- electing members of the Company's Revision Commission (Revision Officer) and terminating their powers early;
- approving the Company's Auditor in charge of the Company's accounts (financial statements) under the Russian Accounting Standards (RAS);
- approving annual reports and annual accounting (financial) statements, as well as distribution of the Company's profits, including payment (declaration) of dividends, and losses for the reporting year;
- establishing the procedure for the General Meeting of Shareholders;
- splitting and consolidating the Company's shares;
- paying (declaring) dividends following the results of the first quarter, first half, and first nine months of the reporting year;
- resolving on granting consent to or subsequent approval of transactions in cases stipulated by Article 83 of the Federal Law On Joint Stock Companies (except as provided for in Clause 2 of Article 81 of the Federal Law On Joint Stock Companies);
- resolving on reimbursing the persons or bodies initiating an Extraordinary General Meeting of Shareholders, at the Company's expense, for the costs of preparing and holding thereof;
- approving internal regulations governing the Company's bodies, namely Regulations on the General Meeting of Shareholders, on the Board of Directors, on the Revision Commission (Revision Officer), and on the executive bodies of the Company;
- resolving on granting consent to or subsequent approval of major transactions in cases stipulated by Article 79 of the Federal Law On Joint Stock Companies (except as provided for in Clause 3 of Article 78 of the Federal Law On Joint Stock Companies);
- repurchasing the Company's outstanding shares as prescribed by the Federal Law On Joint Stock Companies;
- resolving on the Company's participation in financial and industrial groups, associations and other unions of business entities;
- resolving on filing for delisting of the Company's shares and/or issue-grade securities convertible into shares;
- resolving on remunerating the Revision Committee members (Revision Officer) and/or compensating the expenses incurred by them in discharge of their duties during their term in office, as well as on the amount of such remunerations and compensations;
- resolving on remunerating the Board of Directors members (Revision Officer) and/or compensating the expenses related to their functions as members of the Board of Directors during their term in office, as well as on the amount of such remunerations and compensations;
- resolving on other matters prescribed by the Federal Law On Joint Stock Companies.

The activities and the remit of the General Meeting of Shareholders are governed by the joint stock company laws of the Russian Federation, Charter provisions, and the Regulation on the Procedure for Convocation and Holding of General Meetings of Shareholders of SAFMAR Financial investments (version 2).

PROTECTION OF SHAREHOLDER RIGHTS

The right to access documents that SAFMAR Financial investments is required to provide under the Federal Law On Joint Stock Companies is an important guarantee for the shareholder right to participate in managing the Company.

The Company is committed to ensuring full protection of shareholder rights to take part in the management of the Company: their rights to engage in the work of the General Meeting of Shareholders and to cast their votes on the General Meeting's agenda items, as well as their right to receive profit through dividends.

In order to safeguard the shareholder right to participate in the General Meeting of Shareholders, all materials relevant to the agenda of the General Meeting are circulated to shareholders through the Company's Registrar and National Settlement Depository pursuant to the Company's Charter and within the time period specified in the laws and the Company's Charter. Shareholders can fill out the ballot and mail it at the address specified therein to SAFMAR Financial investments before the General Meeting. The ballots of such shareholders are counted during the tally of the votes. Shareholders can also vote online if their depository provides this service.

Each shareholder also has the right to, personally or by proxy, participate in the General Meetings and to vote on the agenda directly at the General Meeting (if the meeting is held in the form of joint presence). The outcome of the vote on the agenda items of the General Meeting held in the form of joint presence is announced at the meeting before its closure. The voting results are also available on [the Company's web site](#).

PROPOSING ITEMS FOR THE GENERAL MEETING AGENDA AND NOMINATING CANDIDATES TO THE COMPANY'S MANAGEMENT BODIES

Persons with substantial shareholdings (at least 2% of the authorised capital) may propose items for the General Meeting agenda and nominate candidates to the Company's management and control bodies. Shareholders that hold 10% or more of the Company's voting shares also have the right to request convocation of an Extraordinary General Meeting of Shareholders.

Proposed items for the agenda of the Annual General Meeting of Shareholders, together with any supplementary materials which are required under the Regulation on the Procedure for Convocation and Holding of General Meetings of Shareholders of SAFMAR Financial investments (version 2) and other internal documents of the Company are submitted in writing within 60 days after the end of the fiscal year.

Should election of the Board of Directors be on the Extraordinary General Meeting's agenda, persons that hold a sufficient shareholding shall have the right to propose nominees to the Board. Written proposals should be submitted to the Company no later than 30 days prior to the date of the respective meeting. The nominees to the management and control bodies of the Company proposed by shareholders are first reviewed by the Remuneration and Nomination Committee of the Board of Directors of SAFMAR Financial investments.

To observe the shareholder right to participate in profits through dividends, the Company declares the amount of the dividends recommended by the Board of Directors in advance, as well as the record date for the payout. This gives shareholders the opportunity to manage their shares based on the expected dividend payout.

To observe the shareholder right to participate in profits through dividends, the Company declares the amount of the dividends recommended by the Board of Directors in advance.

PROVIDING SHAREHOLDERS WITH THE COMPANY'S DOCUMENTS

The right to access documents that SAFMAR Financial investments is required to provide under the Federal Law On Joint Stock Companies is an important guarantee for the shareholder right to participate in managing the Company. In order to exercise this right, shareholders need to request access to the relevant documents in writing, whereupon the time of granting access will be agreed and the shareholders will be provided the respective documents. If shareholders need copies of the requested documents, they reimburse the cost thereof at RUB 5 per page.

GENERAL MEETINGS OF SHAREHOLDERS HELD IN 2019

Type	Date	Agenda	Approved decisions
Annual	28 May 2019	<ol style="list-style-type: none"> 1. Approval of SAFMAR Financial investments' Annual Report and annual accounts (financial statements) for 2018. 2. Distribution of profits (including payout (declaration) of dividends) and losses for 2018. 3. Election of members of the Board of Directors. 4. Election of the Company's Revision Commission. 5. Approval of the Auditor responsible for reviewing the Company's 2019 RAS accounts (financial statements). 6. Approval of a new version of the Company's Charter (version 22). 	 Link to material disclosures <small>(in Russian only)</small>

BOARD OF DIRECTORS

 The full list of the Board of Directors' responsibilities is specified in the Charter and the Quarterly reports (in Russian only), which are available on the corporate website at: www.safmarinvest.ru/en/

The Board of Directors is the main body of the Company's corporate governance framework.

The key goals of the Board of Directors are long-term growth in the Company's assets value, protection of rights and interests of the shareholders and providing complete, accurate and timely public information about the Company.

The Board of Directors is responsible for passing resolutions on top priority matters for the Company: setting key goals and defining the development strategy, making decisions on the general organisational structure, approving transactions, etc.

MEMBERS OF THE BOARD OF DIRECTORS

 Details of 5 years' track record of members of the Board of Directors are described in SFI's Quarterly reports (in Russian only), which is disclosed on the corporate website at: www.safmarinvest.ru/en/

The Board of Directors is a balanced and professional body that ensures sustained long-term growth of the Company. The current composition of the Board of Directors of SAFMAR Financial investments was established pursuant to the resolution of the Annual General Meeting of Shareholders dated 28 May 2019 and includes 11 members:

1. Oleg Andriyankin
2. Oleg Vyugin – Chairman of the Board of Directors
3. Alla Gryaznova
4. Mikail Gutseriev
5. Said Gutseriev
6. Avet Mirakyan
7. Ilya Mikhaylenko
8. Alexander Myakenky
9. Sergey Nazarov
10. Bilan Uzhakhov
11. Sergey Tsikalyuk

As resolved by the Annual General Meeting of Shareholders, the composition of the Board of Directors remained unchanged.

The Board of Directors is a balanced and professional body that ensures sustained long-term growth of the Company.

KEY TO COMMITTEE MEMBERSHIP

 Audit Committee
 Chairman of Audit Committee

 Nomination and Compensation Committee
 Chairman of Nomination and Compensation Committee

 Strategy and Risk management Committee
 Chairman of Strategy and Risk management Committee

BOARD COMPOSITION AS OF 31 DECEMBER 2019



Oleg VYUGIN
 Chairman of the Board of Directors

Does not hold Company shares

Date of birth: 1952

Oleg was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019. Was re-appointed as Chairman of the Board of Directors in June 2019 (serves as Chairman starting from June 2017).



EDUCATION AND QUALIFICATIONS

Oleg graduated from Lomonosov Moscow State University majoring in "Mechanics and Mathematics". Master of Physical and Mathematical Sciences. Author of more than 20 research papers and publications on the theory of probability and macroeconomic model building.

CAREER

Nowadays Oleg is Chairman of Supervisory Board, independent director of PJSC Moscow Exchange, member of the Board of Directors, independent director of PJSC NK Rosneft, professor of Economics at National Research University – Higher School of Economics. He holds positions at governing bodies of other legal entities: National Association of Stock Market Participants (Chairman), CJSC National Settlement Depository (member of Supervisory Board), PJSC UniPro (member of the Board of Directors, independent Director), Foundation Centre for Strategic Research (member of Foundation Board), National Committee on Corporate Governance (member of Executive Committee).

At different points in his career he held positions of First Deputy of Minister of Finance of the Russian Federation, First Deputy of Chairman of the Bank of Russia, Head of the Federal Service on Financial markets, non-staff counselor of Chairman of the Government of the Russian Federation, Executive Vice-President of CJSC Investment Company Troika Dialog, Senior Counselor on Russia and CIS of Morgan Stanley Bank LLC, Chairman of the Board of Directors of PJSC MDM Bank.

He was awarded with the title "Honoured Economist of the Russian Federation".



Oleg ANDRIYANKIN
 Chief Financial Officer

Does not hold Company shares

Date of birth: 1981

Oleg was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019.

EDUCATION AND QUALIFICATIONS

Oleg graduated from the State University – Higher School of Economics in 2003.

CAREER

Oleg Andriyankin joined SAFMAR GROUP in January, 2016 coming from the MDM Bank where he had been working since 2010 and having grown from the Head of IFRS Department to Chief Financial Officer. Oleg has more than 10 years of experience in financial management with the largest foreign and Russian companies, in particular, with the EY audit company, TNK-BP and Sberbank Capital.

He currently holds position of CFO of SAFMAR GROUP and PJSC SAFMAR Financial investments, being responsible for strategic planning, budgeting, controlling, developing management statements and capital and liquidity management.

KEY TO COMMITTEE MEMBERSHIP
 Audit Committee
 Chairman of Audit Committee

 Nomination and Compensation Committee
 Chairman of Nomination and Compensation Committee

 Strategy and Risk management Committee
 Chairman of Strategy and Risk management Committee

Mikail GUTSERIEV

Non-executive Director

Does not hold Company shares

Date of birth: 1958

Mikail was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019 (serves as member of the Board starting from August 2017).


EDUCATION AND QUALIFICATIONS

Graduated from the Dzhambul Technological Institute of Light and Food Industry in Dzhambul (Kazakh SSR) majouring in "Chemical process engineering", Gubkin State University of Oil and Gas majouring in "Oil and Gas Engineering and Technology", Finance Academy under the Government of the Russian Federation majoring in "Finance and Credit" and Saint-Petersburg University of Law majoring in "Civil Law". Completed a postgraduate program at Saint-Petersburg University of Law (majouring in "Criminal Procedural Law") and defended his thesis for Master of Laws. Defended his thesis (majouring in "Free Economic Zones") at Plekhanov Russian Academy of Economics and became Doctor of Economics.

CAREER

In 1975, started his career as a freight handler in the city of Grozny. From 1976 to 1982 worked his way up from a reel operator to a foreman at Dzhambul Factory of Arts&Crafts (Kazakh SSR).

From 1982 to 1985 worked as a process engineer, later becoming a senior process engineer, then a department supervisor, moving up to a senior foreman, and finally a chief engineer at Grozny Production Association at the Ministry of Local Industry of RSFSR, Grozny. From 1986 to 1992 – CEO of the Association. In 1991, was elected Chairman of the Entrepreneurs Association of Chechen-Ingush ASSR.

In 1992, founded and headed the financial-industrial company B&N in Moscow and Joint Stock Commercial Bank B&N in 1993, becoming the first President of the latter.

In 1994, was elected President of B&N Consortium, which included industrial enterprises, trading and consulting companies, financial institutions, and oil enterprises.

KEY TO COMMITTEE MEMBERSHIP
 Audit Committee
 Chairman of Audit Committee

 Nomination and Compensation Committee
 Chairman of Nomination and Compensation Committee

 Strategy and Risk management Committee
 Chairman of Strategy and Risk management Committee

In 1995–2000, was twice elected deputy to the State Duma of the Russian Federation, held the position of Deputy Chairman of the Duma.

In February 2000 at the extraordinary meeting of shareholders of Russian-Belarusian State Oil and Gas Company Slavneft he was elected President of the Company.

In February 2001, was elected Vice-President of the Russian Union of Industrialists and Entrepreneurs. In September 2002, he founded and headed oil and gas company RussNeft.

2007–2010, lived and worked in the UK. During these years he successfully implemented a number of large-scale oil and gas projects in Azerbaijan, Kazakhstan, African countries.

June 2010 to February 2015 – President of Oil Company RussNeft.

In February 2015, due to a large-scale business development of two oil companies that he owned (Oil Company RussNeft and Oil Company Neftisa), he became Chairman of the Board of Directors of these companies, focusing on strategic assets management.

Mikail Gutseriev was honoured with the following titles: "Honoured Oilman of Russia", "Honoured Economist of Russia", "Honoured functionary of Fuel and Energy Complex".

For his extensive charity aid to religious organisations, peacekeeper veterans, orphanages, education and cultural organisations he was awarded with order signs, diplomas and letters of gratitude from President of the Russian Federation, President of the Republic of Belarus, Patriarch of All Russia, Chairman of the Russian Council of Muftis, Chief Rabbi of Russia and the board of the Jewish Community Federation, officials of a number of Russian regions, as well as from public, state, and power organisations of the country.

AWARDS

Holder of numerous government and public honor awards:

- Order of Friendship;
- Honor Sign Order;
- I Grade Order of Sergiy Radonezhsky;
- II Grade Order of Sergiy Radonezhsky;
- III Grade Order of Sergiy Radonezhsky;
- I Grade Order of Daniil Moskovsky;
- II Grade Order of Daniil Moskovsky;
- III Grade Order of Glory and Honesty;
- II Grade Order of Prince Vladimir;
- I Grade Al-Fakhr Order of Honor;
- Order of the Community of Interparliamentary Assembly of the CIS;
- Medal For Labor Virtue;
- Medal For Labor Distinction;
- Medal For Distinguished Services in Special Operations;
- four times honoree of autographed weapons for completing special missions of the Russian Government.

KEY TO COMMITTEE MEMBERSHIP

-  Audit Committee
-  Chairman of Audit Committee
-  Nomination and Compensation Committee
-  Chairman of Nomination and Compensation Committee

-  Strategy and Risk management Committee
-  Chairman of Strategy and Risk management Committee

Alla GRYAZNOVA

Independent Director



Date of birth: 1937

Alla was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019 (serves as member of the Board starting from October 2015).


EDUCATION AND QUALIFICATIONS

Alla graduated from Moscow technical school of Finance in 1955, then from Moscow Institute of Finance in 1959 majouring in "Finance and Credit", Master of Economics (since 1964), Doctor of Economics (since 1976).

CAREER

President of the University of Finance under the Goverment of the Russian Federation, First Vice-President of International Financiers Guild, Honored Scientist of the Russian Federation, Doctor of Economics, Professor.

In 1964 she was successfully involved in academic and scientific activities; she headed department of theoretical economics for 12 years. In 1976 Alla held position of deputy principal on scientific researches and international communications. Since 1985 she has held the position of Principal, and since 2007 – President of the University of Finance under the Goverment of the Russian Federation.


EDUCATION AND QUALIFICATIONS

Graduated from Plymouth Business School, Plymouth University in 2011. Graduated from St Peter's College, University of Oxford, with an MA degree in 2014.

CAREER

In 2012-2014 Said worked at Glencore UK Ltd.

Since 2014, Said holds the position of Chief Executive Officer of JSC FortelInvest. He is also a Chairman of the Board of Directors of JSC Preobrazhenskneft, JSC Oilgaztett, Geoprocess LLC and Eldorado LLC.

He is a member of the Board of Directors at NK RussNeft, Orsknefteorgsintez, Neftisa, Russian Coal, A.N.D. Corporation and others.

Said GUTSERIEV

Non-executive Director



Date of birth: 1988

Said was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019 (serves as member of the Board starting from August 2017).


KEY TO COMMITTEE MEMBERSHIP

-  Audit Committee
-  Chairman of Audit Committee
-  Nomination and Compensation Committee
-  Chairman of Nomination and Compensation Committee

-  Strategy and Risk management Committee
-  Chairman of Strategy and Risk management Committee


Avet MIRAKYAN

Chief Executive Officer



Date of birth: 1974

Avet was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019 (serves as member of the Board starting from June 2016).


EDUCATION AND QUALIFICATIONS

In 1996, Avet graduated from Erevan State University majoring in "International Economic Relations".

Avet is a Certified Public Accountant of the USA (CPA), holds a Russian certificate for audit and Certificates of Federal Financial Markets Service (first and fifth degree).

CAREER

He started his career in 1995 working at the Department of Monetary Policy at the Central Bank of the Republic of Armenia and later at the Banking Supervision Department. In 1997, he started working at the Russian private commercial bank. For ten years since 1998 he worked for audit companies Arthur Andersen and Ernst & Young (EY), where he worked his way up from an assistant to the Partner in the Financial Markets Department.

In 2007, Avet joined B&N BANK as Senior Vice President and CFO. In 2008-2009 he held the same position at BNP Paribas Bank (CIB, Russia). From 2010 to 2015 he was a Partner and Head of the CIS Financial Markets Transaction Services practice at Ernst & Young (EY).

Since January 2016, Avet holds the position of Chief Executive Officer of SAFMAR GROUP.


Ilya MIKHAYLENKO

Non-executive Director



Date of birth: 1973

Ilya was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019 (serves as member of the Board starting from August 2017).

EDUCATION AND QUALIFICATIONS

Ilya Mikhaylenko graduated from Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation in 1996 (Law faculty), Master of Laws.

CAREER

2008 – till present, holds the position of CEO of OJSC Corporate Investments and Technologies specialising in consulting services.

KEY TO COMMITTEE MEMBERSHIP
 Audit Committee
 Chairman of Audit Committee

 Nomination and Compensation Committee
 Chairman of Nomination and Compensation Committee

 Strategy and Risk management Committee
 Chairman of Strategy and Risk management Committee

Alexander MYAKENKY

Independent Director

Does not hold Company shares

Date of birth: 1947

Alexander was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019 (serves as member of the Board starting from October 2015).


EDUCATION AND QUALIFICATIONS

Independent expert accredited by the Ministry of Justice of the Russian Federation to carry out expertise on propensity for corruption. Expert of analytical media portal "Mir bezopasnosti" (World of Security), member of Russian Union of Journalists. In 1975, he graduated from All-Union Correspondence Institute of Law (now Moscow State Law University) majouring in "Legal Studies", in 1984 – All-Union Institute of Advanced Training for Senior Officials of Gosnab of USSR. From 1991 to 2008 attended several bank seminars on legal issues and economic security.

CAREER

From 1969 to 1976, Alexander Myakenky served at the Ministry of Internal Affairs of USSR. From 1977 to 1979, he held the position of people's judge of Moscow. From 1979 to 1988, he was Head of Contractual and Legal Department of Gosnab of USSR. From 1989 to 1991 he was Head of Legal Department at TASS under the Council of Ministers of USSR. From 1991 to 1993 he was Head of Legal Department (member of the Management Board) at Finist Bank, Vserossijskij birzhevoj bank (All-Russian Exchange Bank), MAPO Bank. From 1994 to 1996, he was appointed Chief Executive Officer of LLC ELMED.

In 2008, he headed legal department of Slav-service LLC.

From 2010 to 2011, Alexander Myakenky was Chief Counselor of All-Russian non-governmental organisation "Association of Russian Lawyers".

From 2010 to 2014, he held the position of Deputy Principal of Russian Academy of Lawyers and Notaries.


Sergey NAZAROV

Independent Director

Does not hold Company shares

Date of birth: 1973

Sergey was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019 (serves as member of the Board starting from June 2016).


EDUCATION AND QUALIFICATIONS

Sergey graduated from Khabarovsk State University of Economics and Law (bachelor's degree with honors), has professional international CFA qualification.

CAREER

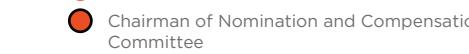
From 2013 to 2016 he was Managing Director of Moscow branch office of Standard & Poor's and was responsible for business development, supervision of company activities in Russia and countries of former USSR and cooperation with state authorities.

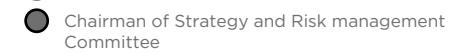
From 2016 to 2017 was member of the Board of Directors of JSC "AKB RosEvoBank".

In September 2018 Sergey was appointed Deputy CEO of Rating Agency "Expert RA". He is also an independent director of the Board of Directors of the JSC "Petersburg Social Commercial Bank".

Sergey obtained a great working experience in investments and attraction of foreign investments to Russian financial sector at leading international financial organisations (EBRD and Renaissance Capital), as well as working at boards of directors of Russian banks and non-bank financial companies.

KEY TO COMMITTEE MEMBERSHIP
 Audit Committee
 Chairman of Audit Committee

 Nomination and Compensation Committee
 Chairman of Nomination and Compensation Committee

 Strategy and Risk management Committee
 Chairman of Strategy and Risk management Committee

Bilan UZHAKHOV

Non-executive Director

Does not hold Company shares

Date of birth: 1987

Bilan was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019 (serves as member of the Board starting from August 2017).



From November 2010 to October 2012, Bilan worked at OJSC NK RussNeft with specialisation in credit and headed Department of Credit and Capital Markets.

From October 2012 to June 2013, he was Chief Financial Officer (Deputy CEO) at OJSC Russian Coal.

From July 2013 to May 2017 was Chief Executive Officer at OJSC Russian Coal.

Bilan is Chief Executive Officer at MVM LLC, PJSC M.Video and Eldorado LLC.


Sergey TSIKALYUK

Non-executive Director

Does not hold Company shares

Date of birth: 1959

Sergey was re-appointed to the Board of Directors of PJSC SAFMAR Financial investments in May 2019 (serves as member of the Board starting from August 2017).


EDUCATION AND QUALIFICATIONS

Graduated from a military school and Military Academy, studied finance at the Plekhanov Russian Academy of Economics. From 1976 to 1992 he did military service. 1992-1993, received professional training in insurance at leading insurance companies in Germany.

CAREER

In 1992, he founded the insurance company VSK and took the position of CEO of the company. Since May 2007, Chairman of the Board of Directors of VSK.

He was honoured a number of state awards: Distinguished Service Medal, fourth-class Order of Merit for the Motherland, Order of Alexander Nevsky, and others.

He was repeatedly honoured as one of the most professional managers in insurance business.

BOARD OF DIRECTORS' REPORT

11 BOD MEETINGS

(including five in person)
in 2019

Oleg Vyugin remained the Chairman of the Board of Directors throughout 2019 after being successfully re-elected at the first meeting held by the Board of Directors as a follow-up to the Annual General Meeting of Shareholders reviewing results for 2018.

The Board of Directors and the Board Committees are fully compliant with the Moscow Exchange requirements for corporate governance of issuers included in the Level 1 (A1) Quotation List and the recommendations of the Bank of Russia's Corporate Governance Code. All members of the Audit Committee and the Remuneration and Nomination Committee are independent directors. Both committees are chaired by independent members of the Board of Directors.

In 2019, the Board of Directors held 11 meetings, including five meetings held in person, and 11 Committee meetings.

During the reporting period, the Board of Directors addressed key matters, including convocation of the Annual General Meeting of Shareholders, and looked into recommendations of the Board of Directors on the agenda of General Meetings, including with respect to dividend distribution and approval of a new version of the Charter. The Board of Directors passed resolutions on key development priorities of the Company (share buyback programme), approval of the budget and quarterly CEO reports on the Company's performance and budget implementation, guidance for the governance bodies of subsidiaries and affiliates, approval of the Company's internal documents, determination of fees payable to the external Auditor in charge of RAS financial statements and approval of the Auditor in charge of IFRS financial statements, approval of major transactions and Internal Audit's inspection reports and plans, while also considering other matters reserved to the Board of Directors.

The Board Committees previewed meeting materials and prepared recommendations on some of the most critical matters for the Board of Directors to resolve on them as part of its meetings.

11 COMMITTEE MEETINGS

in 2019

ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES

In 2019, all directors actively participated in meetings and discussions.

In 2019, the overall number of meetings held reduced compared to 2018. The number of Board meetings held in person changed accordingly, confirming the efficiency and inspired performance of the Board of Directors as a single body and the desire of each of its members to make meaningful contributions to support the sustained organisational efforts made by the Chairman.

In 2019, all directors actively participated in meetings and discussions. Over the reporting period, quorum was met for each item of the meeting agendas, including approval of major transactions, which had won unanimous support from all directors.

ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES

Members of the Board of Directors in the reporting year	Independent director	Attendance at meetings		
		Board of Directors	Audit Committee	Remuneration and Nomination Committee
Oleg Andriyankin	-	11/11	2/5 (left the Committee after 2019 Annual General Meeting of Shareholders)	-
Oleg Vyugin (Chairman of the Board of Directors)	-	11/11	-	-
Alla Gryaznova	+	11/11	5/5	6/6
Mikhail Gutseriev	-	9/11	-	-
Said Gutseriev	-	11/11	-	-
Ilya Mikhaylenko	-	11/11	-	-
Avet Mirakyan	-	11/11	-	-
Alexander Myakenyk	+	11/11	5/5	6/6
Sergey Nazarov	+	11/11	5/5	6/6
Bilal Uzhakhov	-	11/11	-	-
Sergey Tsikalyuk	-	9/11	-	-

REMUNERATION AND COMPENSATION FOR MEMBERS OF THE GOVERNANCE BODIES

BOARD OF DIRECTORS

In 2019, directors were entitled to remuneration and compensation determined in accordance with the Remuneration and Compensation Policy for the Board of Directors approved by a resolution of the General Meeting of Shareholders.

The amount of remuneration payable to independent directors is linked to:

- performance of director's duties related to the membership in the Board of Directors; and
- performance of other duties related to the membership in the Board Committees.

The annual remuneration payable to an independent director comprises the fixed base and fixed additional components. The fixed base component of the annual remuneration is payable to an independent director for the performance of director's duties related to the membership in the Board of Directors and totals RUB 2.5 m (before taxes). The fixed additional component of the annual remuneration is payable to an independent director for the performance of duties related to the membership in the Board Committees. The fixed additional component of the annual remuneration payable for the membership in the Board Committees amounts to RUB 0.5 m (before taxes) per committee.

The actual amounts of fixed remuneration accrue pursuant to clauses 4.4-4.6 of the Policy pro rata the number of meetings attended by an independent director. Any member of the Board of Directors and the Board Committees may select to waive the remuneration payable for the membership in the Board of Directors and the Board Committees by submitting the respective waiver to the Company's Board of Directors.

-12,2%

RUB 9.1 M

total remuneration paid to the members of the Board of Directors in 2019

The amount of remuneration paid to the members of the Board of Directors was determined in accordance with the Remuneration and **Compensation Policy for the Board of Directors** (in Russian only)

The Board of Directors has set up the Remuneration and Nomination Committee which previews key matters related to the remuneration policy with respect to members of the Board of Directors, supervises its implementation, and pre-approves the terms and conditions of the contract with the sole executive body.

No other short- or long-term financial incentives are available to members of the Board of Directors.

Each member of the Board of Directors may receive compensation of travel expenses incurred in connection with their participation in Board of Directors meetings or performance of duties related to the membership in the Board of Directors, including negotiations, meetings, presentations and other events run by the Board of Directors, based on the rates established for the employees of SAFMAR Financial investments.

No additional amounts or compensations are payable to members of the Board of Directors in the event of their powers being terminated early.

In 2019, the total (aggregate) remuneration paid to members of the Board of Directors before taxes stood at RUB 9.1m (vs RUB 11.7m in 2018). The reduction in remuneration was due to a decrease in the number of members of the Board of Directors receiving remuneration in accordance with the Regulations on remuneration of members of the Board of Directors and compensation of expenses of members of the Board of Directors in 2019.

MANAGEMENT BOARD

No remuneration was paid to the management board as there was none formed in 2019.

SOLE EXECUTIVE BODY

The Company has no information about the sole executive body's remuneration in Group's companies (for management duties or participation in governing bodies). Such information can be found in the quarterly reports of companies obliged to publicly disclose information (in Russian only).

BOARD COMMITTEES

Following the Annual General Meeting of Shareholders convened on 28 May 2019 to review results for 2018, the Company elected new members of the following committees:

- Audit Committee;
- Remuneration and Nomination Committee.

Both committees are made up exclusively of independent directors. Consequently, their Chairs were elected from among independent directors, too.

AUDIT COMMITTEE

COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2019:

1. Sergey Nazarov (Chairman of the Committee);
2. Alla Gryaznova;
3. Alexander Myakenky.

Composition of the Audit Committee effective as at 31 December 2019 was approved by the resolution of the Board of Directors of SAFMAR Financial investments dated 18 June 2019. The Committee was made up of three independent directors. Membership of Oleg Andriyankin, CFO of SAFMAR Financial investments, in the Committee was terminated by the same resolution.

The Committee complies with the Moscow Exchange requirements for corporate governance of issuers included in the Level 1 (A1) Quotation List and is in line with provisions of the Corporate Governance Code.

In 2019, the Audit Committee held five meetings, including three meetings held in person. The Committee reviewed the following matters, which come within its authority:

- 2018 annual accounts of the Company (with the Committee expressing its opinion on the external Auditor's report and submitting it to the Annual General Meeting of Shareholders as part of the meeting materials);
- targets under the Company's risk management and internal control system;
- reports on Internal Audit's inspection results supplied for Q1, Q2 and Q3 of 2018 and 2019;
- nomination of the external Auditor for 2019 (with a recommendation submitted for approval to the Annual General Meeting of Shareholders);
- report on the Committee's performance in 2018-2019 and plan for 2020.

Based on discussions, the Committee adopted the following:

- recommendations on the Company's risk management and internal control system;
- recommendations on the Internal Audit performance report for 2018;
- recommendations on nomination of the Company's Auditor for 2019;
- opinion on the Auditor's report focusing on the Company's 2018 annual accounts.



For the biographies of the members of the Audit Committee, please see [pages 85-91](#)



For the information on the Audit Committee meeting attendance, please see [page 93](#)

5 MEETINGS

of Audit Committee in 2019

REMUNERATION AND NOMINATION COMMITTEE



For the biographies of the members of the Remuneration and Nomination Committee, please see [pages 85-91](#)



For the information on the Remuneration and Nomination Committee meeting attendance, please see [page 93](#)

COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2019:

1. Alexander Myakenky (Chairman of the Committee);
2. Alla Gryaznova;
3. Sergey Nazarov.

Composition of the Remuneration and Nomination Committee effective as at 31 December 2019 was approved by the resolution of the Board of Directors of SAFMAR Financial investments dated 18 June 2019. The Committee was made up of three independent directors.

The Committee is fully compliant with the Moscow Exchange requirements for corporate governance of issuers included in the Level 1 (A1) Quotation List and is in line with provisions of the Corporate Governance Code.

In 2019, the Committee held six meetings (predominantly in person, with only one meeting held in absentia) to discuss agenda items and adopt relevant resolutions. The Committee reviewed the following matters, which come within its authority:

- nominees proposed for election to the Board of Directors and Revision Commission of the Company were assessed for compliance with the Moscow Exchange and Corporate Governance Code requirements;
- motivation of SAFMAR employees;
- the CEO holding overlapping management positions in other companies;
- reports on staff turnover.

Based on discussions, the Committee adopted the following:

- recommendations on nominees proposed for election to the Board of Directors and Revision Commission of the Company;
- recommendations on the organisational structure of the Company;
- recommendations on promotion of corporate culture, intra-group HR coordination and incentive system.

6 MEETINGS

of Remuneration and Nomination Committee in 2019

STRATEGY AND RISK MANAGEMENT COMMITTEE

The Company also has a Strategy and Risk Management Committee consisting of seven members. The Committee membership was approved by the resolution of the Board of Directors dated 18 June 2019. The Committee operates as a working group and does not review matters reserved to the Board of Directors or issue any recommendations.

COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2019:

1. Oleg Vyugin;
2. Mikail Gutseriev (Chairman of the Committee);
3. Said Gutseriev;
4. Avet Mirakyan;
5. Sergey Nazarov;
6. Bilan Uzhakov;
7. Sergey Tsikalyuk



For the biographies of the members of the Strategy and Risk Management Committee, please see [pages 85-91](#)

INTERNAL CONTROL OVER BUSINESS AND FINANCIAL OPERATIONS

The Company has both the Revision Commission and the Internal Audit function in place. The Board of Directors has set up the Audit Committee. The powers of the Revision Commission are set out in the Company's Charter.



The powers of the Internal Audit function are described in the Regulation on the Internal Audit Function and available on Company's website www.safmarinvest.ru/en/



The powers of the Audit Committee are described in the respective Regulations and available on Company's website www.safmarinvest.ru/en/

COMPOSITION OF THE REVISION COMMISSION AND INTERNAL AUDIT IN 2019

INSPECTOR¹



Andrey GOROKHOV

Deputy CEO for Accounting, Reporting and New Projects,
Corporate Investments and Technologies LLC

Does not hold Company shares

Date of birth: 1980

REVISION COMMISSION²

1.

Andrey GOROKHOV

Deputy CEO for Management Accounting, Reporting and New Projects,
Corporate Investments and Technologies LLC

Does not hold Company shares

Date of birth: 1980

2.

Alexey ROZHKOVSKY

Head of Finance,
Deputy CFO, SAFMAR Financial investments

Does not hold Company shares

Date of birth: 1984

3.

Stanislav TURBANOV

Deputy Head of Finance,
SAFMAR Financial investments

Does not hold Company shares

Date of birth: 1974

INTERNAL AUDIT



Elena EVDOKIMOVA

Head of Internal Audit

Does not hold Company shares

Date of birth: 1970

REMUNERATION AND COMPENSATION FOR MEMBERS OF CONTROL BODIES

REVISION COMMISSION

In 2019, no compensation was paid by the Company for the expenses related to the performance of the members' duties with the Revision Commission.

INTERNAL AUDIT

In 2019, the remuneration amount (salary) of the Internal Audit personnel stood at RUB 3.4m. In 2019, no compensation was paid by the Company for the expenses related to the performance of the members' duties with the Internal Audit function.

RUB 3.4 M

remuneration of the Internal Audit in 2019

EXTERNAL AUDIT

The Company selects auditors through bidding whereby it requests and compares auditors' proposals.

When comparing auditors' proposals, the Company relies on the following criteria:

- whether an offerer belongs to leading international audit firms;
- whether an offerer commands a good business reputation;
- whether an offerer has a track record with leasing companies, banks, insurance companies with extensive branch networks across Russia;
- whether an offerer has in-house experts certified by internationally recognized accounting and auditing associations and organisations;
- whether an offerer has a professional, highly qualified, experienced working group;
- whether the fee is acceptable; and
- whether the offerer is willing to meet the Company's deadlines.

The Company designates and authorises its employees and, if required, other experts and specialists, to review the proposals, which includes evaluation and follow-up negotiations, if necessary. At the evaluation stage, the Company evaluates, compares and ranks proposals by relevance based on the above criteria.

In June 2019, the Board of Directors set the fees payable to Ernst & Young LLC for the 2019 reporting period at RUB 14.6m, including VAT. The increase in payment for audit services y-o-y was due to consolidation of acquired assets into financial statements.

RUB 14.6 M

audit services in 2019

The Company selects auditors through bidding whereby it requests and compares auditors' proposals.

¹ Elected by the resolution of the Annual General Meeting of Shareholders on May 28, 2018, effective until the annual General Meeting of Shareholders on May 28, 2019.

² Effective from the Annual General Meeting of Shareholders on May 28, 2019.

INFORMATION FOR SHAREHOLDERS AND INVESTORS

SHARE CAPITAL

STRUCTURE OF SAFMAR FINANCIAL INVESTMENTS' SHARE CAPITAL AS AT 31 DECEMBER 2019, %



As at 31 December 2019, the authorised capital of SAFMAR Financial investments amounted to RUB 74,797,319.97 and consists of 111,637,791 ordinary registered shares with a par value of RUB 0.67 each. On 23 March 2017, all issues of ordinary registered shares were merged into a single issue under state registration No. 1-02-56453-P. The Company has no preferred stock. The Government has no share in the Company's authorised capital.

SAFMAR Group's companies	48.0
Said Gutseriev	30.4
NPF SAFMAR	9.2
Weridge Investment Limited	8.4
Other shareholders	52.0
Trust Bank	7.7
NPF FUTURE	7.7
VSK Insurance House	1.7
Other investors (individuals and legal entities)	34.9

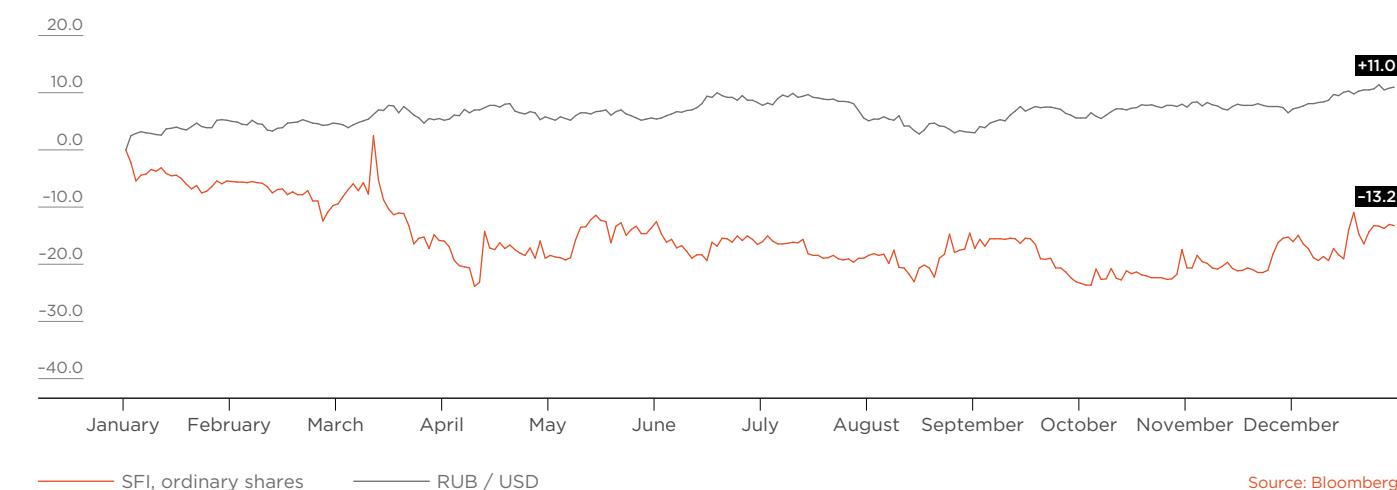
On 12 December 2019, the Board of Directors of SAFMAR Financial investments approved the extension of its share buyback programme and a number of related transactions. The new programme will be in effect for one year. The buyback will be funded from the Company's own resources and the funds borrowed from VTB Bank. The shares will be consolidated on the balance sheet of Weridge Investments Limited acting as the operator of the buyback programme. In November 2018, the Company's Board of Directors approved a three-year programme to buy back the holding company's shares for up to RUB 6 bn. As at 31 December 2019, Weridge Investments Limited consolidated 8.44% of SFI shares.

The number of shareholders registered in the share register is 718 as of 31 December 2019.

The Company's ordinary shares are included in the Level 1 (A1) Quotation List of the Moscow Exchange. Until 20 December 2019, the shares of SAFMAR Financial investments were also selected as constituent stocks of the Moscow Exchange's two key indices – MOEX Russia and RTS. As at the reporting date, the shares featured in the Broad Market Index and the sectoral index for Finances.

RUB 57.4 BN
capitalisation as at 31 December 2019

PERFORMANCE OF SFI ORDINARY SHARES, AND RUB/USD EXCHANGE RATE IN 2019, %



Source: Bloomberg

STOCK EXCHANGE PERFORMANCE

STOCK EXCHANGE PROFILE OF SAFMAR FINANCIAL INVESTMENTS' ORDINARY SHARES (MOSCOW EXCHANGE)

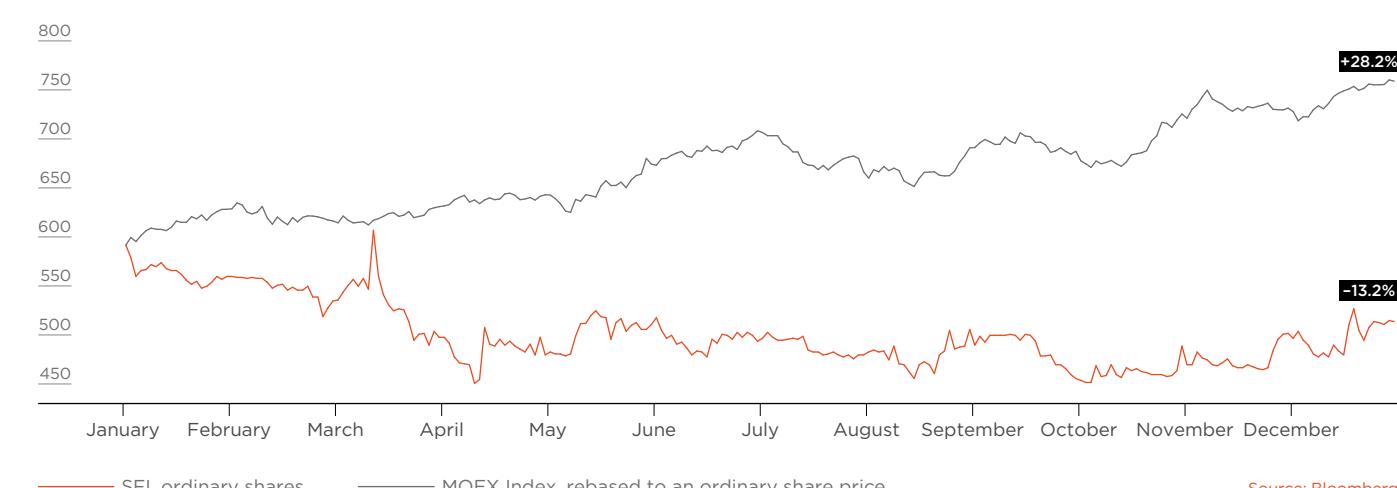
Ticker	SFIN
Type/category of securities	Ordinary share
Listing level	1
Par value, RUB	0.67
State registration number	1-02-56453-P
Trading start date	04 December 2015
Inclusion in index baskets	Broad Market Index, Finances Index

STOCK EXCHANGE PERFORMANCE OF SAFMAR FINANCIAL INVESTMENTS' ORDINARY SHARES IN 2019 (MOSCOW EXCHANGE)

Maximum closing price, RUB	607
Minimum closing price, RUB	451
Average daily trading volume, RUB m	27.6
Average daily trading volume, shares	53,457
Average number of trades per day	1,232
Price at the end of reporting period, RUB	514
Capitalisation at the end of reporting period, RUB m	57,381.8

Source: Bloomberg

PERFORMANCE OF SFI ORDINARY SHARES IN 2019, RUB



Source: Bloomberg

SHARE REGISTER

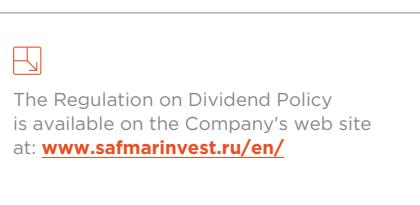
Since 5 October 2015, the register of holders of the Company's registered securities has been maintained by a dedicated Registrar – JSC Servis-Reestr, OGRN 1028601354055 / INN 8605006147, located at 12 Sretenka St., Moscow, 107045, Russia.

Registrar licence No. 045-13983-000001 was issued on 2 March 2004. The register of holders of the Issuer's registered securities was transferred pursuant to resolution No. 11-2015 of the Company's sole shareholder dated 18 September 2015.

MARKET MAKERS

During 2019, and as at the Report date, the Company signed market making agreements with a number of investment and brokerage firms, including IT Invest, FINAM and UNIVER Capital.

DIVIDEND POLICY



The Regulation on Dividend Policy of SAFMAR Financial investments was approved by the resolution of the Board of Directors in April 2019.

The recommended amount of dividend payments is determined by the Company's Board of Directors based on the financial performance during the year. Target dividend payments shall be no less than 75% of the smaller of two values below:

- net profit according to the RAS (Russian Accounting Standards) accounting (financial) statements of the Company for the reporting year; or
- free cash flow of the Company for the reporting year, subject to the availability of dividend income from subsidiaries/affiliates.

5-YEAR HISTORY OF DIVIDEND PER SHARE PAYMENT, ¹ RUB

2018		14.50
2017		30.25
2014-2016		0.00

¹ Formally known as PJSC Europlan until 2017.

When determining the amount of the dividend recommended to the General Meeting of Shareholders, the Board of Directors takes into account the current financial and competitive position of the Company, as well as its development potential, including forecasts of operating cash flow and capital expenditures, and other factors that affect the preservation of financial stability and a flexible capital structure.

The Annual General Meeting of Shareholders held on 28 May 2019 resolved to pay dividends for 2018 in the total amount of RUB 1.62 bn (RUB 14.5 per share).

The Company publishes resolutions of its General Meeting of Shareholders concerning dividend payments on its [corporate web site](#) or online on [the disclosure web site](#), and also communicates relevant information to its shareholders through publications prescribed by the applicable laws of the Russian Federation.

RUB 1.62 BN
 dividends paid based on 2018 financial results

DIVIDENDS FROM SUBSIDIARIES AND AFFILIATES

Stable dividend flows from subsidiaries and affiliates are SFI's key source of income and a metric used to calculate dividends to shareholders. As at 31 December 2019 and over the year, SAFMAR Financial investments received a total of RUB 5.6 bn in dividends from its subsidiaries and affiliates.

RUB 5.6 BN
 in dividends received by SFI from its subsidiaries in 2019

INFORMATION POLICY

The Company makes disclosures in a regular, consistent, and timely manner, ensuring accessibility, reliability, completeness and comparability of the information.

The Company makes disclosures on its securities, business and financial operations as follows:

- information on the stages of the securities issue as well as statements of material facts;
- prospectus;
- quarterly reports;
- annual reports;
- Charter;
- information that may have a material impact on the market value of its securities; and
- information on its affiliates.

The Corporate Governance Code compliance report prepared pursuant to the Bank of Russia's Letter No. IN-06-52/8 dated 17 February 2016 On Disclosure of Compliance with the Principles and Recommendations of the Code of Corporate Governance in Annual Reports by Public Joint Stock Companies is available in [Appendix 1](#) hereto

IFRS CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

in thousands of Russian rubles, unless otherwise stated

	Note	31 December 2018	31 December 2019
Assets			
Cash and cash equivalents	7	2,799,437	4,133,725
Financial instruments at fair value through profit or loss	8	210,129,673	183,449,887
Deposits with banks	9	50,041	4,038,670
Net investment in leases after impairment allowance	10	56,626,878	71,563,218
Reverse repurchase agreements and accounts receivable	11	52,231,136	84,123,767
Equipment purchased and advances to suppliers for lease operations	12	613,617	1,017,275
Deferred acquisition costs	13	7,812,959	7,255,652
Current income tax prepayment		240,739	225,039
Deferred tax assets	35	432,526	126,420
VAT recoverable		1,527,537	836,999
Property and equipment	14	596,103	1,893,853
Investments in associates	15	21,930,468	24,285,166
Goodwill	16	27,439,058	25,139,058
Other assets	17	1,251,824	20,196,329
Total assets		383,681,996	428,285,058
Liabilities			
Liabilities under compulsory pension insurance contracts	18	241,637,437	251,442,867
Liabilities under non-state pension arrangements	18	7,959,115	8,342,552
Borrowings	19	31,975,769	51,711,528
Advances received from lessees		1,546,988	2,209,451
Bonds issued	20	12,213,440	18,159,518
Current income tax payable		197,412	443,875
Deferred tax liabilities	35	1,875,393	2,589,162
VAT payable		72,976	91,513
Lease liabilities	36	–	957,926
Other liabilities	21	2,737,829	4,041,022
Total liabilities		300,216,359	339,989,414
Equity			
Share capital	22	74,797	74,797
Additional paid-in capital	22	67,310,103	67,312,441
Treasury shares	22	(7,577,737)	(11,355,122)
Compulsory pension insurance reserve and insurance reserve	22	7,776,470	9,200,782
Retained earnings		15,826,471	23,000,703
Total equity attributable to shareholders		83,410,104	88,233,601
Non-controlling interests		55,533	62,043
Total equity		83,465,637	88,295,644
Total liabilities and equity		383,681,996	428,285,058

Approved for issue and signed on behalf of PJSC "SAFMAR Financial Investments" on 24 April 2020.

Avet MIRAKYAN

CEO
of PJSC "SAFMAR Financial Investments"

Oleg ANDRIYANKIN

CFO
of PJSC "SAFMAR Financial Investments"



The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

in thousands of Russian rubles, unless otherwise stated

	Note	2018	2019
Interest income calculated using the effective interest rate	23	413,005	152,774
Other interest income	23	10,348,786	12,838,099
Interest expense	23	(3,783,512)	(4,982,995)
Net interest income		6,978,279	8,007,878
Credit loss (expense)/income	24	42,576	(233,399)
Net interest income after credit loss expense		7,020,855	7,774,479
Pension contributions	25	7,999,159	7,727,351
Pension payments	26	(15,817,682)	(13,817,374)
Net gain/(loss) of the pension funds from the placement of own funds, pension savings and pension reserves	27	(23,218,739)	22,356,534
Change in pension liabilities	28	37,788,454	(10,188,867)
Share in net profit of associates	15	3,924,897	3,430,626
Income from financial intermediation services	29	299,715	2,665,635
Net other income	30	2,603,431	3,796,758
Net other expense		(86,186)	(182,037)
Net foreign exchange (losses)/gains	31	1,171,715	(223,850)
Total income from operations and finance income		21,685,619	23,339,255
Staff expenses	32	(4,191,042)	(6,226,876)
Other operating expenses	33	(1,744,483)	(2,366,461)
Acquisition costs	34	(929,173)	(701,828)
Other losses from impairment and provisions	24	(45,807)	(94,706)
Impairment of goodwill	16	(4,000,000)	(2,300,000)
Other income		277,259	45,728
Other expenses		(94,340)	(204,038)
Profit before income tax		10,958,033	11,491,074
Income tax expense	35	(2,026,697)	(2,243,175)
Net profit		8,931,336	9,247,899
Net profit attributable to:			
Shareholders		8,925,320	9,196,507
Non-controlling interests		6,016	51,392
Other comprehensive income			
Share of other comprehensive income of associates	15	(898,355)	790,972
Total other comprehensive income/(loss)		(898,355)	790,972
Total comprehensive income		8,032,981	10,038,871
Total comprehensive income attributable to:			
Shareholders		8,026,965	9,987,479
Non-controlling interests		6,016	51,392
Earnings per share (expressed in Russian rubles per share)	22	85.92	96.11

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

in thousands of Russian rubles, unless otherwise stated

	Note	Share capital	Treasury shares	Additional paid-in capital	Compulsory pension insurance reserve and insurance reserve	Retained earnings	Total equity attributable to shareholders	Non-controlling interests	Total equity
Balance at 1 January 2018		74,797	(875,218)	67,204,629	3,278,038	14,038,397	83,720,643	–	83,720,643
Net profit		–	–	–	–	8,925,320	8,925,320	6,016	8,931,336
Other comprehensive income for the period		–	–	–	–	(898,355)	(898,355)	–	(898,355)
Total comprehensive income for the period		–	–	–	–	8,026,965	8,026,965	6,016	8,032,981
Acquisition of subsidiaries	6	–	(4,556,519)	–	1,973,101	(1,973,101)	(4,556,519)	49,517	(4,507,002)
Acquisition and sale of treasury shares		–	(2,146,000)	105,474	–	–	(2,040,526)	–	(2,040,526)
Dividends paid	22	–	–	–	–	(1,740,459)	(1,740,459)	–	(1,740,459)
Changes in reserves for pension liabilities		–	–	–	2,525,331	(2,525,331)	–	–	–
Balance at 31 December 2018		74,797	(7,577,737)	67,310,103	7,776,470	15,826,471	83,410,104	55,533	83,465,637
Net profit		–	–	–	–	9,196,507	9,196,507	51,392	9,247,899
Total other comprehensive loss		–	–	–	–	790,972	790,972	–	790,972
Total comprehensive income		–	–	–	–	9,987,479	9,987,479	51,392	10,038,871
Acquisition of non-controlling interests		–	–	–	–	–	–	(25,302)	(25,302)
Acquisition and sale of treasury shares	22	–	(3,777,385)	2,388	–	–	(3,775,047)	–	(3,775,047)
Dividends paid	22	–	–	–	–	(1,388,935)	(1,388,935)	(19,580)	(1,408,515)
Changes in reserves for pension liabilities		–	–	–	1,424,312	(1,424,312)	–	–	–
Balance at 31 December 2019		74,797	(11,355,122)	67,312,441	9,200,782	23,000,703	88,233,601	62,043	88,295,644

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

in thousands of Russian rubles, unless otherwise stated

	2018	2019
Cash flows from operating activities		
Interest received	9,282,270	12,147,045
Gains of pension fund from placement of own funds, pension savings and pension reserves	16,154,070	17,299,057
Gains from insurance operations	1,404,175	1,715,635
Proceeds from financial intermediation services	401,135	3,368,174
Proceeds from disposal of repossessed assets	1,042,101	1,870,664
Interest paid	(3,677,399)	(5,209,334)
Cash paid to employees and payroll related taxes paid	(3,929,506)	(6,296,671)
Acquisition costs	(306,230)	(216,083)
Other receipts	8,052	2,139,494
Other payments	(1,551,835)	(2,422,722)
Cash flows from operating activities before changes in working capital	18,826,833	24,070,398
Changes in operating assets/liabilities		
Financial instruments at fair value through profit or loss	7,720,221	37,298,005
Deposits with banks	230,093	(6,750,000)
Net investment in leases	(16,397,742)	(16,855,116)
Reverse repurchase agreements and accounts receivable	(11,089,518)	(33,781,207)
Payments received on leases	515,164	268,972
Other assets	332,281	831,336
Pension liabilities	(7,818,523)	(6,051,022)
<i>Including: contributions received due to DIA's transfer of liabilities of JSC "NPF TIP-Fund," JSC "NPF MECHEL-FUND" (Note 18)</i>	175,641	33,061
Other liabilities	316,675	100,977
Net cash used in operating activities before income tax	(7,364,516)	(867,657)
Income tax paid	(1,025,312)	(1,071,651)
Net cash used in operating activities	(8,389,828)	(1,939,308)
Cash flows from investing activities		
Proceeds from sale of property and equipment	14,150	16,417
Purchase of property and equipment (Note 14)	(248,707)	(711,072)
Dividends received	427,244	769,477
Acquisition of subsidiaries, net of cash acquired (Note 6)	(11,658,747)	–
Acquisition of non-controlling interests	–	(25,201)
Net cash from/(used in) investing activities	(11,466,060)	49,621
Cash flows from financing activities		
Borrowings received	12,321,739	30,655,942
Borrowings repaid	(2,432,461)	(11,007,932)
Bonds issued	9,589,375	11,396,137
Bonds repaid	(7,212,691)	(5,305,896)
Lease liabilities	–	(217,925)
Purchase of treasury shares	(4,941,073)	(3,947,143)
Advance payments for purchase of treasury shares	–	(17,100,000)
Proceeds from sale of treasury shares	2,900,547	172,096
Dividends paid	(1,740,459)	(1,408,515)
Net cash from financing activities	8,484,977	3,236,764
Effect of exchange rate changes on cash and cash equivalents	(115,320)	(9,020)
Effect of expected credit losses on cash and cash equivalents	185,380	(3,769)
Net (decrease)/increase in cash and cash equivalents	(11,300,851)	1,334,288
Cash and cash equivalents at the beginning of the period	14,100,288	2,799,437
Cash and cash equivalents at the end of the period (Note 7)	2,799,437	4,133,725

The notes are an integral part of these consolidated financial statements.

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ADDITIONAL INFORMATION

GLOSSARY

'000, ths	thousand
bn	billion
CF	charitable foundation
CLI	civil liability insurance
CMTPL	compulsory motor third-party liability insurance
CPI	compulsory pension insurance
CPP	corporate pension plan
GDP	gross domestic product
HCV	heavy-duty commercial vehicles
IA	Internal Audit
IFRS	International Financial Reporting Standards
IPO	initial public offering
KPI	key performance indicator
LC	leasing company
LCV	light-duty commercial vehicles
m, mln	million
M	month
MHI	motor hull insurance
MPC	mortgage participation certificate
NAV	net asset value
NIL	net investments in lease
NPF	non-governmental pension fund
NSPP	non-state pension plans
PFR	Pension Fund of the Russian Federation
PPC	personal pension capital
PPP	private pension plan
Q	quarter
RAS	Russian Accounting Standards
ROA	return on assets
ROE	return on equity
RUB bn	billions of Russian roubles
RUB m	millions of Russian roubles
SME	small and medium-sized entities
SPO	secondary public offering
SRO	self-regulatory organisation
tn	trillion
VHI	voluntary health insurance

ENERGY CONSUMPTION IN 2019

Energy resource	Volume	Unit	Costs, RUB '000
Electricity	36,298	kWh	412
Motor petrol	13,983	Litre	675

In 2019, no energy resources were used or consumed in addition to those in the table. A responsible approach to natural resource consumption is a top priority for SAFMAR Financial investments. We streamline

our resource and energy management system on a regular basis. The Company and its subsidiaries are firmly committed to reducing their fuel, electricity, heat, paper and water consumption.

APPENDICES

In accordance with the Regulation On Information Disclosure by the Issuers of Issue-Grade Securities No. 454-P dated 30 December 2014, the appendices listed below shall be integral parts of SAFMAR Financial investments 2019 Annual Report and are available on the following disclosure websites: www.e-disclosure.ru, www.safmarinvest.ru/en/.

- **Appendix 1**
Corporate Governance Code compliance report.
- **Appendix 2**
Annual consolidated IFRS financial statements for 2019 (with the auditor's report).
- **Appendix 3**
Annual consolidated RAS accounting (financial) statements for 2019 (with the auditor's report).
- **Appendix 4**
Major transactions approved by Company's governance bodies in 2019.
- **Appendix 5**
Interested-party transactions Report for 2019.

CONTACTS

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