Tinkoff
Credit Systems

A different type of bank

TCS Group Holding PLC
Annual report 2013

Welcome

TCS Group Holding plc

Annual Report 2013

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2013 highlights

Proven track record of driving high growth and profitability.

Growth

- Full year net loan portfolio growth 43.6% yoy to USD2.3bn
- Almost 800,000 new active customers acquired in 2013

Credit quality

- Focus on credit quality to maintain a robust portfolio
- NPLs (90d+) at 7.0% at year-end
- Conservative provisioning policy with provision coverage of 1.6x NPLs at year-end

Liquidity and capitalisation

- Cash at 19.0% of total assets and 43.6% of retail deposits and customer accounts at year-end
- 1 January 2014 statutory N1 ratio at 15.8%

Profitability

- Net income of USD181m, up 48.2% yoy
- RoAE of 44.8%

Key Events

- Launch of Tinkoff Online Insurance
- Introduction of sales of cash loans to existing credit card customers
- Launch of Tinkoff Mobile Wallet

Credit cards issued in 2013 1.23m	Total assets increased by 39% to USD3bn	Customer accounts increased by 50% to USD1.3bn
Net profit up 48% year-on-year to USD181m	Return on equity for 2013 44.8%	Strong N1 capital ratio at the end of 2013 of 15.8%

What makes us different?

TCS Group is an innovative provider of online retail financial services operating in Russia through a high-tech branchless platform.

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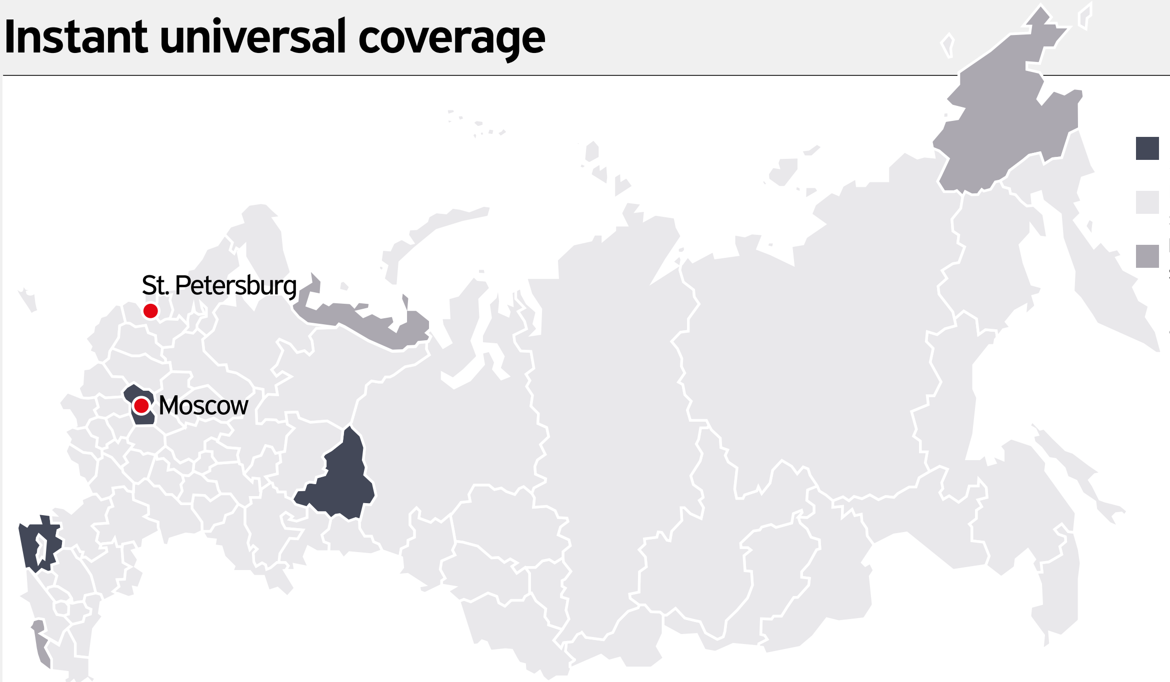
Tinkoff Credit Systems at a glance

Instant universal coverage



across geographies

As an online financial services provider, TCS is not constrained by a physical branch presence. Our distribution platform can reach any location in Russia with Internet access or a post office. The broad diversification right across the country ensures low credit risk concentration. As of December 2013, no region had more than 11% of the customer base by number of customers. Moscow had a 10.8% share, while St Petersburg had 5.9%. The low banking competition in smaller underserved locations results in a higher response rate from our target customers.

and across segments

TCS's customer acquisition is online-focused. This customer segment is typically more affluent, urban and younger with an average age of 38. Online customers have a higher POS usage and are more likely to engage in the fast-growing e-commerce sector. TCS's offline channel also helps capture the underserved regional population. This is a mass market audience with income equivalent to the Russian average of approximately USD750 a month and an average age of 45.

Credit cards and online retail deposits are TCS Bank's core business lines. However, we are broadening our product offering to bring other innovative online products and services to Russian consumers.

Consumer lending

TCS Bank offers its own Tinkoff branded and co-branded credit cards and targets principally the mass market segment, but also increasingly the mass affluent segment of the market.

TCS Bank currently offers unsecured cash loans to its existing customers without loan products with other banks.

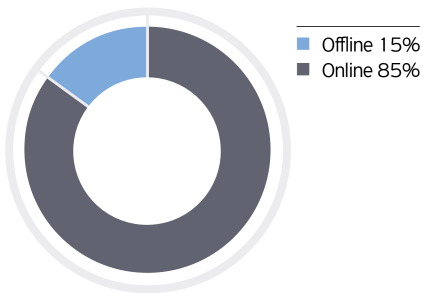
Scalable, flexible and efficient high-tech virtual platform

Online focused customer acquisition

TCS is the leading online credit card originator in Russia. With its compelling digital presence, TCS captures prospective customer interest through Internet and mobile lead generation. In December 2013 alone, TCS attracted 2.8m unique visitors to its website. The online process is complemented with mobile and proactive telesales marketing. Offline acquisition channels include direct mail, direct sales agents and "bring a friend", where existing customers pass on an application form to a friend.

TCS continues to innovate with customer acquisition. New important channels include strategic partnerships and retail partners, as well as Affinity programmes.

Applications received in 2013



Low cost high-tech servicing

The Internet and mobile bank platforms offer user-friendly account management, and payments and transfers. This functionality is mirrored in the mobile bank, which also enables SMS banking, QR code payments and "Bump" payments.

TCS's call centre operates a 24/7 work schedule with low waiting times and free-of-charge calls in Russia. 5% of calls are monitored for quality control purposes. In 2013 TCS launched "Home Call Centre", a crowdsourcing platform handling about 25% of outbound calls made by operators.

Data driven decision making

- Acquisition channel data mining
- Customer submitted data
- Meeting with courier
- Customer behavioural data
- Credit bureaus and other databases
- Data verification

→

- Scoring model
- NPV model

→

Efficient decision making

Tinkoff
Online Insurance

Transactional and savings products

TCS Bank offers retail deposits, stand-alone debit cards, e-wallets and pre-paid cards.

The main distribution channel for retail deposits is our online customer acquisition platform which is supported by debit card and document delivery using "smart couriers" who are full time employees of TCS Bank.

Insurance

Tinkoff Online Insurance, a subsidiary of TCS Group Holding PLC, is a direct-to-customer provider of its own innovative online insurance products and services in Russia.

Our history

Highlights of TCS Bank's innovative development

Net loan portfolio growth (USDm)

Highlights	Year	Net loan portfolio (USDm)
– TCS Group IPO on the London Stock Exchange – Tinkoff Online Insurance started offering personal accident insurance to TCS Bank's clients – Launch of cash loans – Tinkoff All Airlines loyalty programme launched – Launch of Tinkoff Mobile Wallet, a mobile payments solution – Over 3.9m credit cards issued since inception	2013	2,259
– Minority stakes sold to Baring Vostok and Horizon – Launch of online POS loan programme – The number of TCS Bank "smart couriers" reached 500	2012	1,573
– Launch of mobile banking – Launch of the mobile and telesales sub-channels of TCS Bank online customer acquisition platform – The online channel became the largest customer acquisition channel for TCS Bank	2011	663
– Launch of online acquisition channel for credit cards – Launch of "smart courier" service – Expansion of the retail deposit programme to all other regions of Russia	2010	316
– Launch of the retail deposit programme in four regions of Russia and a debit card product	2009	174
– Minority stake sold to Vostok Nafta – Launch of Internet bank	2008	140
– Minority stake sold to Goldman Sachs – First credit card issued – Launch of TCS Bank's credit card lending programme using direct mail as the primary customer acquisition channel	2007	65
Tinkoff Credit Systems Bank was created by Oleg Tinkov	2006	

Net loan portfolio, (USDm)
Source: IFRS financial statements

Competitive advantages

TCS enjoys an exceptional position among retail financial services providers and is transforming the Russian financial services market, currently dominated by traditional banks, through a unique combination of competitive advantages.

Scalable and efficient high-tech branchless platform

TCS has built an advanced high-tech retail financial services platform that is tailor-made for the Russian market and operating environment. It provides extensive coverage all over Russia, including underserved parts of the country. A low fixed cost base and high degree of operating flexibility are further enhanced by our use of direct marketing channels that enable us to attract new customers practically anywhere in Russia.

Unique opportunity around the rapid growth of the Russian consumer, Internet and financial service market

The combination of low penetration and vast growth potential in Russia's retail financial services with the country's high level of adoption of online/mobile consumer technology represents a tremendous opportunity for an innovative, IT-driven retail financial services provider such as TCS. TCS's potential looks particularly attractive in light of our focus on and leadership in one of the most dynamically growing areas of retail financial services – credit card lending.

Strong analytics, data management and risk management

We consider risk management to be one of our most important core competencies and a differentiating factor vis-a-vis competitors. We use our own and third-party databases and analytical models to extensively evaluate, appropriately price and effectively control the credit risk of individual customers as well as entire segments of the loan portfolio. The rigorous loan approval process is complemented with well-functioning and tested collections programmes.

Innovative products and services development

TCS continuously develops and introduces new financial services products to retail customers in Russia. TCS was the first and only bank in Russia to use direct mail as a key acquisition channel and among the first to originate new credit cards and attract deposits online in large volumes. Another TCS innovation is the "click-to-meet" Internet application allowing delivery of the card within a few days through TCS's in-house "smart courier" network.

Premium-level service and brand

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

Superior risk management

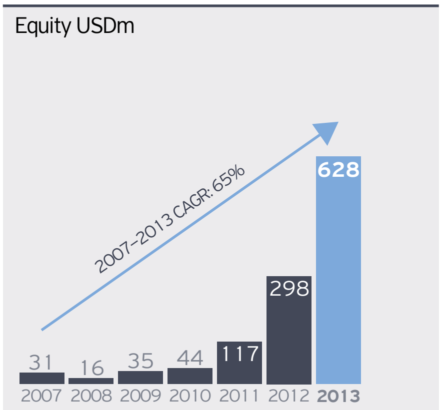
	Marketing Quantity vs quality	**Underwriting** Risk vs approval	**Credit line increase** Volume vs customer base	**Collections** Revenue vs cost
Scoring models Data-driven approach	• Extensive data mining at marketing stage • Data-driven acquisition campaigns	• Data verification • Use of third party data • Channel specific scoring	• Customer monitoring • Credit line increases • Cross-sell	• Active pre-collection • Proactive collection • Broad use of social networks
NPV Model Credit Decision Making	• NPV model factors in acquisition costs • Managing customer funnel	• Risk score and NPV to set initial limit • "Challenger" tests of underwriting criteria	• Predictive models over lifecycle • Focus on retention of good customers	• Instalment programme • Legal collections • Outsourcing of collections and sale of loans

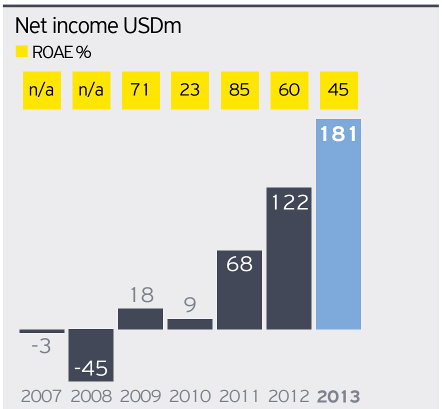
Cost efficiency and enhanced credit quality achieved through superior analytical capabilities

Chairman's statement

TCS has demonstrated consistent long-term growth throughout the phases of the Russian economic cycle. The Group remains very well capitalised and highly liquid.

Oleg Tinkov
Director and Chairman of the Board of Directors





Dear Stakeholders,

2013 was an extremely positive year for the Group and its many stakeholders, in so many ways.

I am very pleased with the financial results, which demonstrated impressive growth. We outperformed the market, as we have done for a number of years, thanks to our unique business model and great service. These competitive strengths will enable us to outperform the market in future.

2013 also saw our USD1.09bn initial public offering on the Main Market of the London Stock Exchange in late October, with the listing of global depositary receipts. The Group itself raised approximately USD175m in gross proceeds and attracted to its shareholder base a significant number of international investors.

As part of that process, some of our governance processes evolved from those designed for a tightly held private equity culture to a more public market approach and a number of changes were made in the build up to the IPO. As a Group, we are committed to the principles of corporate governance affirmed during our IPO last year and reflecting that commitment I personally took on the additional role of chairman of the Group.

As the founder and now as chairman, I would like to offer my sincere thanks to our pre IPO investors for their faith in and long-term commitment to the project that is TCS – and to their Board representatives who retired in the run up to the IPO for their wise counsel and overall contribution over many years not least of course in the preparations for the IPO and the listing process. At the same time this is my first chance to welcome publicly to our seven-strong Board, our new Non-Executive Board members Martin Cocker, Philippe Delpal and Jacques Der Megreditchian who supplement the Board with their expertise and experience working in public companies and in the Russian markets as well as their financial management skills. Of the three, two are independent Directors, with Philippe representing our pre IPO investors who retain a significant shareholding in TCS.

I would like to thank all our business and joint venture partners for their cooperation in 2013; they make an invaluable contribution to our success.

With a ROE of 45% in 2013 TCS has demonstrated consistent long-term growth throughout the phases of the Russian economic cycle. The Group remains very well capitalised and highly liquid. Looking ahead to 2014 and what many predict will be a more challenging business environment, I have unshakeable confidence in our unique business model, our flexibility to respond rapidly to changing market conditions, our financial strength, our proven ability to innovate with new products, and our dynamic and entrepreneurial management team.

All will continue to deliver in 2014.

Oleg Tinkov
Chairman of the Board

Business model

TCS Bank

Diversified retail financial services provider delivering premium services to mass market customers in Russia through an effective online, branchless platform.

Superior profitability and strong potential growth upside

TCS Bank has built an advanced high-tech retail financial services platform that is highly suited for the Russian market and operating environment. The Bank's platform is entirely branchless, with a low fixed cost base and high degree of operating flexibility. The low level of retail financial services penetration in Russia, the rapid growth of online and mobile payments, and high margins and barriers to entry make our business model attractive in terms of profitability, growth potential and competitive edge.

Diversified provider to mass market customers

Originally the first purpose-built credit card focused lender in Russia, TCS has evolved into a diversified provider of retail financial services that include retail lending, transactional and savings product and cross-selling innovative products. TCS principally targets the mass market segment, but also increasingly the mass affluent segment of the market.

Tinkoff Online Insurance

Accessibility and convenience

Premium customer service, characterised by convenience and efficiency, is part of TCS's competitive advantage. We offer streamlined application processes, 24/7 access to accounts via multiple channels, fast card delivery, and free repayments and account top-ups through a wide network of partners. Our 350,000 payment locations include networks of payment systems and terminal providers, the Russian Federal Post Office, Russian banks, "card-to-card" payments and direct debit arrangements.

Online focused customer service and acquisition

The Bank's remote customer service, through our award-winning Internet banking as well as through mobile banking and high-volume call centres, facilitates rapid growth and helps to keep operational costs at a low level. To effectively attract customers from across Russia we use online, as well as direct mail and direct sales agents channels. Our online offer is one of the most efficient ways to reach new customers, particularly in underserved parts of the country.

Efficient cost management

As a branchless bank with no long-term rental commitments and limited fixed assets, TCS benefits from a very flexible cost base. The sizeable variable cost component and marketing focus on customer acquisitions means that TCS is able to adjust its cost base quickly. Cost efficiencies are enhanced by the best-in-class centralised IT system, which currently allows for a 4x potential increase in cloud capacity.

Robust data and risk management

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

Culture of innovation

TCS was the first and only bank in Russia to use direct mail as a key acquisition channel and among the first to originate new credit cards and attract deposits online in large volumes. Our "click-to-meet" Internet application allows card delivery within days through our in-house "smart courier" network. Other innovative financial products include:

- Tinkoff ALL Airlines rewards programme allows cardholders to earn air miles and redeem them for travel on any airline with no blackout dates, booking fees or restrictions
- Point-of-sale unsecured lending to customers making online purchases through Internet retailers. TCS has relationships with over 300 such Internet retailers
- Prepaid cards in partnerships with Yandex. Money and Money@Mail.ru that are linked to customers' e-wallet accounts and allow acceptance globally and usage with offline merchants and ATMs
- Tinkoff Mobile Wallet, launched in December 2013, offers mobile users in Russia the opportunity to make person-to-person money transfers and provides a convenient option to pay for mobile top-ups, utility bills, and administrative payments.

Leveraging TCS's vast tech expertise to underwrite and sell best-in-class online insurance products

Tinkoff Online Insurance is a direct-to-customer provider of its own innovative online insurance products and services in Russia. We have developed a proprietary and highly advanced IT platform and leveraged the vast expertise of TCS Bank to provide a customised choice of insurance products, and a convenient claims settlement and sales process, which can be done online from anywhere in Russia.

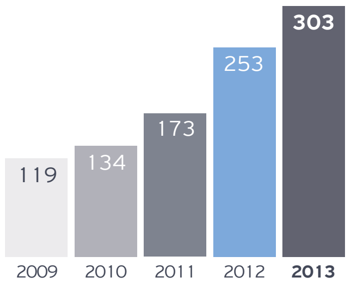
Since September 2013 Tinkoff Online Insurance has offered personal accident insurance to TCS Bank's clients and in February 2014 launched property insurance products to the mass market. In the near future we plan to launch direct online sales of personal accident, travel and property insurance and add motor insurance to the product portfolio.

Market context

Retail banking in Russia

The Russian financial services sector has been growing rapidly, spurred by economic recovery and growth, as well as by the development of financial services infrastructure. However, the sector in Russia is still underdeveloped and underpenetrated relative to the most developed economies, as well as certain emerging high growth economies.

Retail loan growth (USDbn)



Source: CBRF

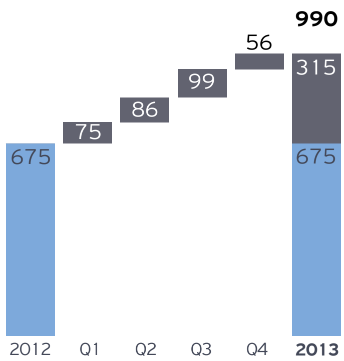
Credit card lending

Credit card lending has stood out as one of the fastest growing sub-segments of retail bank lending in Russia in recent years – the sector grew by 47% in 2013. This rapid growth is partially driven by the increasing adoption of credit cards as a more convenient alternative to cash. Russia is quickly building its electronic payments sector, as people become more accustomed to cashless payments, such as payments made by credit cards, debit cards and prepaid cards.

In 2013 the credit card lending sector in Russia grew by

47%

Credit card market in Russia RUB bn



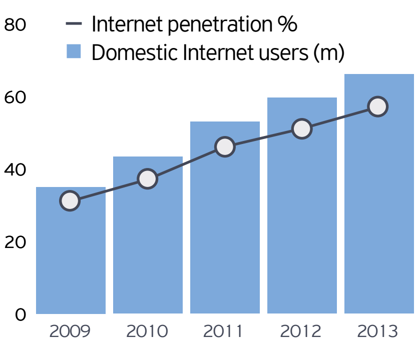
Source: CBRF

Internet and mobile markets

The rapid adoption of Internet and mobile data services in Russia is creating significant opportunities for technology-based financial services providers, such as TCS, to acquire and service customers virtually all across the country. Russia still has substantial room to grow towards levels of usage seen in advanced Western economies.

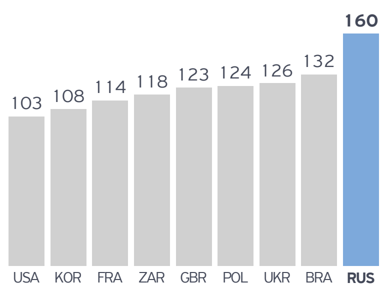
Greater volumes of e-commerce and development of processing infrastructure mean Internet and mobile volumes could grow rapidly and account for a significant share of payment transactions.

Russian Internet penetration



Source: FOM, JP Morgan

Mobile penetration as % of population



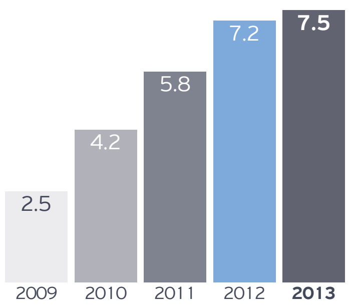
Source: JP Morgan

Market position

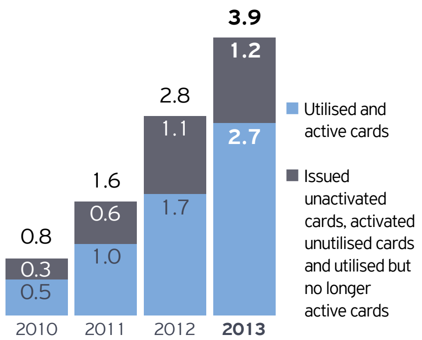
A leading credit card lender in Russia

The growth in its credit card loan portfolio has allowed TCS Bank to significantly increase its share of the Russian credit card market. In 2013 TCS Bank's market share of the Russian credit card market increased to 7.5% from 7.1% in 2012. Over the year TCS Bank grew its credit card portfolio by 54% to RUB74bn (2012: RUB48bn). the third largest credit card loan portfolio in Russia.

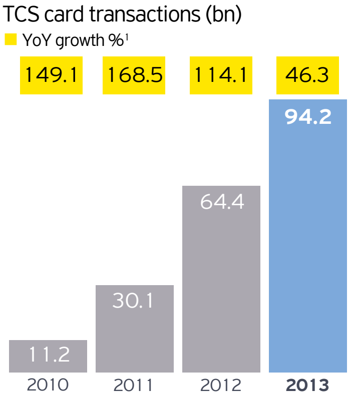
Share of credit card market (%)
(as of year end)



Number of issued TCS cards (m)



TCS card transactions (bn)



First Russian bank to go to market with online deposits

TCS's retail deposit programme forms part of its strategy to diversify its funding sources. It was initially launched in four regions of Russia in 2009 and then in 2010 expanded to Moscow and St Petersburg as well as other regions. The low cost model allows TCS to attract deposits by offering convenient and quality service, attractive interest rates and lower fees. Applications are made online and by phone, while deposits are typically made via bank transfer or third party payment terminals.

Adherence to sound consumer protection principles

TCS has from the beginning taken a distinct path in terms of demonstrating a client-friendly approach. Full transparency on customer disclosure is illustrated by a description of full rates and fees. APR is shown based on the calculation agreed by the CBRF and FAS.

TCS monitors any customer complaints frequently at senior management level in order to ensure that feedback is received and proper action taken accordingly. The bank has a policy of satisfying customer complaints, and where appropriate refunding or waiving penalties. This has the effect of increasing customer satisfaction and retention rates.

Enhanced consumer protection

Several CBRF measures have been or are likely to be implemented in 2013–14, including stricter risk-weighting for consumer loans based on their full cost of credit (PSK), higher provisioning rates for non-overdue and 1–30 day overdue unsecured loans, changes to capital adequacy ratios, and an interest rate cap on consumer loans.

The Consumer Credit Bill, introduced into law in December 2013, clarified the distribution requirements of credit card providers. It confirmed TCS's compliance with legislative requirements on credit card delivery as TCS delivers credit cards with the prior consent of the customer. In addition, the bank's courier system provides just the kind of rigorous identification of the borrower that the law envisages.

As one of the most efficient and flexible players in the market, TCS is best positioned to adapt to new consumer lending regulation and even benefit from its disciplining effect on competition.

1 YoY growth is based on the volume of transactions in RUB.

Strategy

TCS's strategic goal is to become an integrated retail financial services provider serving customers through a high-tech online platform that offers premium-quality service and convenience. High growth rates, profitability and effective data-driven risk management are central to our success.

01. Develop the high-growth credit card platform and other products for the consumer lending market

Credit card lending will remain TCS's core business for the foreseeable future and TCS intends to continue to extend the range of its credit card products, strengthen its existing credit card distribution channels and develop new channels including retail partners with large distribution networks, affinity programmes and cross-selling to customers using new products such as Tinkoff Mobile Wallet.

In addition, TCS will continue to grow recently introduced consumer lending products, such as point-of-sale lending to customers making online purchases through Internet retailers and cash loans to TCS's existing customers. This will increase convenience for customers by providing them with a one-stop lending shop, help in the retention of the customer base and increase TCS's revenue per customer.

E-commerce loans

- New product introduced in 2012
- Represents TCS's play on the booming growth of Russian e-commerce
- Allows customers to purchase items online on partnership websites at the press of a button
- Loan then paid off in instalments
- TCS has a relationship with over 700 Internet shops
- More than 1,000 applications per day
- Cross selling potential, targeting not only existing customers, but also new customers without other accounts with TCS
- Average size of purchase transaction close to RUB20,000
- Main customers are 25–35 years of age, predominantly male
- Integration with credit card products

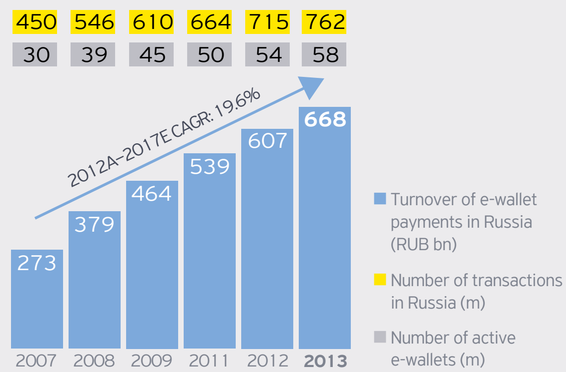
02. Develop and deploy transactional and payment products to acquire new customers and increase retention rates for existing customers

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

Tinkoff Mobile Wallet

In December 2013 TCS launched Tinkoff Mobile Wallet to tap into the most rapidly developing segment of financial services in Russia – the fast growing market for electronic payments. Tinkoff Mobile Wallet meets the needs of sophisticated users by enabling customers to transfer money through such user identifiers as their mobile number, e-mail, social network accounts in Vkontakte and Facebook. It provides a convenient option to pay for a wide range of services, including mobile top-up, utility bills and administrative payments.

e-wallet services in Russia



Source: J'son & Partners Consulting

03. Sell or cross-sell other new financial and non-financial products

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

Tinkoff Online Insurance

Tinkoff Online Insurance has developed a proprietary and advanced IT platform and leveraged the vast expertise of TCS Bank to build a customised choice of insurance products, as well as a convenient claims settlement and sales process, which can be done online from anywhere in Russia. The new online insurance products are delivered according to the Group's traditionally high customer service standards. Tinkoff Online Insurance started offering personal accident insurance to TCS Bank's clients in September 2013. During 2014 the insurance offer will be scaled with the rollout of a full retail product suite of insurance solutions, including property, travel and motor lines.

04. Maintain leadership in customer service

High-quality customer service has been a key driver of TCS's rapid growth. TCS will maintain and improve key components, such as our simple application processes, convenient and 24/7 access to accounts, the reach of our "smart courier" service, free loan repayments and straightforward complaints resolution.

05. Support business expansion by using advanced IT systems

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

TCS's in-house IT team develops a significant part of the software used by TCS, including software used in its online customer acquisition and service platform. This enables TCS to regularly roll-out new products and services to customers or new versions with enhancements. TCS intends to increase its technological advantages over traditional Russian banks.

06. Effectively manage credit risk in reliance on sophisticated data analysis and modelling

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

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

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

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

08. High liquidity and well-balanced funding base

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

What makes us different?

TCS Group is an innovative provider of online retail financial services operating in Russia through a high-tech branchless platform. TCS has been transforming the Russian financial services market and driving a differentiated customer proposition. We currently operate through two wholly-owned subsidiaries: TCS Bank and Tinkoff Online Insurance.

Leading credit card lender

Since its creation in 2006 by Oleg Tinkov, one of Russia's best known entrepreneurs with a substantial track record of creating successful businesses, TCS has grown into a leader in credit cards. In addition to our market-leading credit card offering, TCS has developed a successful online retail deposits programme. Leveraging its innovative approach, existing infrastructure and customer base, TCS has been expanding to bring additional online products and services to Russian consumers, including retail insurance and financial products in the fast emerging mobile payments and e-wallet segments.

Almost 4m credit cards issued since inception

4m

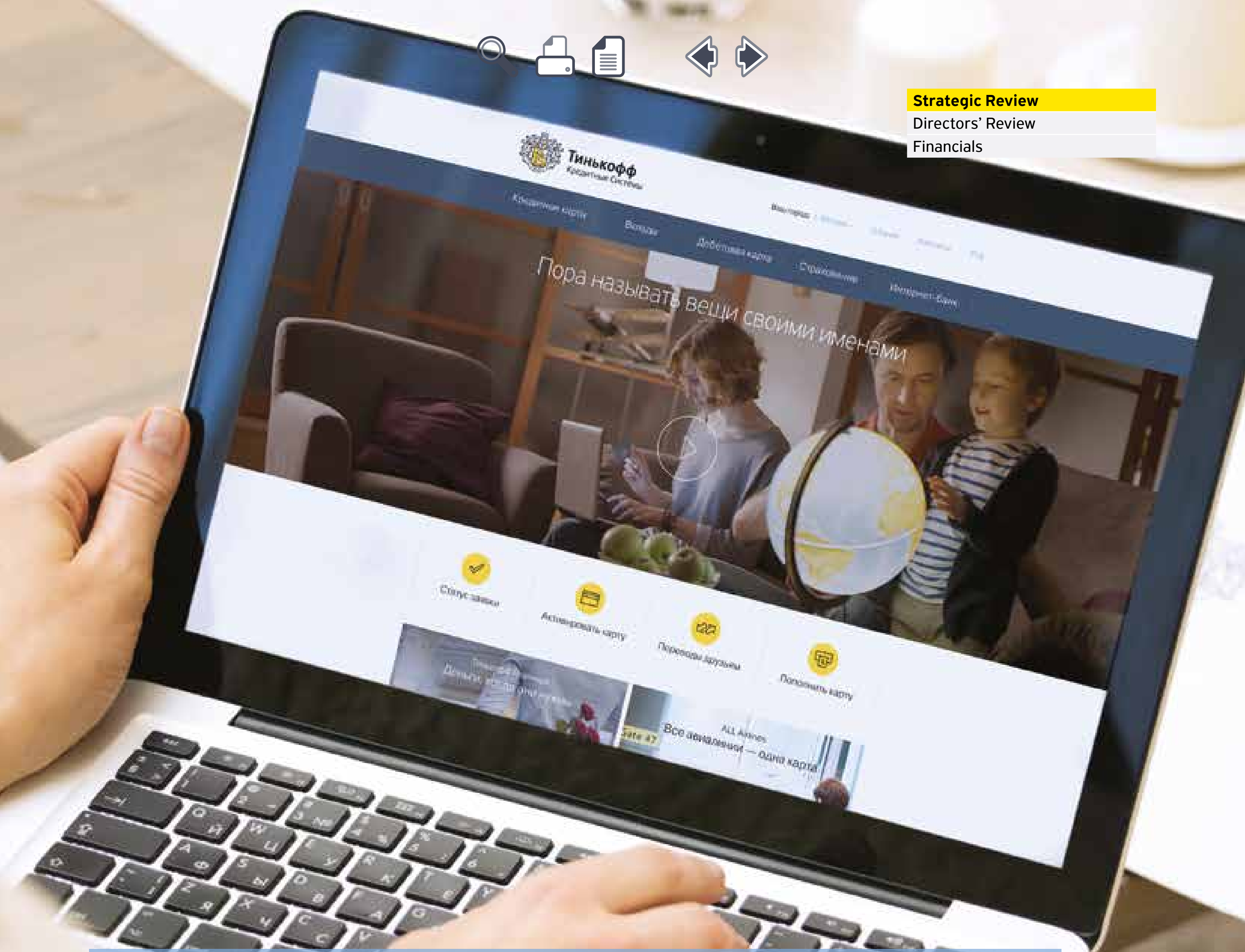
Over RUB94bn of customer transactions in 2013

>94bn

#3 player in the Russian credit card market with 7.5% market share[1]

7.5%

1 As of 31 December 2013 based on CBRF data.



High-tech virtual platform

TCS has built an advanced high-tech retail financial services platform that is highly suited for the Russian market and operating environment, particularly in underserved parts of the country. This platform is entirely branchless, with a very low fixed cost base and high degree of operating flexibility.

Received c.500,000 applications per month on average during 2013[1]

500k

About 2m inbound calls / 8m outbound calls in December 2013 via call centre

8m

Best Internet bank in Russia[2], cutting edge mobile banking

1 503,890 applications received and 115,284 applications approved monthly average for 2013.
2 According to Global Finance.

What makes us different?

Powerful distribution

TCS offers remote access customer service through its award-winning Internet banking as well as through mobile banking and high-volume call centres. Our use of direct marketing channels have revolutionised the way customers are acquired in Russia. Distribution channels, which include online (the Internet, mobile services and telesales), direct mail and direct sales agents, allow TCS to attract new customers practically anywhere in the country. Supporting the branchless platform is a "smart courier" network covering around 600 cities and towns in Russia which allows next day delivery. In addition, TCS's online origination process makes extensive use of online data and behavioural profiles, and gives it a clear advantage over competitors in terms of underwriting.

Diversified presence in all regions of Russia, including underbanked small cities

c.1,000 smart couriers and sales agents covering around 600 cities and towns nationwide

600

Network of partners (online, payment terminals, retail and other)

High profitability and growth

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

81% net loan portfolio CAGR in 2007–2013

81%

Close to 45% ROE in 2013

45%

More than 20x increase in equity since 2007

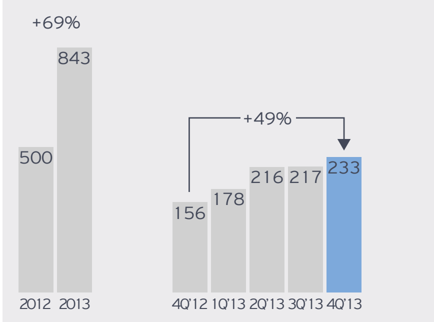
20x

Chief Executive's strategic review

Oliver Hughes
Chief Executive Officer

Our unique corporate culture is a combination of entrepreneurship, analytics and data management, innovation and sheer drive. We have the best people in the market, who have shown huge loyalty and commitment to the TCS project from its inception.

Net interest income USDm



By the end of 2013 TCS had issued 3.9m credit cards

3.9m

ROE up, to 45% and total equity hit USD628m, up 111% over the year

+111%

In 2013, TCS delivered on its promise of strong, profitable growth.

Total assets grew by 39% to USD3.025bn, net income increased by 48% to USD181m and ROE was 45%. Portfolio growth was the main driver of top line growth with net interest income up 69% to USD843m. Our market share also grew to 7.5% by year-end. These results put us in a different space to most other consumer lenders in the Russian market.

Furthermore, in any year these performance figures would be noteworthy for a relatively young company, but 2013 also saw the Group complete a landmark IPO, with admission to listing on the London Stock Exchange, in late October.

The factors contributing to these impressive results are many. Some of the main ones are highlighted below. However, I think it's important to say that the fundamental reason for the consistent outperformance of our Company is its people. We have the best people in the market, who have shown huge loyalty and commitment to the TCS project from its inception in 2007. Our unique corporate culture, that underpins our business ethos, is an unusual combination of entrepreneurship, analytics and data management, innovation and sheer drive. It is this massive human resource that has enabled us to thrive in times of growth and adapt quickly in the more difficult times.

The TCS business model is now well tested and, beyond the team, the main elements of its success in 2013 were:

- one of the strongest customer service platforms in Russia with award-winning Internet and mobile banks
- a strong consumer brand, which is associated with service and technology, into which we have been investing through innovative advertising campaigns
- our unmatched analytical and data management skills, the cornerstones of our superior risk management and customer acquisition
- through our branchless platform, our nationwide reach, allowing us to tap into demand in all of Russia's cities as well as in underserved smaller towns and villages
- a unique, bespoke "smart courier" delivery system that enables us to deliver our product to customers in around 600 cities
- our low fixed cost base, that gives us significant operating leverage, and which enables us to ramp the business up and down quickly
- our industry-leading IT platform that is fully scalable and mainly developed and supported inhouse, giving us increased competitive edge.

Our awards

Bank of the Year 2013
The Banker

Bank of the Year 2012
Banki.ru – Russian leading online banking portal

Best Internet Bank 2012
Banki.ru – Russian leading online banking portal

Event of the Year 2013: TCS Group Holding PLC IPO
Banki.ru – Russian leading online banking portal

Best Internet Bank 2012
Global Finance

Best Mobile Bank in Russia 2013
Deloitte

Best Mobile Bank for iPhone 2013
Markswebb Rank & Report

Bank Product of the Year 2013
ALL Airlines Credit Card

Bank Review Magazine
Event of the Year 2013: TCS Group Holding PLC IPO

Bank Product of the Year 2013
KupivKredit
Bank Review Magazine

Most Innovative Bank 2012
Bank Review Magazine

Non-bank of the Year 2013
Tinkoff Mobile Wallet
Bank Review Magazine

First to market with innovative offerings

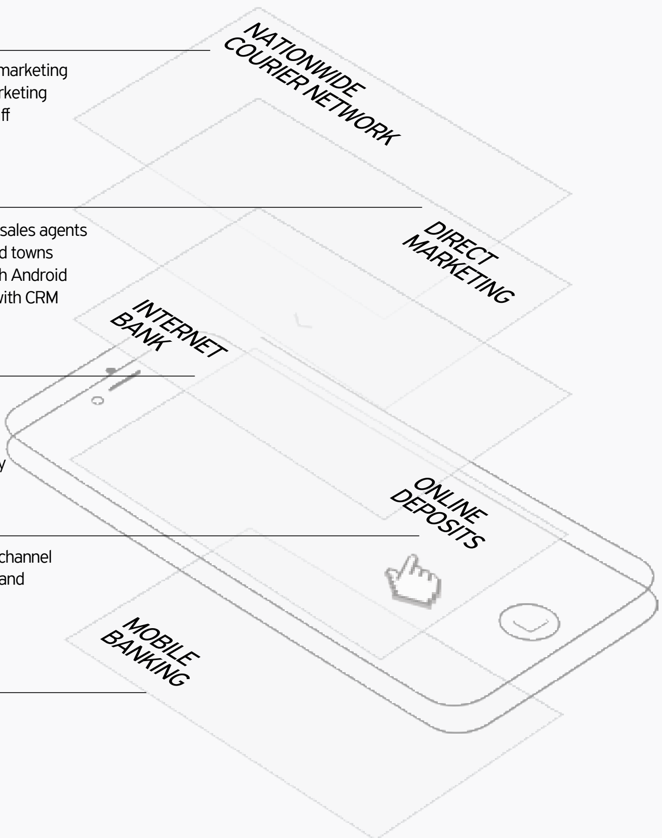
- Pioneer in direct mail and telemarketing
- Targeted digital and online marketing
- "Home based" call centre staff

- c.1,000 "smart couriers" and sales agents covering almost 600 cities and towns
- "Smart couriers" equipped with Android smartphones fully integrated with CRM

- Best Internet bank in Russia
- Wide service offering online 24x7 support functionality
- 10,000 unique customers daily

- Attractive convenient savings channel
- Market leading rates, low fees and high-quality service.

- User friendly application



As at 31 December 2013, TCS had the third largest credit card portfolio in Russia, with a market share of

7.5%

Post tax profits for 2013 up 48% to over USD180m

+48%

Besides the IPO, the year was transformational in a number of other respects. New, innovative products were developed and successfully launched, including:

- the ALL Airlines rewards programme
- the e-wallet "Tinkoff Mobile Wallet"
- a personal instalment loan programme
- and last but not least, the inhouse insurance programme Tinkoff Online Insurance.

Tinkoff Online Insurance was launched in Q4 2013 with a separate management team of insurance experts. Tinkoff Online Insurance is actively expanding its range of products, but has already successfully launched credit protection, accident and home insurance, taking it to break-even within the first few months of its existence. I am sure that all the factors which underpin the competitive advantage of TCS Bank will ensure the success for Tinkoff Online Insurance.

On the funding side, favourable borrowing conditions were exploited to diversify our sources of funding, to optimise the duration and cost of retail deposits and to retire older, more expensive wholesale debt. Our cost of funding was 12.5% at the end of 2013, a decrease of 0.4% during the year. This supported our NIM at a robust 36% versus 37% at the end of 2012. Our Tier 1 capital ratio climbed to 19.85% from 14%. And there was strong emphasis on improving the credit profile of new customers, alongside relentless focus on collections, to ensure that cost-of-risk remained at manageable levels in a more challenging credit environment.

As I write this looking back at 2013, but with my thoughts very much on 2014, I would like to thank a number of stakeholders, employees and other contributors for their creativity, skill and energy. The intense scrutiny of the IPO preparation process reinforced the realisation of what a unique business, what a special corporate culture we have created at TCS. Above all, I am pleased that the core team of managers who led the Group so successfully up to and through the IPO remain with us, and are focused on moving the Group forward in the listed company arena.

I would also like to take this opportunity to thank our public investors for their belief, support and interest in our story.

Oliver Hughes
Chief Executive Officer

Financial review

Our 2013 results set us apart from other consumer lenders in the market and demonstrate TCS's ability to grow profitability thanks to its unique distribution, risk management and analytical capabilities.

Ilya Pisemsky
Chief Financial Officer

Balance Sheet

Total assets grew significantly, increasing by 39% to USD3.0bn largely as a result of growth in the loan portfolio

In 2013, the Group's total assets grew by 39% from USD2.2bn to USD3bn. The key driver of this growth was the growth of our loan portfolio by 44% on a net basis from USD1.6bn to USD2.3bn and by 49% on a gross basis from USD1.7bn to USD2.6bn, both in dollar terms. Adjusting for the weakening of the Rouble exchange rate vs. the US dollar leads to even higher growth rates of our loan portfolio of 55% for 2013 on a net basis. At 31 December 2013, our net loans accounted for 75% of total assets (vs. 72% at 31 December 2012).

TCS maintains a minimum ring fenced cash cushion of 15% of retail deposits

The Group continued to maintain ample liquidity in the form of cash and cash equivalents of USD575m as at 31 December 2013, or 19% of total assets and 44% of customer deposits, in accordance with our policy of keeping sufficient cash balances for upcoming financing needs, while maintaining a minimum ring fenced cash cushion of 15% of retail deposits. All of this cash is kept with top rated banks, both in the form of overnight accounts and short-term loans.

The increase in cash and equivalents from USD457m at 31 December 2012 was due to the expansion of our balance sheet, which included proceeds of USD175m from newly issued common equity as part of our IPO in October 2013, proceeds of USD75m from subordinated bond issuance in February 2013 and funding from the growth of our retail deposits, offset by the growth of our loan portfolio and the early redemption of the Group's SEK-denominated bonds. The increase in cash and cash equivalents by almost USD208m from 30 September 2013 was mainly due to IPO proceeds and growth of our retail deposits.

Other balance sheet items are mandatory CBRF reserves, financial derivatives, guarantee deposits with payment systems and non-financial assets, which constituted between 6–8% of the balance sheet for the year and grew at approximately the same pace as total assets.

Growth of the portfolio slowed in the last quarter of the year. This was due to our proactive tightening of underwriting policy for new customers in response to the general deterioration of the consumer lending market in Russia toward year end.

Share of non-performing loans (including loans in courts) in total gross loans increased to 7% at 31 December 2013 from 4.7% at year-end 2012. As a result, loan loss provisioning ratio also went up from 8.1% at year-end to 11.3%. The Group maintained robust provision coverage for non-performing loans at over 150%.

Balance sheet provisioning for impairment of loans grew to USD287m at 31 December 2013, compared to USD140m at 31 December 2012 (and USD249m at 30 September 2013). These loan portfolio quality trends have been due to growth in the loan portfolio, higher credit risks currently observed in the broader Russian retail lending market, increased provisioning rates from the shift of our distribution channels mix towards riskier online and mobile channels, and increased retention of overdue loans on our portfolio under the instalment loan repayments programme and court enforcement collection strategies, which allow for higher recoveries relative to bad debt sales.

Thus, the share of gross loans carried on our balance under the instalment repayments programme increased to 3.1% at 31 December 2013 from 1.7% at 31 December 2012, while the share of gross loans carried under our court enforcement strategies increased to 2.7% from 1.4% over the same period. We target expected recovery rates from this part of the portfolio significantly higher than those from the proceeds of loans sales to collection agencies.

In 2013 we sold USD150m of bad debts to collection agencies for an average price of 9% of their unimpaired book value, while during the whole of 2012, the Group sold USD36m of bad debts to collection agencies. The increase in sales to collection agencies is due to loan portfolio growth and also growth in credit risk during 2013.

Cost of risk, defined as the ratio of provision for loans impairment to average gross loans on an annualised basis, increased from 10.5% in 2012 to 14.3% in 2013. In Q4 cost of risk increased to 15.5%, due to rising credit risks in the retail lending market.

With respect to the composition of the loan portfolio, we launched cash loans that contributed USD52m by year-end or 2% of total gross loans. This lending programme targets our best customers, offering a cash loan (USD3.5k on average) that is distributed via debit card.

On the liability side, the Group keeps a diversified funding base. During the year the Group has increased its capital markets borrowings as a result of the following debt issues:

- USD75m subordinated bonds in February,
- USD50m Euro-commercial paper in March,
- RUB3bn bond in May (eq. USD95.8m),
- two tranches of Euro-commercial paper in July to the value of USD75m and USD20m.

These capital raisings were offset by the early redemption of the Group's SEK-denominated bonds in June, and full repayment of three RUB-denominated bond issues in July, September and November respectively.

We also received the net proceeds from the USD175m primary equity tranche of our USD1.09bn IPO in October 2013.

Customer accounts grew by 50% to USD1.32bn at 31 December 2013 from USD878m at 31 December 2012. The share of customer accounts in total liabilities increased to 55% at year-end 2013 from 47% at year-end 2012.

Subordinated debt of the Group increased to USD200m after the issuance of USD75m subordinated bonds in February 2013 with maturity in 2018.

The Group is well capitalised with the CBRF N1 capital adequacy ratio at 15.8% as of 1 January 2014

The equity of the Group grew by 111% to almost USD628m at year-end 2013 from USD298m at year-end 2012. This was a result of the issuance of USD175m new equity as part of our IPO in October 2013, and also of strong retained earnings growth. This has allowed the Group to maintain its statutory N1 capital adequacy ratio at 15.84%, well above the Eurobond covenant minimum requirement. The decline in the N1 ratio from 17.41% at year-end 2012 is due to the growth of our loan portfolio, increased CBRF-mandated risk-weights on unsecured consumer loans, and higher operating risk coefficients. We expect a significant enhancement in the N1 ratio after the injection of primary IPO proceeds into TCS capital, expected in March 2014.

The devaluation of the RUB during 2013 had a negative impact on total equity owing to growth in accumulated loss on translation of USD38m.

Our net exposure to USD financing amounted to USD491m. However, we hedge our dollar borrowings with swaps with maturities ranging from one to five years. This limits the adverse effect on Group earnings as a result of USD/RUB exchange rate fluctuations.

Profit and loss statement

Net interest income increased by 69% year-on-year to USD843m

The Group recorded solid results for the full year. Gross interest income for the year grew to USD1.1bn or by 67% vs. 2012. Net interest income increased by 69% during the year from USD500m to USD843m. There was a reduction in gross yield during the year from 56% to 51% which is attributable to the ageing of the loan portfolio as well as adjustments to the portfolio by the Group to reduce the share of higher rate loans in advance of new CBRF rules. This decrease in yields was most visible in the third quarter of the year while in the fourth quarter the level stabilised at 48–49%.

The average cost of borrowing for the Group decreased from 13.1% at mid-year to 12.5% at year-end with interest expense amounting to USD257m in 2013, up 63% compared to 2012.

Net interest margin before credit charge was sustained at 36% which gives us substantial profitability and meaningful loss absorption capacity. At the same time the rise in cost of risk during the year from 11% to 14% has lowered the net interest margin after provisions for loan losses from 32% a year ago to 25% at the end of 2013.

P&L loan loss provision amounted to USD308m in 2013 compared to USD124m in 2012. This increase was driven by loan portfolio growth, the increasing share of distribution channels such as Internet and mobile, which are inherently riskier than offline channels, and by an overall increase in credit risk in Russian consumer lending. Management is prioritising risk management and mitigating against any further deterioration in the consumer lending market.

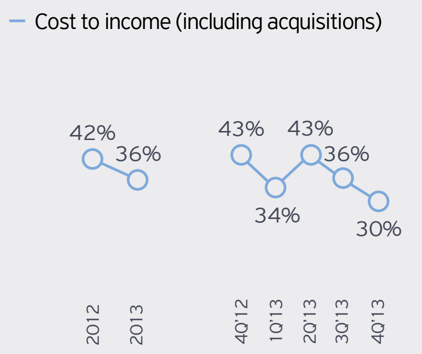
TCS's operating expenses increased at a slower rate than the Group's revenue and net interest income, thereby supporting the Group's high profitability. Group costs during 2013 were driven largely by the growth of our customer base and loan portfolio. During the year we continued to invest in mass customer acquisition and spent USD116m, having increased acquisition expenditures by 36% relative to 2012, including our extensive nationwide advertising campaign earlier in the year.

Because most of our costs are variable, administrative costs grew along with our business volumes, increasing by 52% to USD186m in 2013 from USD123m in 2012. This increase was mainly driven by the increase in staff costs (54% growth), taxes other than income tax (24% growth) and communications services expenses (27% growth). These three cost items combined accounted for 77% of the Group's administrative and other operating expenses for 2013.

Operating efficiency improved in 2013 due to economies of scale and strict control over costs

As our business grows, the Group continues to realise additional economies of scale reflected in our cost to income ratio (including acquisition costs) that has fallen to 36% in 2013 from 42% in 2012.

Operating efficiency[1]



1 Income is stated as operating income that includes net interest income, other operating and fee income and is cleared from fee expense. Cost is stated as client acquisition expenses plus administrative and other operating expenses.

Despite a reduction in gross yield and raised cost of risk we were able to maintain net portfolio profitability well above 10%.

Other income in 2013 included USD4m of IPO fees reimbursement accrual and a USD5m gain on market stabilisation operations related to our IPO.

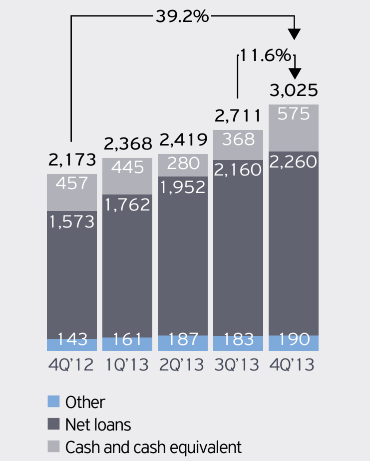
The Group met its guidance and reported net income of USD181m which represented a 48% growth year-on-year

Net income for 2013 reached USD181m. This corresponds to 48% annual growth.

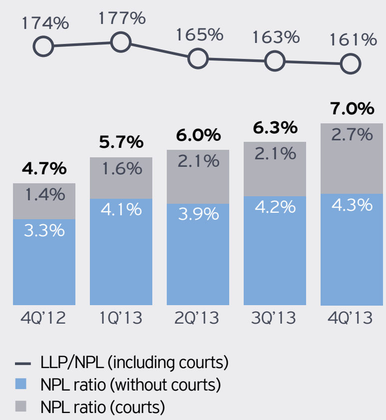
Similar to previous years, the second half was more profitable for the Group in comparison to the first half, owing to balance sheet growth and effective cost management during the year. RoAE decreased toward year end following the increase in total equity during the IPO. Nevertheless, return on average equity for the year reached 45%, and return on assets remained above 7%.

Ilya Pisemsky
Chief Financial Officer

Assets growth USDm



Conservative credit risk policy, % of gross loan portfolio



Risk management framework

The purpose of TCS's asset, liability and risk management ("risk management") strategy is to evaluate, monitor and manage the risks arising from TCS's activities.

The main types of risk inherent in TCS's business are credit risk, market (including foreign currency exchange) risk, interest rate risk, liquidity risk and operational risk. TCS designs its risk management policy to manage these risks, by establishing procedures and setting limits that are monitored by relevant departments of the Group.

Risk management structure

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

Policy making bodies

These are at the Group level, the Board of Directors, and at the Bank level, the Board of Directors, the Management Board, the Finance Committee, the Credit Committee and the Business Development Committee.

Policy implementation bodies

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

TCS has implemented an online analytical processing management reporting system based on a common SAS data warehouse that is updated on a daily basis. The set of daily reports includes sales reports, application processing reports, reports on the risk characteristics of the credit card portfolio, vintage reports, transition matrix (roll rates) reports, reports on pre-, early and late collections activities, reports on compliance with CBRF requirements, capital adequacy and liquidity reports, operational liquidity forecast reports and information on intra-day cash flows.

Principal risks and uncertainties

Information on the principal risks that are specific to TCS Group and which if not successfully managed could have a material adverse effect on any or all of TCS's business, results of operations, financial condition and prospects.

The Board of Directors is responsible for identifying, evaluating and managing the risks and uncertainties to which the Group is exposed. Consequently it has put in place systems for assessing and monitoring those risks. The risks which the Board considers to be significant, in addition to those generally applicable to a business operating in the Russian Federation, are presented below and on the following pages.

The instability of the global and Russian financial sectors could adversely affect TCS's access to capital and, more generally, TCS's business, results of operations, financial condition and prospects.

Deterioration in the economic conditions in Russia may result in significant increases in provisions for loan impairment and in the proportion of non-performing loans in TCS's gross loan portfolio and/or in reductions of TCS's collections and recoveries rates.

Failure by TCS to accurately assess customer credit risk.

Significant increase in consumer activity challenging certain terms of consumer loans and regulatory activity aimed at strengthening consumer protection in recent years.

Changes in applicable consumer protection or banking legislation or their interpretation by courts and regulators may impose greater compliance requirements on TCS and adversely affect its profitability.

TCS Bank's inability to comply with capital adequacy requirements may have a negative effect on TCS's business and lead to a need for additional capital.

TCS's performance depends on customers' personal consumption and income levels as well as their understanding of loan products, which are factors that are beyond TCS's control.

TCS's inability to access domestic and international capital markets or the Russian interbank loan market.

TCS's inability to receive sufficient funding from retail deposits or withdrawal of a large proportion of such deposits could adversely affect TCS's business.

TCS operates in a highly regulated environment, and an inability to maintain its banking licences or a breach of any of their terms or of other applicable banking regulations could have an adverse effect on TCS's business.

TCS could be adversely affected by the deterioration of the commercial soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties.

The insolvency, default or a significant decrease in the credit rating of a major Russian consumer lending bank could affect consumer confidence in all Russian consumer lending institutions and lead to increased levels of regulation of TCS and adversely affect its profitability.

The CBRF regulations phasing in Basel III in Russia could have an adverse effect on TCS Bank, its capital ratios and its regulatory capital.

Increased competition in the Russian retail banking market may result in a decrease in TCS's market share or profitability.

TCS is dependent on credit card lending being its principal product. If TCS is unsuccessful in implementing its strategy of further developing its credit card business or demand for credit cards decreases, or if credit card lending is disrupted for any reason, in the absence of another major source of income, TCS revenues could dramatically decrease.

Ongoing shifts in distribution channel mix and demographic characteristics of TCS's customers may result in a deterioration of the quality or profitability of TCS's loan portfolio.

Risk	Mitigation
Credit risk TCS is exposed to credit risk, the risk that a customer will be unable to pay amounts in full when due.	TCS structures the levels of its credit risk exposure by placing limits on the amount of risk accepted under different online (Internet, mobile and telesales) and offline (direct mail, direct sales agents and “bring a friend”) customer acquisition channels and sub-channels. Such risks are monitored on an ongoing basis and are subject to regular review. TCS uses automated systems to evaluate an applicant’s creditworthiness (scoring). The system is regularly modified to incorporate past experience and new data acquired on an iterative basis.
Loan approval criteria and procedures	TCS is primarily focused on reducing incoming credit risk at the acquisition stage. In almost all cases, the decision to issue a credit card or other loan product is made automatically, based on credit bureaus’ information, verification of the customer’s identity and credit score calculated using one of TCS’s own acquisition channel-specific scoring models. TCS also maintains a flexible initial limit allocation system that allows it to reduce or increase the average initial limits in order to manage anticipated loan losses and liquidity.
Credit line management procedures	Credit line management procedures for credit card products include a flexible initial limit allocation system and regular updates of credit lines.
Loan collection	TCS employs a multi-stage collection process that seeks to achieve greater efficiency in the recovery of overdue credit card loans. This enables TCS to apply a variety of collections tools and collections treatments to different groups of delinquent customers.
Card fraud prevention	TCS uses a number of fraud-prevention measures, including early warning systems and regular investigations to identify the most common types of fraud. One of the most important tools in combating unsanctioned card use is the sending of SMS messages to customers’ mobile phones during the card lifecycle. Call centres are also an important source of potential card fraud alerts.
Provisioning policy	Provisioning policy falls under the responsibility of TCS Bank’s Management Board. TCS regularly reviews its loan portfolio to assess impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.
Write-off policy	The Management Board makes decisions on loans to be written-off based on information provided by the Risk Management Department. Generally, loans recommended to be written-off are those where further steps to enforce collection are regarded as not economically viable. Loans sold to external collection agencies are also written off from TCS’s balance sheet.

Risk	Mitigation
Market risk TCS’s exposure to market risk arises from open interest rate and foreign currency positions, which are exposed to general and specific market movements.	TCS is generally not engaged in trading operations. It has mismatches in its foreign currency positions that arise generally due to relatively short-term lending in roubles and relatively long-term borrowings in other currencies. TCS manages the positions through hedging, matching or controlled mismatching. The CBRF sets limits on the open currency position that may be accepted by TCS on a stand-alone level, which is monitored on a daily basis. These limits prevent TCS from having an open currency position in any currency exceeding five per cent of TCS’s equity.
Foreign currency exchange risk	TCS has implemented a “low foreign exchange risk tolerance” policy to minimise exposure to foreign currency exchange risks. The policy imposes neutral hedging that matches assets and liabilities by currency, foreign exchange hedging of funding received in foreign currency and prohibits foreign exchange trading for speculative purposes.

Risk	Mitigation
Interest rate risk TCS's exposure to interest rate risk is due to the impact of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. TCS monitors market interest rates on a regular basis and takes decisions on interest rate re-pricing that may be undertaken on its assets.	TCS has no significant risk associated with variable interest rates on loans and advances provided to customers or loans received.

Risk	Mitigation
Liquidity risk Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. TCS is exposed to daily calls on its available cash resources from unused limits on issued credit cards, other loan products, term retail deposits and current accounts. TCS does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place and that can be predicted with a high degree of certainty.	The chief financial officer of TCS Bank (the "CFO") is principally responsible for the management of TCS's liquidity risk. For the purposes of managing TCS's liquidity risk, the CFO regularly receives extensive information about the liquidity profile of the financial assets and liabilities. TCS seeks to maintain a stable funding base primarily consisting of retail customer deposits and debt securities. TCS keeps all available cash in diversified portfolios of liquid instruments, to be able to respond quickly to unforeseen liquidity requirements. TCS also believes that its loan portfolio is responsive to change in inputs (such as stopping the issuance of new credit cards or other loans and any increases in credit card limits) so that TCS can go from being cash-negative to being cash positive in a short period of time (estimated to be two weeks). TCS Bank calculates liquidity ratios on a daily basis. Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behaviour is carried out and reviewed by the CFO.

Risk	Mitigation
Operational risk TCS is exposed to operational risk which is the risk of losses resulting from inadequate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, technical failures, settlement errors, natural disasters and misuse of TCS's property.	TCS has established robust internal control systems intended to comply with Basel guidelines and CBRF requirements regarding operational risk. Regular monitoring of activities is intended to detect in a timely manner and correct deficiencies in policies and procedures designed to manage operational risk. TCS insures against certain operational risks. TCS has not experienced any material operational failures in recent years. To minimise the risk of such failures, TCS's IT systems are located in two dedicated data centres each connected to separate and independent power supply sources. Both data centres provide round the clock power, cooling, connectivity and security capabilities to protect mission-critical operations and preserve business continuity for IT systems.
Anti-money laundering and terrorist financing procedures	Russia introduced its Anti-Money Laundering Law in February 2002. Subsequently, the CBRF introduced a number of anti-money laundering regulations specifically for the banking sector. TCS has adopted internal regulations on anti-money laundering that are based on, and are in full compliance with, the Russian anti-money laundering regulations, related instructions of the CBRF and international standards. TCS Bank has created a specialised unit and appointed an authorised officer who coordinates activities aimed at preventing money laundering and terrorism financing. Employees of TCS have to take mandatory training on TCS's policies and procedures both as part of their initial training and on an ongoing basis. Mandatory internal control checks are conducted by TCS's Internal Control Service. External control is provided by the CBRF and, within an annual audit, by a statutory auditor.

Our employees
and corporate social responsibility

TCS Group strives to create a comfortable working environment that fosters creativity and innovation.

Our employees and CSR

Overview

Our team of highly professional, entrepreneurial and motivated employees is one of TCS Group's key assets constituting a major competitive advantage.

In 2013, TCS Group demonstrated strong growth in its operations across Russia. This growth was reflected in the increase of our staff which at the end of 2013 totalled 6,025 employees[1], a 57% growth compared to 3,842 employees at the end of 2012. The average age of employees is 25.

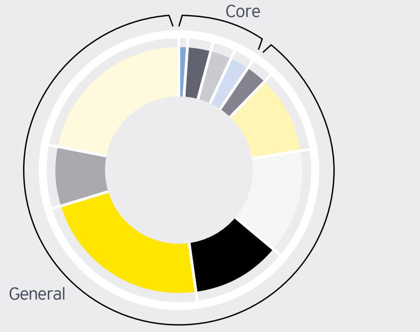
In order to support its branchless platform, TCS Group has also developed a "smart courier" network covering around 600 cities and towns in Russia which allows next day delivery to most customers. Our strong focus on high quality customer service underpins the success to date. TCS Group dedicates significant resources to hiring, training and retaining of the best-in-class team of professionals.

Diversity and inclusion

The Group's unmatched business model based on a 100% remote customer service provides it with additional flexibility in hiring those who are not part of the conventional workforce thus diversifying the Group's employee base. The Company's human resources structure includes Home Call Centre and the "Smart Courier" Network which allow it to recruit from a wider pool of people compared to companies with conventional customer service models.

1 Including part-time employees and employees receiving compensation in the form of commission.

Personnel structure as of 31 December 2013



- Top Management **13**
- IT **184**
- Operations **174**
- Admin **159**
- Insurance **173**
- Collections **622**
- Underwriting[1] **830**
- Couriers[2] **708**
- TCS Call Centre **1,357**
- Telemarketing and Telesales **482**
- Home Call Centre **1,323**

1 Includes verifications and data entry.
2 Courier services handled by TCS's couriers and sales agents.

The recruitment process for Home Call Centre targets, among others, the following groups: those who have limited capabilities to work full-time (candidates with limited physical capabilities, on maternity leave or retired), those who live in remote areas with a limited choice of employment opportunities, and those who lack working experience and are motivated to start a career in a company providing innovative and cutting-edge financial services.

The majority of TCS Group's staff is employed in customer support functions (collections, underwriting, courier services, TCS Call Centre, telemarketing & telesales, and Home Call Centre). 530 employees are core personnel and are employed in management, operations, IT and administrative functions.

TCS Group's human resources core principles

Since its launch, TCS Group has been focused on building an exceptional and best-in-class team of highly motivated professionals, who can deliver outstanding results. TCS Group's human resources policy is focused on the following core principles:

- developing teams of well-educated, adaptable and open-minded specialists and managers;
- creating an effective and dynamic learning system for employees in customer services, underwriting and collection departments;
- creating a comfortable working environment;
- embracing open dialogue, cooperation and innovation;
- building efficiency with minimum bureaucracy; and
- promoting team spirit and a unique entrepreneurial culture.

Career development

TCS Group strives to recruit and retain the best employees who will help to achieve the Group's business goals and provide superior service to its customers. TCS Group rewards and provides development and training to create opportunities for the very best to progress and grow.

Recruitment and training

TCS Group recruits general personnel to operating departments with the help of advertising and search via job sites, student forums, social media and other Internet channels. IT and other core business specialists are also hired through a highly selective headhunting process which targets the best IT graduates and experienced professionals.

TCS Group targets the best students in Russia's top universities, including winners of mathematics and coding competitions, who are offered a competitive salary combined with clear career paths in terms of increased responsibility, promotion and career prospects.

TCS Group offers targeted career development training programmes from entry level to senior management personnel. For personnel training purposes, TCS Group runs a number of courses, including those for employees in customer service functions (primarily for the call centres), underwriting, collections and IT departments, as well as special courses for the development of management skills aimed at lower to mid-level managers. TCS Group also has access to external courses offered to key employees and regularly sends its staff to a variety of professional conferences, training and seminars.

Motivation and promotion

TCS Group motivates its staff by offering a clear far-reaching career path and all-encompassing team-building culture. TCS Group pays special attention to promoting team spirit and offers the following benefits and team-building activities to its employees:

- a gym on its premises for all to use;
- a canteen with free snacks;
- regular group activities: volleyball, bowling, karting, chess, as well as weekend country retreats;
- group retreats for key staff: cycling events, skiing and fishing trips;
- since 2010, the Tinkoff Credit Systems football team has won the championship among financial companies in Moscow;
- participation in many charity programmes by TCS Group suggested by its employees.

Remuneration policy

TCS Group believes that a clear performance evaluation process and fair compensation are essential for retaining and rewarding its employees. We compensate our staff based on their performance through a combination of fixed pay and other incentives.

In terms of performance evaluation, employees are evaluated on a regular basis to monitor achievement of targets, determine incentive compensation, and provide feedback for their career development. Emphasis is placed on achieving targets while demonstrating commitment to maintaining TCS Group's reputation for excellent customer service.

In terms of compensation, TCS Group offers above market average compensation with an attractive variable component; salary increases and bonus incentives are based on annual performance-based reviews; incentives are partly linked to achievement of specific productivity KPIs, partly to the overall financial performance of the business.

TCS Group has introduced an Employee Stock Option Plan (ESOP) and a Long-Term Incentive Programme (LTIP) as retention tools for its top management and key managers, respectively. TCS Group has plans to update its incentive plans in the post-IPO environment, expected to be rolled out in 2014.

TCS hosts regular staff chess tournaments at the Bank's head office. Here Oleg Tinkov reacts to a move by Anton Usachev, TCS Bank analyst, at a tournament in December 2013.

Working environment, health and safety

TCS Group is a hi-tech company which embraces innovation, cutting-edge technologies and creativity and which strives to create a working environment in which our best-in-class professionals can comfortably work on their ideas.

TCS Group is committed to providing a safe and healthy environment to its employees in full compliance with the employment and labour laws of the Russian Federation. TCS Group offers regular annual medical examinations, vaccination, voluntary medical insurance, membership of the fitness gym on its premises and other preventive health care measures for its employees. TCS Group encourages its employees to lead a healthy lifestyle and regularly organises sport competitions, including indoor football, volleyball, basketball and chess.

CSR

TCS Group believes in making a contribution to society and its sustainable development. Accordingly, TCS Group encourages and supports its employees' initiatives aimed at improving the quality of life of vulnerable groups, including the elderly, the young, the sick and the poor in underdeveloped parts of Russia. TCS Group and its employees believe in providing not just monetary but hands-on assistance for a number of causes, including care homes, orphanages, homeless people and individuals in need of medical help. During 2013 these charity campaigns targeted underfunded care homes and orphanages in underdeveloped regions of Russia. TCS Group's employees raised funds for charity works, which were spent on renovating facilities, buying food, supplies, medicine and toys for vulnerable groups.

In 2013, the Group helped three care homes in Tula and Kaluga regions in Russia. Employees raised funds and organised works to repair rundown facilities, bought necessary equipment, including a dentist office, clothes, medicine and food for the residents.

TCS Group also provided assistance to two orphanages in Karelia and Saratov regions and bought toys, learning materials and school supplies, as well as sports equipment and computers.

TCS also organised delivery of food and medical supplies, as well as collected clothes for homeless people.

Board of Directors

Oleg Tinkov

Chairman of the Board of Directors (46)

Oleg Tinkov has been the Chairman of the board of directors of TCS Group Holding PLC since October 2013 and has been the Chairman of the Board of Directors of TCS Bank since June 2006. Mr Tinkov previously owned and operated a number of retail businesses, including “Tinkoff Beer”, “Tinkoff Restaurants” and “Daria”.

Mr Tinkov studied at the Leningrad Mining Institute, Russia and the University of California, Berkeley, USA.

Martin Cocker

Member of the Board of Directors
Independent Non-Executive Director
Chairman of the Audit Committee
Member of the Remuneration Committee (54)

Martin Cocker has been an independent non-executive director, Chairman of the Audit Committee and a member of the Remuneration Committee of TCS Group Holding PLC since October 2013. Mr Cocker serves on the boards of Etalon Group and Northumberland Tyne and Wear National Health Service Foundation Trust. Mr Cocker was previously a partner with Ernst & Young in Moscow, Russia from 1996 to 1998 and with Deloitte & Touche CIS Limited from 2004 to 2007 in Almaty, Kazakhstan and St Petersburg, Russia. Mr Cocker is a member of the ICAEW and holds a bachelor of science (joint honours) degree in mathematics and economics from the University of Keele, United Kingdom.

Philippe Delpal

Member of the Board of Directors
Non-Executive Director
Member of the Audit Committee
Member of the Remuneration Committee (40)

Philippe Delpal has been a non-executive director and a member of the Audit Committee and the Remuneration Committee of TCS Group Holding PLC since October 2013. Mr Delpal has also been a member of the board of directors of First Collection Bureau since October 2013, a member of the board of directors of CB Europlan since 2012, an industry partner for financial services at Baring Vostok Capital Partners since 2012, a member of the board of directors of Komercijalna Banka, Serbia since 2011, a member of the board of directors of Blackrock Emerging Europe plc since 2012, a member of the board of directors of Beta Epsilon SAS since 2011, a member of the board of directors of HMS Hydraulic Machines and Systems PLC since December 2010 and a member of the board of directors of Orient Express Bank OJSC since June 2010.

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

Jacques Der Megreditchian

Member of the Board of Directors
Independent Non-Executive Director
Chairman of the Remuneration Committee
Member of the Audit Committee (53)

Jacques Der Megreditchian has been an independent non-executive director and Chairman of the Remuneration Committee of TCS Group Holding PLC since October 2013. Mr Der Megreditchian has also been a member of the board of directors and chairman of the Strategic Planning Committee since 2011, and a member of the Remuneration Committee of the Moscow Exchange since 2012, and a member of the board of directors of the Russian National Association of Stock Market Participants since 2006. Mr Der Megreditchian has 27 years of experience in finance from CCF, Societe Generale and Troika Dialog where he held the position of Chief Business Officer. Mr Der Megreditchian holds a degree in business administration from the European Business Institute, France and in financial analysis from the French Center for Financial Analysis, France.

Constantinos Economides

Member of the Board of Directors (38)

Constantinos Economides has been a director of TCS Group Holding PLC since November 2008. Mr Economides has also been the managing director of Orangefield Fidelico Ltd since October 2006. Mr Economides previously worked as an audit manager with both Deloitte Ltd in Cyprus from February 2003 to August 2006 and Ernst & Young in the United Kingdom from August 1999 to December 2002.

Mr Economides is a member of the ACA, a member of the ICAEW and holds a bachelor of science (honours) degree from Warwick Business School, United Kingdom.

Alexios Ioannides

Member of the Board of Directors (36)

Alexios Ioannides has been a director of TCS Group Holding PLC since November 2008. Mr Ioannides has also been a director of Epsilou Management Services Limited since May 2013 and a director of Axept Ltd since June 2008.

Mr Ioannides is a member of the ACA, the ICAEW and the Institute of Certified Public Accountants of Cyprus, and holds a bachelor of science degree in business administration from the University of Alabama, USA.

Maria Trimithiotou

Member of the Board of Directors (35)

Maria (Mary) Trimithiotou has been a director of TCS Group Holding PLC since May 2012. Mrs Trimithiotou previously worked for Deloitte Ltd holding the position of audit manager from October 2001 to February 2009 and, subsequently, moved to Orangefield Fidelico Ltd as deputy director in 2009 and was promoted to director in 2012.

Mrs Trimithiotou is a Fellow Chartered Certified Accountant and a member of the Association of Chartered Certified Accountants.

Corporate governance

The role of the Board is to provide leadership to the Group within a framework of prudent and effective controls which enables risk to be assessed and managed.

Overview

As the class A shares are not listed on the Cyprus Stock Exchange, the Cypriot corporate governance regime, which only relates to companies that are listed on the Cyprus Stock Exchange, does not apply to the Company and accordingly the Company does not monitor its compliance with that regime. TCS Bank complies with the corporate governance regime applicable to Russian incorporated companies.

The Board of Directors

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

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. As at 31 December 2013 the Board comprise seven members, and their names are listed on pages 30 and 31. Constantinos Economides, Mary Trimithiotou and Alexios Ioannides were members of the Board throughout 2013, with the remaining four Directors appointed on 22 October 2013 when a number of directors resigned together, ahead of the Company's initial public offering. (See page 38).

The Company itself, whilst it has not adopted corporate governance measures of the same standard as those adopted by publicly listed companies in the UK or the US, has implemented corporate governance measures such that its seven strong Board of Directors is comprised of four Executive Directors including the Chairman, and three Non-Executive Directors two of whom are independent and has established two committees of the Board. Specific responsibilities have been delegated to those committees.

Committees of the Board of Directors

The Company has established two committees of the Board of Directors: the Audit Committee and the Remuneration Committee and their terms of reference are summarised below. Both Committees were constituted in October 2013.

The Audit Committee is chaired by an independent Non-Executive Director Martin Cocker, and has two other members both Non-Executive Directors one of whom is independent.

The Remuneration Committee is also chaired by an independent Non-Executive Director Jacques Der Megreditchian, and has two other members both Non-Executive Directors one of whom is independent. Details of the Non-Executive and Independent Non-Executive Directors are set out on pages 30 and 33.

The Audit Committee's primary purpose and responsibility is to assist the Board in its oversight responsibilities. In executing this role the Audit Committee monitors the integrity of the financial statements of the Group prepared under IFRS and any formal announcements relating to the Group's and the Company's financial performance, reviewing significant financial reporting judgements contained in them and overseeing the financial reporting controls and procedures implemented by the Group, monitoring and assessing the effectiveness of the Company's internal financial control and risk management systems and of the internal audit, the independence and qualifications of the independent auditor and the effectiveness of the external audit process. The Audit Committee is required to meet at least twice a year at appropriate times in the reporting and audit cycle but in practice will meet far more often. The Audit Committee met in December 2013 to review among other matters the Q3 draft consolidated financial statements of the Group.

The Remuneration Committee is responsible for determining and reviewing among other things the framework of remuneration of the Executive Directors, senior management and its overall cost and the Group's remuneration policies. The objective is to ensure that the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are in a fair and responsible manner rewarded for their individual contributions to the success of the Group. The Remuneration Committee's Terms of Reference include reviewing the design and determining targets for any performance related pay schemes and reviewing the design of all share incentive plans for approval by the Board and shareholders. The Remuneration Committee is required to meet at least twice a year but in practice will meet far more often. The Remuneration Committee started work in 2013 on a review of the Group's share incentive plans for senior and middle management in the post IPO environment.

Shareholders' agreement: additional rights of minority shareholders

In October 2013 Tasos Invest & Finance Inc., Tadek Holding & Finance SA, Maitland Commercial Inc, Norman Legal S.A. and Vizer Limited (the Majority Shareholders, controlled by Oleg Tinkov) and the pre IPO investors ELQ Investors II Ltd, Vostok Komi (Cyprus) Limited, Rousse Nominees Limited and Lorimer Ventures Limited (together the Minority Shareholders) entered into a new shareholders' agreement (the Shareholders' Agreement) to govern aspects of their relationship after the IPO.

The Shareholders' Agreement provides that the Minority Shareholders are entitled to nominate one director to the Board of Directors of the Company. Their nomination is Mr Philippe Delpal. In addition they are entitled to have one observer, acceptable to the Majority Shareholders, attend meetings of the Board of Directors of the Company, but have chosen not to exercise this right to date.

The Shareholders' Agreement also contains provisions that require the Majority Shareholders to vote against certain matters unless a majority of the Minority Shareholders (which may constitute only 10% of the share capital of the Company) approve of such matters. These matters include, in summary (a) the entry by TCS Bank into a corporate reconstruction, merger, amalgamation, acquisition, sale, transfer or disposition (in one or a series of transactions) of any assets the aggregate valuation or consideration of which exceeds 20% of the Company's market capitalisation; (b) delisting of the GDRs or if applicable shares in the Company; or (c) any amendments to the Company's Articles of Association that are prejudicial to the rights of the Minority Shareholders.

These rights of the Minority Shareholders continue so long as they hold at least 10% of the issued share capital of the Company.

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

Philippe Delpal
Non-Executive Director,
Member of the Audit Committee,
Member of the Remuneration Committee.

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

Management team

Oliver Hughes
Chairman of the Management Board of TCS Bank (43)

Oliver Hughes has served as Chairman of the Management Board and Chairman of the Credit Committee and Financial Committee of TCS Bank since 2011 and has been a member of the Board of Directors of TCS Bank since June 2013. Previously, Oliver worked at Visa International for nine years, most recently as Head of the Representative Office in Russia.

He has a Bachelor of Arts degree in Russian and French from the University of Sussex. He also has a Master of Arts degree in International Politics from Leeds University and a Master of Science degree in Information Management and Technology from City University. He is also a non-executive director of Elecsnet.

Ilya Pisemsky
Chief Financial Officer, Deputy Chairman of the Management Board of TCS Bank (38)

Ilya Pisemsky has been Deputy Chairman of the Finance Committee of TCS Bank and a member of the Credit Committee of TCS Bank since November 2011, Deputy Chairman of the Management Board since 2010 and Chief Financial Officer of TCS Bank since 2008. Mr Pisemsky was previously head of Internal Audit and deputy CFO of Bank Soyuz from 2004 to 2008.

He holds a degree in finance and credit from the Finance Academy under the Government of the Russian Federation, Russia and an MBA from the F.W. Olin Business School at Babson College, USA.

Sergei Pirogov
Head of Corporate Finance, Member of the Board of Directors of TCS Bank (43)

Sergei has been Head of Corporate Finance at TCS Bank since January 2010 and a member of TCS Bank's Board of Directors since May 2011.

He previously was Director of Corporate Finance at Citigroup. Sergei graduated from Moscow State Institute for International Relations and holds an MBA from Darden Graduate School of Business, University of Virginia, USA (2000).

Evgeny Ivashkevich
Deputy Chairman of the Management Board of TCS Bank (43)

Evgeny Ivashkevich has been Deputy Chairman of the Management Board since December 2011, Deputy Chairman of the Credit Committee of TCS Bank since November 2011 and Risk Director of TCS Bank since July 2007. Mr Ivashkevich holds a degree in physics from the Moscow Institute of Physics and Technology, Russia and a PhD in theoretical physics from the Joint Institute for Nuclear Research (Dubna), Russia.

Stanislav Bliznyuk
Chief Operating Officer, Deputy Chairman of the Management Board of TCS Bank (33)

Stanislav Bliznyuk has been Deputy Chairman of the Management Board since June 2012 and Chief Operation Officer since December 2011. Mr Bliznyuk was previously the Head of Technologies at TCS Bank between December 2006 and June 2012. Mr Bliznyuk holds a degree in mathematics and applied mathematics from the Moscow State University, Russia.

Dmitry Kobzar
Chief Legal Counsel, Deputy Chairman of the Management Board of TCS Bank (34)

Dmitry Kobzar has been a member of the Management Board since April 2010 and has held the position of Chief Legal Counsel since November 2008. Mr Kobzar was previously a member of the management board and head of legal in City Mortgage Bank (Morgan Stanley Group) from September 2006 to October 2008 and head of legal at International Joint-Stock Bank from September 2003 to September 2006. Mr Kobzar holds a degree in law and a PhD degree in law from the Moscow State University, Russia.

Anatoly Makeshin
Head of Payment Systems, Member of the Management Board of TCS Bank (41)

Anatoly Makeshin has been a member of the Management Board since September 2012 and Payment Systems Director and Vice President of TCS Bank from January 2010. Mr Makeshin was previously Head of Payment Systems for TCS Bank from December 2006 to January 2010. Mr Makeshin holds a science degree from the Moscow Power Engineering Institute (Technical University), Russia and a PhD in technical science from the Russian Academy of State Service, Russia.

Artem Yamanov
Business Development Director (32)

Artem Yamanov has been the Business Development Director and Senior Vice President since January 2010 and a member of the Finance Committee of TCS Bank since November 2011. Mr Yamanov was previously the Head of Products at TCS Bank from December 2006 to January 2010. Mr Yamanov holds a masters degree in applied physics & mathematics from the Moscow Institute of Physics and Technology, Russia.

Viacheslav Tsyganov
Chief Information Officer (38)

Viacheslav Tsyganov has been the Chief Information Officer at TCS Bank since February 2009. Mr Tsyganov was previously Head of IT Architecture and Development at TCS Bank from July 2007 to February 2009. Mr Tsyganov holds masters degree in computer science from Southwest State University, Russia.

Peter Russell
Head of Investor Relations (38)

Peter Russell joined TCS in December 2013. He leads the IR team with responsibility for development and execution of IR strategy and relations with institutional investors, including liaison with brokers and analysts. He was previously at J.P. Morgan, where he was Head of IR Advisory EMEA for the DR Group within the Corporate & Investment Bank.

Tatiana Kouznetsova
Head of Human Resources (45)

Tatiana Kuznetsova has been a Vice President since August 2013 and the Head of HR of TCS Bank since December 2006. She was previously head of HR of "MODUL Group" from 2001 to 2006 and in the audit-consulting group at the Royal Bank of Scotland in 2006. Mrs Kouznetsova holds a masters degree in psychology from the Moscow State University, Russia.

TCS Group Holding PLC

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

31 December 2013

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Board of Directors and Other Officers

Board of Directors
Oleg Tinkov (appointed 22 October 2013)
Constantinos Economides
Alexios Ioannides
Mary Trimithiotou
Philippe Delpal (appointed 22 October 2013)
Jacques Der Megreditchian (appointed 22 October 2013)
Martin Cocker (appointed 22 October 2013)
Julian Charles Salisbury (resigned 22 October 2013)
Per Brilioth (resigned 22 October 2013)
Laoura Michael (resigned 22 October 2013)
Michael Calvey (resigned 22 October 2013)
Nasia Vryonidou (resigned 22 October 2013)
Denis Tafintsev (resigned 22 October 2013)

Company Secretary
Altruco Secretarial Limited
Kanika International Business Center,
6th floor, Profiti Ilia No 4 Germasogeia,
4046 Limassol, Cyprus.
Mail: P.O.Box 50734,
3609, Limassol, Cyprus

Registered office
Kanika International Business Center,
6th floor, Profiti Ilia No 4 Germasogeia,
4046 Limassol, Cyprus.
Mail: P.O.Box 50734,
3609, Limassol, Cyprus

Report of the Board of Directors

1 The Board of Directors presents its report together with the audited consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2013.

Principal activities

2 The Group's principal activity is retail banking operations within the Russian Federation through its subsidiary CJSC "Tinkoff Credit Systems" (the "Bank").

3 The Bank is a retail bank that specialises in credit cards. The Bank is fully licensed by the Central Bank of Russia, is a member of the Deposit Insurance System, and launched its operations in the summer of 2007. The founder and controlling shareholder of the Bank is Oleg Tinkov. In late 2007 Goldman Sachs became a minority shareholder in the Company (which is a 100% owner of the Bank), the Swedish Investment Fund, Vostok Nafta, also acquired a minority stake in the Company in 2008, Baring Vostok Private Equity Fund and Horizon Capital acquired minority stakes in the Company in 2012. On 25 October 2013 the Group completed an initial public offering of its A class ordinary shares in the form of global depository receipts (GDRs) on the London Stock Exchange plc.

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

4 The Bank operates a flexible business model. Its virtual network enables it to speed business up or slow customer acquisition down depending on the availability of funding and seasonality. The Bank's primary customer acquisition channel is Internet and Mobile, but it also uses direct mail (DM), Direct Sales Agents (DSA) and partnerships (cobrands) to acquire new customers. The Bank employs direct mail and online customer acquisition models, which combined with the Bank's virtual network, afford it a geographic reach across all of Russia's regions resulting in a highly diversified portfolio.

5 On 7th August 2013 the Group acquired 100% of the shares in an insurance company – OJSC "SK" Moskva" (the "Insurance company"). After the purchase the name of the subsidiary was changed to OJSC "Tinkoff Online-Insurance". The purchase consideration amounted to USD 12,079 thousand and amount of cash acquired comprised USD 10,736 thousand. The subsidiary provides insurance services to clients of the Group.

6 The net profit of the Group for the year ended 31 December 2013 was USD 180,698 thousand (2012: USD 121,914 thousand). On 31 December 2013 the total assets of the Group were USD 3,024,637 thousand (2012: USD 2,173,471 thousand) and the net assets were USD 627,911 thousand (2012: USD 298,267 thousand).

Principal risks and uncertainties

7 The Group conducts its activities in Russia through its subsidiaries; it has been affected by the uncertainties of the Russian economic environment and global credit crunch that have had an impact on the Group's business and financial position.

8 Other risks and uncertainties, which affect the Group, are presented in Notes 2, 25 and 27 of the consolidated financial statements.

Future developments

9 The Board of Directors does not expect any significant changes or developments in the operations, financial position and performance of the Group in the near future.

Results

10 The Group's results for the year are set out on page 7* of the consolidated financial statements. The Board of Directors does not recommend the payment of a dividend and the net profit for the year is retained.

Share capital

11 In June 2013 the Company issued 57,990 ordinary shares with a par value of USD 1 per share to the trustee (Note 15).

12 On 25 October 2013 the Group completed an initial public offering of its ordinary shares in the form of global depository receipts (GDRs) on the London Stock Exchange plc. The primary part amounted to USD 175 mln. or 10,000,000 shares.

13 From 22 October 2013 the nominal value of 1 share was changed to USD 0.04. Due to the change of shares' nominal from USD1 to USD 0.04 the number of shares issued increased by 25 times (Note 15).

14 In May 2012 the Company issued 406,637 ordinary shares with a par value of USD 1 per share and a premium of USD 91.22 per share to a new shareholder Baring Vostok Private Equity Fund IV, L.P.

Board of Directors

The members of the Board of Directors as of 31 December 2013 and at the date of this report are presented on page 1**. Mr. Oleg Tinkov, Mr. Philippe Delpal, Mr. Jacques Der Megreditchian and Mr. Martin Cocker were appointed on 22 October 2013. Mr. Julian Charles Salisbury, Mr. Per Brilioth, Ms. Laoura Michael, Mr. Michael Calvey, Ms. Nasia Vryonidou, Mr. Denis Tafintsev resigned on 22 October 2013; there changes in the Board of Directors were made in connection with the Initial Public Offering.

Auditors

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

By Order of the Board

Constantinos Economides
Director
Limassol
28 February 2014

* now Annual Report page 41.
** now Annual Report page 38.

Independent auditor's report

To the Members of TCS Group Holding PLC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Anna G Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of
PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
Limassol, 28 February 2014

Consolidated Statement of Financial Position

In thousands of USD	Note	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	6	575,204	457,382
Mandatory cash balances with the CBRF		28,447	22,560
Loans and advances to customers	7	2,259,806	1,573,266
Financial derivatives	28	17,851	826
Deferred income tax assets	23	6,541	11,370
Guarantee deposits with payment systems	8	50,644	33,592
Tangible fixed assets	9	18,968	17,952
Intangible assets	9	15,728	13,460
Other financial assets	10	35,456	38,995
Other non-financial assets	10	15,992	4,068
TOTAL ASSETS		**3,024,637**	**2,173,471**
LIABILITIES			
Due to banks		–	16,930
Customer accounts	11	1,320,125	878,146
Debt securities in issue	12	800,151	762,414
Financial derivatives	28	–	11,927
Current income tax liabilities		1,589	2,779
Deferred tax liabilities	23	199	–
Subordinated debt	13	199,576	123,897
Other financial liabilities	14	49,616	70,570
Other non-financial liabilities	14	25,470	8,541
TOTAL LIABILITIES		**2,396,726**	**1,875,204**
EQUITY			
Share capital	15	7,248	6,777
Share premium	15	288,271	118,724
Treasury shares	15	(87)	(77)
Share-based payment reserve	31	14,597	10,990
Retained earnings		355,882	169,928
Accumulated loss on translation		(38,000)	(8,075)
TOTAL EQUITY		**627,911**	**298,267**
TOTAL LIABILITIES AND EQUITY		**3,024,637**	**2,173,471**

The notes set out on pages 10* to 57* form an integral part of these consolidated financial statements.

Approved for issue and signed on behalf of the Board of Directors on 28 February 2014.

Constantinos Economides
Director

Mary Trimithiotou
Director

* now Annual Report pages 45 to 82.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of USD	Note	2013	2012
Interest income	16	1,100,150	657,836
Interest expense	16	(256,755)	(157,601)
Net interest income		**843,395**	**500,235**
Provision for loan impairment	7	(307,737)	(124,378)
Net interest income after provision for loan impairment		**535,658**	**375,857**
Customer acquisition expense	17	(115,649)	(85,258)
Losses less gains from operations with foreign currencies	18	(11,502)	(8,321)
Income from insurance operations	19	6,061	306
Gain from sale of bad debts	7	9,311	5,103
Fee and commission income		2,250	–
Fee and commission expense	20	(14,823)	(7,417)
Administrative and other operating expenses	21	(186,448)	(122,527)
Other operating income	22	11,278	335
Profit before tax		**236,136**	**158,078**
Income tax expense	23	(55,438)	(36,164)
Profit for the year		**180,698**	**121,914**
Other comprehensive (loss)/income:			
Items that will be reclassified to profit or loss			
Exchange differences on translation to presentation currency		(29,925)	10,773
Other comprehensive (loss)/income for the year		**(29,925)**	**10,773**
Total comprehensive income for the year		**150,773**	**132,687**
Earnings per share for profit attributable to the owners of the Group, basic (expressed in USD per share)		**1.07**	**0.75**
Earnings per share for profit attributable to the owners of the Group, diluted (expressed in USD per share)		**1.05**	**0.74**

The notes set out on pages 10* to 57* form an integral part of these consolidated financial statements.

* now Annual Report pages 45 to 82.

Consolidated Statement of Changes in Equity

In thousands of USD	Note	Share capital	Share premium	Share-based payment reserve	Treasury shares	Retained earnings/ (Accumulated losses)	Accumulated loss on translation	Total
Balance at 31 December 2011		**6,370**	**81,631**		**(77)**	**48,014**	**(18,848)**	**117,090**
Profit for the year		–	–	–	–	121,914	–	121,914
Other comprehensive income:								
Exchange differences on translation to presentation currency		–	–	–	–	–	10,773	10,773
Total comprehensive income for 2012		**–**	**–**	**–**	**–**	**121,914**	**10,773**	**132,687**
Share-based payment reserve	31	–	–	10,990	–	–	–	10,990
Share issue	15	407	37,093	–	–	–	–	37,500
Total transactions with owners		**407**	**37,093**	**10,990**	**–**	**–**	**–**	**48,490**
Balance at 31 December 2012		**6,777**	**118,724**	**10,990**	**(77)**	**169,928**	**(8,075)**	**298,267**
Profit for the year		–	–	–	–	180,698	–	180,698
Other comprehensive income:								
Exchange differences on translation to presentation currency		–	–	–	–	–	(29,925)	(29,925)
Total comprehensive income for 2013		**–**	**–**	**–**	**–**	**180,698**	**(29,925)**	**150,773**
Share issue	15	471	174,597	–	–	–	–	175,068
Initial public offering costs	15	–	(5,050)	–	–	–	–	(5,050)
Share-based payment reserve	31	–	–	3,607	(10)	5,256	–	8,853
Total transactions with owners		**471**	**169,547**	**3,607**	**(10)**	**5,256**	**–**	**178,871**
Balance at 31 December 2013		**7,248**	**288,271**	**14,597**	**(87)**	**355,882**	**(38,000)**	**627,911**

The notes set out on pages 10* to 57* form an integral part of these consolidated financial statements.

* now Annual Report pages 45 to 82.

Consolidated Statement of Cash Flows

In thousands of USD	Note	2013	2012
Cash flows from operating activities			
Interest received		1,011,205	578,359
Interest paid		(250,083)	(163,064)
Customers acquisition expenses paid		(87,706)	(91,441)
Cash (paid)/received from trading in foreign currencies		(15,913)	(403)
Cash received from sale of bad debts		14,025	5,103
Fees and commissions paid		(11,154)	(8,339)
Fees and commissions received		2,250	–
Other operating income received		7,274	219
Administrative and other operating expenses paid		(101,103)	(35,196)
Income tax paid		(51,704)	(48,247)
Cash flows from operating activities before changes in operating assets and liabilities		**517,091**	**236,991**
Changes in operating assets and liabilities			
Net increase in CBRF mandatory reserves		(7,719)	(14,815)
Net decrease in due from banks		–	2,236
Net increase in loans and advances to customers		(1,072,690)	(896,356)
Net increase in guarantee deposits with payment systems		(20,009)	(9,563)
Net decrease/(increase) other financial assets		752	(14,685)
Net (increase)/decrease in other non-financial assets		(11,262)	206
Net (decrease)/increase in due to banks		(16,146)	16,930
Net increase in customer accounts		501,649	521,200
Net (decrease)/increase in other financial liabilities		(16,312)	5,969
Net increase in other non-financial liabilities		9,553	5,350
Net cash used in operating activities		**(115,093)**	**(146,537)**
Cash flows used in investing activities			
Acquisition of tangible fixed assets		(10,700)	(17,972)
Acquisition of intangible assets		(6,675)	(8,506)
Consideration paid for insurance company net of cash acquired	1	(1,343)	–
Net cash used in investing activities		**(18,718)**	**(26,478)**
Cash flows from financing activities			
Proceeds from debt securities in issue		281,139	385,351
Repayment of debt securities in issue		(232,373)	(65,164)
Proceeds from subordinated debt		70,949	121,656
Proceeds from initial public offering		175,000	–
Initial public offering costs paid		(4,172)	–
Proceeds from ordinary shares issue	15	–	37,500
Net cash from financing activities		**290,543**	**479,343**
Effect of exchange rate changes on cash and cash equivalents		(38,910)	(12,137)
Net increase in cash and cash equivalents		**117,822**	**294,191**
Cash and cash equivalents at the beginning of the year	6	**457,382**	**163,191**
Cash and cash equivalents at the end of the year	6	**575,204**	**457,382**

The notes set out on pages 10* to 57* form an integral part of these consolidated financial statements.

* now Annual Report pages 45 to 82.

Notes to the Consolidated Financial Statements

31 December 2013

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2013 for TCS Group Holding PLC (the "Company") formerly named Egidaco Investments Plc and its subsidiaries (together referred to as the "Group" or "TCS Group Holding PLC"), and in accordance with the requirements of the Cyprus Companies Law, Cap.113.

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

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

The Company Secretary is: Altruco Secretarial Limited, Kanika International Business Center, 6th floor, Profiti, Ilia No 4 Germasogeia, 4046 Limassol, Cyprus. Mail: P.O.Box 50734, 3609, Limassol, Cyprus.

As at 31 December 2013 and 2012 the shareholders of the Company were:

	31 December 2013	31 December 2012	Country of Incorporation
Tadek Holding & Finance S.A.	50.86%	54.90%	British Virgin Islands
Guaranty Nominees Limited (JP Morgan Chase Bank NA)	34.92%*	0.00%	United Kingdom
Vostok Komi (Cyprus) Limited	4.82%	13.32%	Cyprus
ELQ II Investors Limited	4.50%*	12.41%	United Kingdom
Rousse Nominees Ltd	2.25%	8.00%	Guernsey
Lorimer Ventures Ltd	1.45%	4.00%	Cyprus
Altruco Trustees Limited	1.20%	1.13%	Cyprus
Tasos Invest & Finance Inc.	0.00%***	6.24%	British Virgin Islands
Vizer Limited	0.00%**	0.00%**	British Virgin Islands
Maitland Commercial Inc.	0.00%**	0.00%**	British Virgin Islands
Norman Legal S.A.	0.00%**	0.00%**	British Virgin Islands
Total	**100.00%**	**100.00%**	

* Guaranty Nominees Limited is a company holding class A shares of the Company for which global depositary receipts were issued in result of the initial public offering held by the Company in October 2013 (Note 15). The percentage of class A shares held by Guaranty Nominees Limited in the total share capital of the Company is equal to 39.42%. As at 31 December 2013 ELQ II Investors Limited (the global investment firm Goldman Sachs) owns part of global depositary receipts (4.50% out of 39.42%) which were issued over class A shares held by Guaranty Nominees Limited.

** Vizer Limited, Maitland Commercial Inc and Norman Legal S.A. own 25 shares of the Company each at 31 December 2013 (2012: 1 share).

*** Tasos Invest & Finance Inc. owns 1 share of the Company at 31 December 2013.

The ultimate controlling party of the Group is Oleg Tinkov (2012: same).

As at 31 December 2013 the ultimate beneficiaries of the Group were the Russian entrepreneur Oleg Tinkov (50.86%), investment fund Vostok Nafta (4.82%), Baring Vostok Private Equity Fund IV, L.P. (2.25%) and Horizon Capital (1.45%). As at 31 December 2012 the ultimate beneficiaries of the Group were the Russian entrepreneur Oleg Tinkov (61.14%), the global investment firm Goldman Sachs (12.41%), investment fund Vostok Nafta (13.32%), Baring Vostok Private Equity Fund IV, L.P. (8.00%) and Horizon Capital (4.00%).

Notes to the Consolidated Financial Statements continued

31 December 2013

1 Introduction continued

Subsidiaries and special purpose entity included in these consolidated financial statements are listed below:

		2013		2012		
Name	Nature of business	Percentage of ownership	Percentage of voting rights	Percentage of ownership	Percentage of voting rights	Country of registration
CJSC Tinkoff Credit Systems Bank	Bank operations	100%	100%	100%	100%	Russia
LLC TCS	Services	100%	100%	100%	100%	Russia
LLC T-Finance	Assets holding	100%	100%	100%	100%	Russia
TCS Finance Ltd	Financing	–	–	–	–	Ireland
OJSC Tinkoff Online-Insurance	Insurance operations	100%	100%	–	–	Russia
Goward Group Ltd	Services	100%	100%	100%	100%	British Virgin Islands

LLC TCS and LLC T-Finance bear expenses related to services provided by external counterparties to the Group on issue of credit card loans. Also these companies bear administrative expenses and own some intangible assets used in the activity of the Group. All such expenses are compensated by the subsidiary CJSC "Tinkoff Credit Systems" Bank (the "Bank").

TCS Finance Ltd is a special purpose entity which issued debt securities for the Group. The Group issued bonds though a consolidated structured entity incorporated in the Ireland. This entity was consolidated as it was specifically set up for the purposes of the Group, and the Group has exposure to substantially all risks and rewards through outstanding guarantees of the entity's obligations. The Group guarantees all obligations of this entity represented by the bonds issued of USD 433,232 thousand.

On 7th August 2013 the Group acquired 100% share in an insurance company – OJSC "SK" Moskva" (the "Insurance company"). Subsequently to the purchase the name of the subsidiary was changed to OJSC "Tinkoff Online-Insurance". The purchase consideration amounted to USD12,079 thousand and the amount of cash acquired comprised USD 10,736 thousand. The subsidiary provides insurance services to clients of the Group.

Principal activity. The Group's principal business activity is retail banking operations within the Russian Federation through the Bank. The Bank has operated under a general banking license № 2673 issued by the Central Bank of the Russian Federation ("CBRF") since 8 December 2006. Before that date and going back to 28 January 1994 the Bank operated under the name of CJSC "Khimmashbank" under the same general banking license № 2673 issued by the CBRF on 28 January 1994. The Bank was acquired by the Company on 17 November 2006 and was subsequently renamed CJSC Tinkoff Credit Systems Bank.

The Bank participates in the state deposit insurance scheme, which was introduced by the Federal Law № 177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF-imposed moratorium on payments.

Registered address and place of business. The Company's registered address is Kanika International Business Center, 6th floor, Profiti Ilia 4 Germasogeia, Limassol 4046 Cyprus. The Bank's registered address is 1-st Volokolamsky passage, 10, building 1, 123060, Moscow, Russian Federation. The Group's principal place of business is the Russian Federation.

Presentation currency. These consolidated financial statements are presented in thousands of USD.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation (Note 27).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined loan impairment provisions using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Summary of Significant Accounting Policies

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by revaluation of derivatives carried at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Management prepared these consolidated financial statements on a going concern basis.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

The cost of acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

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

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

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

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

The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the last trading price on the reporting date. Prior to 1 January 2013, the quoted market price used for financial assets was the current bid price; the quoted market price for financial liabilities was the current asking price. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 29.

3 Summary of Significant Accounting Policies continued

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

The Group uses discounted cash flow valuation techniques to determine the fair value of currency swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are initially recognised within other financial assets or other financial liabilities and are subsequently amortised on a straight line basis over the term of the currency swaps.

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

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

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

3 Summary of Significant Accounting Policies continued

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

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

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. In the course of business the Group sells bad debts to third parties, and the difference between the carrying amount of bad debt and the consideration received is recorded in profit and loss at the settlement date.

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

Credit related commitments. The Group issues financial commitments to provide credit cards loans within credit cards limits. Commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each reporting date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

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

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of tangible fixed assets items are capitalised and the replaced part is retired.

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

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

3 Summary of Significant Accounting Policies continued

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

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

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

Intangible assets. The Group's intangible assets other than insurance license have definite useful life and include capitalised acquired computer software and internally developed software.

Computer software licenses acquired are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 5 years.

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

Intangible assets with indefinite useful life are tested annually for impairment.

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

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

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

Debt securities in issue. Debt securities in issue include bonds and Euro-Commercial Paper issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in interest expense.

Subordinated debt. Recognition and measurement of this category is consistent with the above policy for debt securities in issue.

Financial derivatives. Financial derivatives represented by forwards and foreign currency swaps are carried at their fair value.

Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of financial derivatives are recorded within losses less gains from operations with foreign currencies. The Group does not apply hedge accounting.

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

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

3 Summary of Significant Accounting Policies continued

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

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

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

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

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

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

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

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Company until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity.

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, negotiating the terms of the instrument, for servicing of account, and cash withdrawals. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

Customer acquisition expenses represented by the costs incurred by the Group on services related to attraction of the credit card borrowers, mailing of advertising materials, processing of responses etc, are expensed on the basis of the actual services provided.

All other fees, commissions and other income and expense items are generally recorded on an accruals basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

3 Summary of Significant Accounting Policies continued

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

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

Non-life insurance (short-term insurance). The below items from the consolidated statement of financial position of the Group are accounted within Other financial assets and Other financial liabilities lines, the below items from the consolidated statement of profit and loss and other comprehensive income of these consolidated financial statements are accounted within Income from insurance operations line in as they are not material for these consolidated financial statements as a whole.

- ***Premiums written***. Premiums (hereafter – "premiums" or "insurance premiums") under insurance contracts are recorded as written upon inception of a contract and are earned on a pro-rata basis over the term of the related contract coverage. Reduction of premium written in subsequent periods (under amendments to the signed original contacts, for example) is accounted by debiting of premiums written in current period.

- ***Provision for unearned premiums***. Provision for unearned premiums (UEPR) represents the proportion of premiums written that relate to the unexpired term of policies in force as at the reporting date, calculated on a time apportionment basis. UEPR is recognised within liabilities on a gross basis.

- ***Claims***. Claims are charged to the consolidated statement of profit and loss and other comprehensive income as compensation is paid to policyholders (beneficiaries) or third parties. Claims also include claims handling expenses related to experts', valuers', surveyors' and average agents' fees.

- ***Loss provisions***. Loss provisions represent the accumulation of estimates for ultimate losses and include outstanding claims provision ("OCP") and provision for losses incurred but not yet reported ("IBNR"). Loss provisions are recognised within liabilities on a gross basis. Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during settlement of the insured event, including information received after the reporting date. IBNR is determined by the Group by line of business using actuarial methods, and includes assumptions based on prior years' claims and claims handling experience. IBNR is calculated for each occurrence period as the difference between the projected maximum amount of future payments resulting from the events that occurred during the period and the amount of future payments resulting from the event already reported but not settled at the reporting date within the same period.

  IBNR cannot be less than zero for each period of insured event. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit and loss and other comprehensive income as they arise. Loss provisions are estimated on an undiscounted basis due to relatively quick pattern of claims notification and payment.

- ***Unexpired risk provision***. Unexpired risk provision ("URP") is recorded when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. To estimate the unexpired risk provision the Group uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the reporting date. For the purposes of final presentation of consolidated financial statements unexpired risk provision is written off against deferred acquisition costs.

Liability adequacy testing. As at each reporting date the adequacy of the insurance reserves is tested. Testing of insurance reserves for non-life insurance is performed to ensure adequacy of contract liabilities. In performing these tests, current estimates of future contractual cash flows, claims handling and administration expenses are used. As a result of liability adequacy testing for non-life insurance, the Group sets up its URP.

Reinsurance. The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to the policyholders under insurance contract. Amounts due from reinsurers are measured consistently with the amounts associated with the direct insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets arising from outward reinsurance contracts include reinsurers share in paid claims, including claims handling expenses. Liabilities under outward reinsurance operations are obligations of the Group for payment of premiums to reinsurers. Reinsurance assets include premiums ceded to the Group under inward reinsurance contracts. The Group's liabilities under inward reinsurance contracts are obligations to compensate the Group's share in paid claims, including claims handling expenses to reinsurers.

3 Summary of Significant Accounting Policies continued

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the consolidated statement of profit and loss and other comprehensive income. The Group gathers the evidence that a reinsurance asset is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is also calculated following the same method used for the financial assets carried at amortised cost.

Subrogation income. The Group has a right to pursue third parties responsible for loss for payment of some or all costs related to the claims settlement process of the Group (subrogation). Reimbursements are recognised as income only if the Group is confident in receipt of these amounts from these third parties. Under inward reinsurance contracts, amounts of reimbursement due to the Group as a result of settlement of reinsurer's subrogation claims are treated as the Group's income as at the date of acceptance of the invoice received from the reinsurer and including calculation of the Group's share in the subrogation claim.

Deferred acquisition costs. Deferred acquisition costs ("DAC") are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include remuneration to agents for concluding agreements with corporate clients and individuals, brokerage fee for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortised over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

Insurance agency fee. In cases when the Group acts as an agent and attracts clients for the Insurance company not related to credit protection (loan agreements), the Bank receives commission income, which is recognised within Income from insurance operations in the consolidated statement of profit and loss and other comprehensive income in full amount.

Foreign currency translation. The functional currency of the Company and each of the Group's consolidated entities is the Russian Rouble ("RR"), which is the currency of the primary economic environment in which each entity operates. The Management selected as a presentation currency of the consolidated financial statements the national currency of the United States of America, US Dollars ("USD") to enable users to compare consolidated financial statements with other issuers of debt securities denominated in foreign currencies.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

The results and financial position of each Group entity are translated into the presentation currency as follows:
i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
iii) components of equity are translated at the historic rate; and
iv) all resulting exchange differences are recognised in other comprehensive income.

At 31 December 2013 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 32.7292 (2012: USD 1 = RR 30.3727), and the principal average rate of exchange used for translating income and expenses was USD1= RR 31.8480 (2012: USD1= RR 31.0928).

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

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

3 Summary of Significant Accounting Policies continued

Segment reporting. The segment is reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker.

Equity-settled share-based payment. The expense is recognized gradually over the vesting period and is measured at the fair value of the award determined at the grant date, which is amortized over the service (vesting) period. The fair value of the equity award is estimated only once at the grant date and is trued up to the estimated number of instruments that are expected to vest. Dividends declared during the vesting period accrue and are paid to the employee together with the sale proceeds of the vested shares upon a liquidity event (Note 31). Expected dividends (including those expected during the vesting period) are therefore included in the determination of fair value of the share-based payment.

Cash-settled share-based payment. The expense is recognized gradually over the vesting period and is measured at the fair value of the liability at each end of the reporting period. The fair value of the liability reflects all vesting conditions, except for the requirement of employee to stay in service which is reflected through the amortization schedule.

The liability is measured, initially and at the end of each reporting period until settled, at fair value, taking into account the terms and conditions on which the instruments were granted and the extent to which the employees have rendered service to date.

Modification of cash-settled share-based payment to equity-settled. At the date of modification the full carrying amount of the liability is transferred to equity as this represents the settlement provided by the employees for the equity instruments granted to them. Modification only in the manner of settlement with other terms and conditions of the new arrangement remaining unchanged do not give rise to immediate impact on the profit or loss at the date of change in classification.

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

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

In 2012 administrative and other operating expenses included staff costs and telecom expenses directly related to acquisition of new customers.

Management believes that reclassification of such costs from administrative and other operating expenses to customer acquisition expenses improves the presentation of results of operations of the Group and helps users to make more adequate decisions on the basis of the consolidated financial statements.

The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2012:

In thousands of USD	As originally presented	Reclassification	As reclassified at 31 December 2012
Customer acquisition expense	(65,361)	(19,897)	(85,258)
Administrative and other operating expenses	(142,424)	19,897	(122,527)

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The primary factor that the Group considers as objective evidence of impairment is the overdue status of the loan. In general, loans where there are no breaches in loan servicing are considered to be unimpaired.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies continued

Given the nature of the borrowers and the loans it is the Group's view and experience that the time lag between a possible loss event that could lead to impairment and the non or under payment of a monthly installment is minimal. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In accordance with internal methodology for the provision estimation the Group uses its complete historical retail loan loss statistics for assessment of probabilities of default. Last twelve months of historical loss data gives foremost impact in calculating the provision for impairment. This framework allows the Group to have better information to estimate losses on loans to individuals as all latest trends are accounted, and to restrain the implied probabilities volatility. The loan loss provision includes adjustment on the future expected gain on sale of bad debts which was estimated as 2.5% of gross balance of loans and advances to customers and was based on conservative sampling of historical data and current market trends (2012: loan loss provision was not adjusted on future expected gain on sale of bad debts). Gross balance of loans and advances to customers used for calculation of adjustment to loan loss provision includes principal of loan and all interest income accrued, penalties, commissions and may differ from IFRS balance of loans and advances to customers before provision for loan impairment. As at 31 December 2013 the effect of the above adjustment on provision for loan impairment is approximately USD 11,103 thousand (2012: USD 0).

To the extent that the incurred losses as at 31 December 2013 resulting from future cash flows change by 0.5% (2012: 0.5%), the profit would be approximately USD 12,730 thousand (2012: USD 8,564 thousand) higher or USD 12,730 thousand (2012: USD 8,564 thousand) lower.

Employee share option plan and equity long term incentive plan (ESOP and Equity LTIP). The fair value as at recognition dates of the equity-settled share-based payments (30 September 2012 for ESOP and 1 July 2013 for Equity LTIP) is determined on the basis of independent valuations of the Company.

The fair value as at 31 December 2012 of the cash-settled share-based payment (Long term incentive plan which was settled in July 2013) is determined on the basis of an independent valuation of the Company.

Due to the nature of the Company and lack of comparable market data, the fair value of the Company as at recognition dates of share-based payments is estimated based on the future cash flow discounting method, where the value is estimated from the expected growth of the loan portfolio and discounting rate.

The principal assumptions underlying the estimation of the fair value are those relating to the projected loan portfolio growth and appropriate discount rate. These valuations were compared as at grant dates of share option plans to actual and projected market data as well as actual transactions involving Bank's shares and market pricing of the traded peers. For ESOP the impact on the aggregate valuations of reasonably possible changes of the main assumptions, with all other variables held constant, is as follows:

- The discount rate was assumed to be in the range of 15.3% – 16.3% in the forecast period of 2013–2018. Should this discount rate increase/decrease by 1 percentage point, the carrying value of the share-based payment would be USD 594 thousand lower /694 USD thousand higher.
- Projected loan portfolio growth rate was assumed to be in the range of 3.0% – 51.6% in the forecast period of 2013–2018. Should this growth rate increase/decrease by 10 percent, the carrying value of the share-based payment would be USD 560 thousand higher/USD 549 thousand.

For Equity LTIP the impact on the aggregate valuations of reasonably possible changes of the main assumptions, with all other variables held constant, is as follows:

- The discount rate was assumed to be in the range of 14.7% in the forecast period of 2014–2018. Should this discount rate increase/decrease by 1 percentage point, the carrying value of the share-based payment would be USD 216 thousand lower/USD256 thousand higher.
- Projected loan portfolio growth rate was assumed to be in the range of 5.1% – 42.0% in the forecast period of 2014–2018. Should this growth rate increase/decrease by 10 percent, the carrying value of the share-based payment would be USD 182 thousand higher/USD 182 thousand.

Tax legislation. Russian and Cypriot tax, currency and customs legislation are subject to varying interpretations. Refer to Note 27.

5 Adoption of New or Revised Standards and Interpretations

As of the date of the authorisation of the consolidated financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2013 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

During the year ended 31 December 2013 the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2013. This adoption did not have a material effect on the accounting policies of the Group.

5 Adoption of New or Revised Standards and Interpretations continued

At the date of approval of these consolidated financial statements the following financial reporting standards were issued by the International Accounting Standards Board but were not yet effective:

(i) Adopted by the European Union

New standards

- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2014).

Amendments

- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012 and effective for annual periods beginning 1 January 2014).
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).
- Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014).
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014).

(ii) Not adopted by the European Union

New standards

- IFRS 9, Financial Instruments: Classification and Measurement.
- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

Amendments

- Amendments to IAS 19 – Defined benefit plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014).

New IFRICs

- IFRIC 21 – Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).

Annual improvements

- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

The Group is currently assessing the impact of the new standards, IFRICs and amendments on its consolidated financial statements.

6 Cash and Cash Equivalents

In thousands of USD	2013	2012
Cash on hand	319	308
Cash balances with the CBRF (other than mandatory reserve deposits)	109,025	39,366
Placements with other banks and organizations with original maturities of less than three months, including:		
– A- to A+ rated	154,533	104,103
– BBB rated	258,352	267,785
– BB- to BB+ rated	–	49
– B- to B+ rated	353	41,107
Unrated	52,622	4,664
Total Cash and Cash Equivalents	**575,204**	**457,382**

6 Cash and Cash Equivalents continued

The Group evaluates the quality of cash and cash equivalents on the basis of Fitch international ratings and in case of their absence uses Standard & Poor's or Moody's ratings adjusting them to Fitch's categories using a reconciliation table.

Cash and cash equivalents placed with unrated organizations represent the funds which are deposited with a well-established Russian organization with no credit rating set by Fitch international ratings, Standard & Poor's or Moody's ratings. There is no history of default of this organization.

Cash and cash equivalents are neither impaired nor past due. Refer to Note 29 for the disclosure of the fair value of cash and cash equivalents. Interest rate, maturity and geographical risk concentration analyses of cash and cash equivalents is disclosed in Note 25.

7 Loans and Advances to Customers

In thousands of USD	2013	2012
Loans to individuals:		
Credit card loans	2,401,790	1,674,651
Installment loans	78,761	29,349
Cash loans	51,876	–
POS loans	14,747	8,854
Total loans and advances to customers before impairment	**2,547,174**	**1,712,854**
Less: Provision for loan impairment	(287,368)	(139,588)
Total loans and advances to customers	**2,259,806**	**1,573,266**

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

The Group has a restructuring programme for delinquent borrowers who demonstrate a willingness to settle their debt by switching to fixed monthly repayments of outstanding amounts ("installment loans").

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

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

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

In units	2013	2012
Credit card limits		
Up to 10 RR thousand	402,848	260,840
10–20 RR thousand	216,685	196,312
20–30 RR thousand	223,300	254,379
30–40 RR thousand	197,551	209,698
40–50 RR thousand	185,982	186,634
50–60 RR thousand	169,763	143,124
60–80 RR thousand	283,249	210,745
80–100 RR thousand	208,944	159,806
More than 100 RR thousand	295,102	64,926
Total cards	**2,183,424**	**1,686,464**

7 Loans and Advances to Customers continued

Movements in the provision for loan impairment for the year ended 31 December 2013 are as follows:

In thousands of USD	As at 31 December 2012	Effect of translation	Sales of bad debts	Provision for impairment during the period	As at 31 December 2013
Loans to individuals:					
Credit card loans	132,758	(13,186)	(132,992)	269,217	255,797
Installment loans	5,881	(1,203)	(12,407)	34,765	27,036
POS loans	949	(142)	–	2,758	3,565
Cash loans	–	(27)	–	997	970
Total provision for loan impairment	**139,588**	**(14,558)**	**(145,399)**	**307,737**	**287,368**

Movements in the provision for loan impairment for the year ended 31 December 2012 are as follows:

In thousands of USD	As at 31 December 2011	Effect of translation	Sales of bad debts	Provision for impairment during the period	As at 31 December 2012
Loans to individuals:					
Credit card loans	42,686	4,590	(32,353)	117,835	132,758
Installment loans	3,629	265	(3,629)	5,616	5,881
POS loans	–	22	–	927	949
Total provision for loan impairment	**46,315**	**4,877**	**(35,982)**	**124,378**	**139,588**

In 2013 the Group sold bad debts to third parties (external debt collection agencies) with a gross amount of USD 150,113 thousand (2012: USD 35,982 thousand), and provision for impairment of USD 145,399 thousand (2012: USD 35,982 thousand). The difference between the carrying amount of these loans and the consideration received was recognised in profit or loss as gain from the sale of bad debts in the amount of USD 9,311 thousand (2012: USD 5,103 thousand). The criteria for bad debts to qualify for sale to external debt collection agencies are disclosed in Note 25.

Analysis of loans to individuals by credit quality is as follows:

	31 December 2013				31 December 2012		
In thousands of USD	Credit card loans	Installment loans	Cash loans	POS loans	Credit card loans	Installment loans	POS loans
Neither past due nor impaired:							
– *new*	40,386	–	–	4,312	88,321	–	3,964
Loans collectively assessed for impairment (gross):							
– *non-overdue*	2,011,120	55,672	51,446	6,711	1,393,421	21,477	3,790
– *less than 30 days overdue*	92,080	8,766	353	366	70,655	2,827	495
– *30 to 90 days overdue*	88,419	8,229	77	428	45,587	1,892	295
– *90 to 180 days overdue*	87,961	5,082	–	446	41,784	2,018	234
– *180 to 360 days overdue*	12,518	764	–	1,715	10,450	201	76
– *over 360 days overdue*	1,267	248	–	769	190	934	–
– *loans in courts*	68,039	–	–	–	24,243	–	–
Less: Provision for loan impairment	(255,797)	(27,036)	(970)	(3,565)	(132,758)	(5,881)	(949)
Total loans to individuals	**2,145,993**	**51,725**	**50,906**	**11,182**	**1,541,893**	**23,468**	**7,905**

Loans in category “new” represent loans provided to borrowers for which the date of the first payment did not occur before the reporting date.

7 Loans and Advances to Customers continued

Loans in courts are loans to delinquent borrowers, against which the Group filed claims to courts in order to recover outstanding balances.

The Group assesses non-overdue loans for impairment collectively as a homogeneous population with similar credit quality as disclosed above.

The Group considers overdue loans as impaired.

Refer to Note 29 for the estimated fair value of each class of loans and advances to customers.

Interest rate, maturity and geographical risk concentration analyses of loans and advances to customers is disclosed in Note 25. Information on related party balances is disclosed in Note 31.

8 Guarantee Deposits with Payment Systems

Guarantee deposits with payment systems represent funds put aside by the Group in Barclays Bank Plc London (A rated as at 31 December 2013 and 2012) as a guarantee deposit in favor of Master Card and Visa. The amount of deposit is calculated as a percentage of monthly credit cards transactions turnovers. The carrying value of the guarantee deposits with payment systems at 31 December 2013 was USD 50,644 thousand (2012: USD 33,592 thousand).

The Group evaluates the quality of the guarantee deposits with payment systems on the basis of Fitch international ratings and in case of their absence uses Standard & Poor's or Moody's ratings adjusting them to Fitch's categories using a reconciliation table.

9 Tangible Fixed and Intangible Assets

In thousands of USD	Equipment	Leasehold improvements	Vehicles	Total tangible fixed assets	Intangible assets
Cost					
At 31 December 2011	**6,217**	**3,132**	**831**	**10,180**	**13,041**
Additions	10,125	7,735	112	17,972	8,506
Transfers	–	–	(30)	(30)	–
Translation reserve	473	223	59	755	829
At 31 December 2012	**16,815**	**11,090**	**972**	**28,877**	**22,376**
Additions	4,253	5,950	302	10,505	7,005
Transfers	–	–	(120)	(120)	–
Translation reserve	(1,272)	(887)	(75)	(2,234)	(1,667)
At 31 December 2013	**19,796**	**16,153**	**1,079**	**37,028**	**27,714**
Depreciation and amortisation					
At 31 December 2011	**(3,585)**	**(1,868)**	**(216)**	**(5,669)**	**(5,346)**
Charge for the period (Note 21)	(2,724)	(2,149)	(167)	(5,040)	(3,365)
Transfers	–	–	30	30	–
Translation reserve	(154)	(82)	(10)	(246)	(205)
At 31 December 2012	**(6,463)**	**(4,099)**	**(363)**	**(10,925)**	**(8,916)**
Charge for the period (Note 21)	(4,491)	(3,622)	(154)	(8,267)	(3,816)
Transfers	–	–	80	80	–
Translation reserve	426	587	39	1,052	746
At 31 December 2013	**(10,528)**	**(7,134)**	**(398)**	**(18,060)**	**(11,986)**
Net book value					
At 31 December 2012	**10,352**	**6,991**	**609**	**17,952**	**13,460**
At 31 December 2013	**9,268**	**9,019**	**681**	**18,968**	**15,728**

Leasehold improvements are capital expenditures on rented offices and are depreciated over the term of the lease, which is 5 years.

Intangible assets include the license on insurance operations.

Intangible assets acquired during the years ended 31 December 2013 and 2012 mainly represent accounting software, retail banking software, licenses and development of software.

The increase in the balance of tangible fixed assets and intangible assets in 2013 was due to the acquisition of equipment and software for the newly rented office.

10 Other Financial and Non-financial Assets

In thousands of USD	2013	2012
Other Financial Assets		
Settlement of operations with plastic cards	31,027	37,984
Trade and other receivables	4,025	575
Other	404	436
Total Other Financial Assets	**35,456**	**38,995**
Other Non-Financial Assets		
Prepaid expenses	15,328	3,984
Other	664	84
Total Other Non-Financial Assets	**15,992**	**4,068**

Settlement of operations with plastic cards represents balances due from payment agents in respect of payments made by borrowers to reimburse credit card loans and to be settled within 30 days.

As at 31 December 2013 prepaid expenses consist of prepayments for office equipment, cycling team sponsorship, postal services and office rent (2012: prepaid expenses for postal services and office rent).

Other financial assets are not impaired and not past due. Refer to Note 29 for the disclosure of the fair value of other financial assets.

The maturity and geographical risk concentration analyses of amounts of other financial assets are disclosed in Note 25.

11 Customer Accounts

In thousands of USD	2013	2012
Legal entities		
– Current/settlement accounts of corporate entities	4,437	189
– Term deposits of corporate entities	44,347	35,144
Individuals		
– Current/settlement accounts of individuals	256,794	79,360
– Term deposits of individuals	1,014,547	763,453
Total Customer Accounts	**1,320,125**	**878,146**

Growth of current/settlement accounts of individuals was due to introduction of a new product for debit card holders in the end of 2012 which implies accrual of interest on current accounts of individuals.

Refer to Note 29 for the disclosure of the fair value of customer accounts. Interest rate, maturity and geographical risk concentration analyses of customer accounts amounts are disclosed in Note 25. Information on related party balances is disclosed in Note 31.

12 Debt Securities in Issue

In thousands of USD	2013	2012
USD denominated bonds issued in September 2012	254,987	252,627
USD denominated bonds issued in April 2011	178,245	176,341
RR denominated bonds issued in May 2013	92,041	–
Euro-Commercial Paper issued in July 2013	74,955	–
RR denominated bonds issued in July 2012	63,878	69,440
Euro-Commercial Paper issued in March 2013	49,179	–
RR denominated bonds issued in April 2012	46,707	50,283
RR denominated bonds issued in February 2011	20,688	22,548
Euro-Commercial Paper issued in July 2013	19,471	
SEK denominated bonds issued in December 2011	–	81,168
RR denominated bonds issued in July 2010	–	49,550
RR denominated bonds issued in November 2010	–	40,747
RR denominated bonds issued in September 2010	–	19,710
Total Debt Securities in Issue	**800,151**	**762,414**

12 Debt Securities in Issue continued

On 18th September 2012 the Group issued USD denominated bonds with a nominal value of USD 250 mln at 10.75% coupon rate maturing on 18 September 2015.

On 22nd April 2011 the Group issued USD denominated bonds with a nominal value of USD 175 mln at 11.5% coupon rate maturing on 22 April 2014.

On 28th May 2013 the Group issued RR denominated bonds with a nominal value of RR 3,000 mln (equivalent of USD 95.8 mln) at 10.25% coupon rate maturing on 24 May 2016.

On 9th July 2013 the Group issued USD denominated Euro-Commercial Paper (ECP) with a nominal value of USD 75 mln with a discount of 4.5% maturing on 10 January 2014.

On 16th July 2012 the Group issued RR denominated bonds with a nominal value of RR 2,000mln (equivalent of USD61.2mln)at 13.9% coupon rate maturing on 14 July 2015.

On 27th March 2013 the Group issued USD denominated Euro-Commercial Paper (ECP) with a nominal value of USD 50 mln with a discount of 6.25% maturing on 26 March 2014.

On 19th April 2012 the Group issued RR denominated bonds with a nominal value of RR 1,500 mln (equivalent of USD 50.6 mln) at 13.25% coupon rate maturing on 16 April 2015.

On 22nd February 2011 the Group issued RR denominated bonds with a nominal value of RR 1,500 mln (equivalent of USD 51.4 mln) at 14.0% coupon rate maturing on 18 February 2014. On 22nd of August 2012 the Group redeemed part of these bonds in according with the public offer at nominal value.

On 9th July 2013 the Group issued USD denominated Euro-Commercial Paper (ECP) with a nominal value of USD 20 mln with a discount of 5.25% maturing on 9 July 2014.

On 29th December 2011 the Group issued SEK denominated bonds with a nominal value of SEK 550 mln (equivalent of USD 79.5 mln) at 12.75% coupon rate and 5.0% discount maturing on 29 December 2013. On the 28th June 2013 the Group has fully redeemed these bonds before the maturity.

On 26th July 2010 the Group issued RR denominated bonds with nominal value of RR 1,400 mln (equivalent of USD 46.1 mln) at 20% coupon rate. They were fully redeemed on 28 July 2013.

On 30th November 2010 the Group issued RR denominated bonds with a nominal value of RR 1,500 mln (equivalent of USD 47.9 mln) at 16.5% coupon rate maturing on 26 November 2013. They were fully redeemed on 26 November 2013.

On 20th September 2010 the Group issued RR denominated bonds with nominal value of RR 1,600 mln (equivalent of USD 51.5 mln) at 14.22% coupon rate. On 5th October 2012 the Group redeemed part of these bonds in accordance with a public offer at nominal value. The rest of the issue was redeemed on 20 September 2013.

All the securities issued by the Group are traded on stock exchanges. Refer to Note 29 for the disclosure of the fair value of debt securities in issue, Note 25 for the disclosure of financial risk management and Note 31 for the disclosure of related party transactions.

13 Subordinated Debt

As at 31 December 2013 the carrying value of the subordinated debt was USD 199,576 thousand (31 December 2012: USD 123,897 thousand). On 6 December 2012 and 18 February 2013 the Group issued USD denominated subordinated bonds with a nominal value of USD 125 mln with zero premium and USD 75 mln at a premium of 7.0% at 14.0% coupon rate (applicable to both tranches) maturing on 6 June 2018. The claims of the lenders against the Group in respect of the principal and interest on these bonds are subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation. Refer to Note 29 for the disclosure of the fair value of financial instruments.

Interest rate, maturity and geographical risk concentration analyses of subordinated debt are disclosed in Note 25. Refer to Note 29 for the disclosure of fair value of subordinated debt.

14 Other Financial and Non-financial Liabilities

In thousands of USD	2013	2012
Other Financial Liabilities		
Settlement of operations with plastic cards	46,856	60,524
Trade payables	766	1,778
Other	1,994	8,268
Total Other Financial Liabilities	**49,616**	**70,570**
Other Non-financial Liabilities		
Accrued administrative expenses	16,174	6,610
Liability under LTIP (Note 31)	–	1,931
Other	9,296	–
Total Other Non-financial Liabilities	**25,470**	**8,541**

Settlements of operations with plastic cards include funds that were spent by customers of the Group by usage of plastic cards but have not yet been compensated to payment systems by the Group.

Accrued administrative expenses are mainly represented by the accrued staff costs.

Interest rate, maturity and geographical risk concentration analyses of other financial liabilities are disclosed in Note 25. Refer to Note 29 for disclosure of fair value of other financial liabilities.

15 Share Capital

In thousands of USDexcept for number of shares	Number of authorised shares	Number of outstanding shares	Ordinary shares	Share premium	Treasury shares	Total
At 31 December 2011	**7,619,180**	**6,370,536**	**6,370**	**81,631**	**(77)**	**87,924**
Shares issued	–	406,637	407	37,093	–	**37,500**
At 31 December 2012	**7,619,180**	**6,777,173**	**6,777**	**118,724**	**(77)**	**125,424**
Effect of decrease of nominal value of shares	182,860,320	162,652,152	–	–	–	**–**
Shares issued	–	11,759,750	471	174,597	(10)	**175,058**
Initial public offering costs	–	–	–	(5,050)	–	**(5,050)**
At 31 December 2013	**190,479,500**	**181,189,075**	**7,248**	**288,271**	**(87)**	**295,432**

From 22 October 2013 the nominal value of each share was changed to USD 0.04.

The total authorised number of ordinary shares is 190,479,500 shares (2012: 7,619,180 shares) with a par value of USD 0.04 per share (2012: USD 1 per share). All issued ordinary shares are fully paid.

At 31 December 2013 share capital of the Group is comprised “class A” shares and “class B” shares. A “class A” share is an ordinary share with a nominal value of USD0.04 per share and carrying one vote. The number of “class A” shares is 89,044,396. A “class B” share is an ordinary share with a nominal value of USD0.04 per share and carrying 10 votes. The number of “class B” shares is 92,144,679.

At 31 December 2012 share capital of the Group comprised “class A” (4,142,930 shares), “class B” (840,988), “class C” (902,667), “class D” (542,182), “class E” (271,087) shares and other ordinary shares (77,319 shares). Shares of all classes were fully paid, had a nominal value of USD 1.00 per share and carried one vote.

On 25 October 2013 the Group completed an initial public offering of its “class A” ordinary shares in the form of global depository receipts (GDRs) on the London Stock Exchange plc. The Offering included both primary and secondary components. The primary component represents issue of new shares in the number of 10,000,000, secondary component represents the sale of shares owned by some of the existing shareholders. The total offering comprised USD 1,087 mln excluding the stabilisation amount. The primary part amounted to USD 175 mln. Stabilisation amount represents the amount of shares which were subject to repurchase from the market by the shareholders in case of high volatility of the share price during stabilisation period. Stabilisation amount was repurchased from the market in full.

15 Share Capital continued

In October 2013 the Group issued 12,400 ordinary shares with a par value of USD 1 per share (310,000 ordinary shares with a par value of USD 0.04 per share), deemed fully paid, to Altruco Trustees Limited under the Equity long-term incentive plan ("Equity LTIP"). Refer to Note 31.

In June 2013 the Group issued 57,990 ordinary shares with a par value of USD 1 per share (1,449,750 ordinary shares with a par value of USD 0.04 per share), deemed fully paid, to Altruco Trustees Limited under the employee share option plan ("ESOP") Refer to Note 31.

In May 2012 the Company issued 406,637 ordinary shares with a par value of USD 1 per share and a premium of USD 91.22 per share to a new shareholder, Baring Vostok Private Equity Fund IV, L.P.

Treasury shares represent shares issued by the Group under the ESOP and Equity LTIP and all owned by a trustee. Refer to Note 31.

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

For the purpose of calculating diluted earnings per share the Group considered the effect of shares issued under the ESOP and Equity LTIP. Refer to Note 31.

Earnings per share are calculated as follows:

In thousands of USDexcept for number of shares	2013	2012
Profit for the year attributable to ordinary shareholders	180,698	121,914
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation (thousands)	169,265	163,636
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation (thousands)	172,490	165,784
Basic earnings per ordinary share (expressed in USD per share)	**1.07**	**0.75**
Diluted earnings per ordinary share (expressed in USD per share)	**1.05**	**0.74**

For the comparability purposes basic and diluted earnings per share were recalculated to reflect change in the nominal value of shares.

16 Interest Income and Expense

In thousands of USD	2013	2012
Interest income		
Loans and advances to customers, including:		
Credit card loans	1,076,729	654,682
Instalment loans	8,139	495
Cash loans	7,727	–
POS loans	6,725	938
Placements with other banks	830	1,721
Total Interest Income	**1,100,150**	**657,836**
Interest expense		
Customer accounts	126,311	74,050
Eurobonds	61,008	42,439
RR denominated bonds	35,901	39,171
Subordinated debt	26,623	1,165
Euro-Commercial Paper	4,610	–
Due to banks	2,302	776
Total Interest Expense	**256,755**	**157,601**
Net Interest Income	**843,395**	**500,235**

17 Customer Acquisition Expenses

In thousands of USD	2013	2012
Marketing and advertising	55,598	41,378
Staff costs	44,878	18,665
Personalisation, printing and distribution	6,674	16,657
Credit bureaux	5,705	3,759
Telecommunication expenses	1,931	1,232
Acquisition and partnerships	262	3,567
Other	601	–
Total customer acquisition expenses	**115,649**	**85,258**

Customer acquisition expenses represent expenses paid by the Group on services related to origination of credit card customers (mailing of advertising materials, processing of responses, marketing and advertising etc). The Group uses a variety of different channels for the acquisition of new customers.

Staff costs represent salary expenses and related costs of employees involved in customer acquisition. Included in staff costs are statutory social contributions to the fund in the amount of USD 10,198 thousand (2012: USD 4,058 thousand).

Acquisition and partnerships represent expenses on acquisition of databases containing information on potential customers and on partnership programmes with companies offering the services of the Bank.

18 Losses less Gains from Operations with Foreign Currencies

In thousands of USD	2013	2012
Foreign exchange translation (losses less gains)/gains less losses	(28,619)	9,106
Gains less losses/(losses less gains) from derivative revaluation	10,105	(17,024)
Gains less losses/(losses less gains) from trading in foreign currencies	7,012	(403)
Losses less gains from operations with foreign currencies	**(11,502)**	**(8,321)**

19 Income from insurance operations

In thousands of USD	2013	2012
Insurance agency fees	2,566	306
Insurance premiums earned	4,164	–
Insurance claims incurred	(669)	–
Total income from insurance operations	**6,061**	**306**

20 Fee and Commission Expense

In thousands of USD	2013	2012
Service fees	9,217	7,051
Payment systems	4,878	–
Banking and other fees	728	366
Total fee and commission expense	**14,823**	**7,417**

Service fees represent fees for statement printing, mailing services and sms services.

Payment systems fees represent fees for Master Card and Visa services.

21 Administrative and Other Operating Expenses

In thousands of USD	Note	2013	2012
Staff costs		105,529	68,554
Taxes other than income tax		24,242	19,493
Communication services		13,358	10,485
Rental expenses		11,011	4,263
Depreciation of tangible fixed assets	9	8,267	5,040
Professional services		6,513	1,934
Amortisation of intangible assets	9	3,816	3,365
Expenses on deposit insurance		3,785	2,375
Information services		3,206	2,547
Stationary and office expenses		2,757	1,372
Transportation		574	359
Other administrative expenses		3,390	2,740
Total administrative and other operating expenses		**186,448**	**122,527**

The expenses stated above include fees of USD 59 thousand (2012: USD 49 thousand) for audit services, USD 4 thousand (2012: USD 15 thousand) for tax consultancy services and USD 189 thousand (2012: USD 96 thousand) for other non-audit assurance services charged by the Company's statutory audit firm.

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

In thousands of USD	2013	2012
Statutory social contribution to the pension fund	10,198	4,850
Share-based remuneration	9,358	9,068

22 Other Operating Income

In thousands of USD	2013	2012
Gain from stabilisation operations related to IPO	5,357	–
Reimbursement of IPO costs	4,050	–
Income from marketing services	1,283	–
Other operating income	588	335
Total other operating income	**11,278**	**335**

In 2013 the Group incurred some costs related to the IPO (see Note 1). All the costs were divided into the following categories: primary and secondary (related to primary issue of shares and secondary sale of shares held by shareholders of the Group, respectively) and direct and indirect.

Primary direct expenses were accounted within share premium (see Note 15). All other expenses were accounted within administrative expenses (professional services line). In accordance with the conditions of the Terms of appointment of the depository dated 11 October 2013 signed by the Group, certain IPO expenses are due to be reimbursed by JPMorgan Chase Bank, N. A., which have been accrued within other operating income.

Gain from stabilisation operations related to IPO represents a share in the profit received by underwriting banks from stabilisation operations undertaken to to limit volatility in the GDR offer price in the period following the start of trading.

23 Income Taxes

Income tax expense comprises the following:

In thousands of USD	2013	2012
Current tax	(50,929)	(45,964)
Deferred tax	(4,509)	9,800
Income tax expense for the year	**(55,438)**	**(36,164)**

The income tax rate applicable to the majority of the Group's income is 20% (2012: 20%). The operations of the Group are subject to multiple tax jurisdictions. The income tax rate applicable to the Russian subsidiaries of the Company is 20%. The income tax rate applicable to the Company registered in Cyprus is 12.5% (2012: 10%).

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

In thousands of USD	2013	2012
Profit before tax	**236,136**	**158,078**
Theoretical tax expense at statutory rate of 20% (2012: 20%)	(47,227)	(31,615)
Tax effect of items, which are not deductible or assessable for taxation purposes:		
– Non-deductible expenses	(10,619)	(4,909)
– Other	(687)	(86)
Effects of different tax rates in other countries		
– Financial result of parent entity at 12.5% (2012: 10%)	3,095	70
– Parent entity of tax loss carry forward utilised at 12.5% (2012: 10%)	–	376
Income tax expenses for the year	**(55,438)**	**(36,164)**

The Group does not have any unrecognised tax loss carried forward of the Company. Tax losses can be carried forward for a period of 5 years from their generation in accordance with Cyprus tax legislation. Differences between IFRS and taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. As all of the Group's temporary differences arise in Russia, the tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2012: 20%).

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority. Deferred tax liability in the amount of USD 199 thousand relates to the Insurance company.

In thousands of USD	31 December 2012	(Charged)/ credited to profit or loss	Effect of translation	31 December 2013
Tax effect of deductible and taxable temporary differences				
Loans and advances to customers	11,168	(5,213)	(781)	5,174
Tangible fixed assets	(2,091)	355	163	(1,573)
Intangible assets	(2,685)	(375)	232	(2,828)
Accrued expenses	4,455	4,322	13	8,790
Customer accounts	(1,162)	(564)	111	(1,615)
Debt securities in issue	(535)	711	24	200
Financial derivatives	2,220	(3,745)	(82)	(1,607)
Net deferred tax assets	**11,370**	**(4,509)**	**(320)**	**6,541**

23 Income Taxes continued

In thousands of USD	31 December 2011	(Charged)/ credited to profit or loss	Effect of translation	31 December 2012
Tax effect of deductible and taxable temporary differences				
Loans and advances to customers	3,471	7,393	304	11,168
Tangible fixed assets	(82)	(2,004)	(5)	(2,091)
Intangible assets	(1,539)	(1,089)	(57)	(2,685)
Accrued expenses	941	3,461	53	4,455
Customer accounts	(513)	(620)	(29)	(1,162)
Debt securities in issue	(922)	439	(52)	(535)
Financial derivatives	–	2,220	–	2,220
Net deferred tax assets	**1,356**	**9,800**	**214**	**11,370**

24 Segment Analysis

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

The business of the Group is represented by one operating segment – "retail banking" as the Group specialises in the issuance of credit cards. All management decisions are based on financial information related to the retail banking segment.

Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on International Financial Reporting Standards with no adjustments for the requirements of internal reporting.

The CODM evaluates the performance of the business based on total revenue and profit before tax as reported in the IFRS consolidated financial statements. Total consolidated revenues of USD 1,129,050 thousands (2012: USD 663,580 thousands) comprise interest income, gain from sales of bad debts, income from sale of third parties insurance policies and other operating income. The profit before tax analysed by CODM is USD 236,136 thousands (2012: USD 158,078 thousands).

25 Financial Risk Management

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

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets. The Group uses a migration matrix approach for calculation of the loan loss provisions. The Group grants retail loans to customers across all regions of Russia, therefore its credit risk is broadly diversified.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position and within contingencies and commitments (Note 27). The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

- Citizenship of the Russian Federation;
- Valid passport of the Russian Federation;
- Age 18 to 70 inclusive;
- Monthly income above RR 5 thousand;
- Availability of a cell-phone;
- Permanent employment;
- No currently delinquent loans with the Bank.

25 Financial Risk Management continued

For cash loans, minimum requirements are listed below:
- Cash loans are provided only to the best existing Bank customers with an active credit card account in the Bank;
- There should be no active loans in other banks according to credit bureau information;
- Cash loan volumes cannot exceed RR 200 thousand.

For POS loans minimum requirements are listed below:
- The requested loan amount should exceed RR 3 thousand;
- The requested loan term is from 3 to 24 months;
- The total current debt in the Bank does not exceed RR 150 thousand.

A credit decision is made in five steps:
a) the first step includes validation of the application data. Credit officers check the documents and validate contact information (addresses and telephone numbers).
b) the second step includes phone verification of the application information about the potential customer, his/her employment, social and property status, etc. This step may be omitted for POS loans.
c) the third step includes requesting of the previous credit history of the applicant from the three largest credit bureau in Russia – Equifax, UCB (United Credit Bureau) and NBCH (National Bureau of Credit Histories).
d) based on all available information, the credit score of the applicant is calculated and a final decision is made about the approval of the credit product.
e) finally, the approved loan amount, loan term and tariff plan are calculated depending on the score and declared income.

When loans become unrecoverable or not economically viable to pursue further collection efforts, the Collection Department decides to sell these loans to a debt collection agency. The Collection Department considers the following criteria for bad debts qualifying for sale to external debt collection agencies:
a) loans remain unpaid after all collection procedures were performed (no payment during last 4–6 months);
b) the debtor cannot be either reached or found for the previous 4 months;
c) the debtor has no assets and there is no expectation he/she will have any in the future;
d) the debtor has died and there is no known estate or guarantor;
e) it is determined that it is not cost effective to continue collection efforts.

Management of the Group manages the credit risk on unused limits on credit cards in the following way:
a) if the credit card loan is overdue for more than 7 days, its account will be blocked till repayment;
b) if the borrower had lost his/her source of income, then borrower account will be blocked till verification of his/her new employment;
c) if borrower's income is substantially less than at the time of loan origination then the borrower's limit for credit might be reduced accordingly.

When a customer experiences serious difficulties with his/her current debt servicing, he/she may be offered loan restructuring. In this case the Bank stops accrual of interest, commissions and fines and the debt amount is restructured according to a fixed instalment payment plan with not more than 36 equal monthly payments. For long-term customers, who used the Bank's services for more than 12 months and with current debt above RR 50 thousand, there is no restructuring fee.

Another way of working with overdue loans is initiation of the state court process. This collection option statistically gives greater recovery than the sale of bad debts. Defaulted clients that could be subject to the court process are chosen by the Bank's Collection Department considering the following criteria:
a) the client's account balance was fixed, accrual of interest stopped;
b) information about the client is considered to be up to date;
c) the client denied restructuring programme;
d) term of limitation of court actions has not expired;
e) court process is economically justified;
f) other minor criteria.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

25 Financial Risk Management continued

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of USD	At 31 December 2013 Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	At 31 December 2012 Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
RR	2,490,555	(1,417,803)	(463,225)	609,527	1,713,902	(1,058,138)	(408,802)	246,962
USD	421,738	(913,067)	481,006	(10,323)	378,346	(677,106)	308,952	10,192
Euro	37,264	(38,598)	550	(784)	33,376	(35,545)	–	(2,169)
SEK	–	–	(480)	(480)	171	(81,168)	88,749	7,752
Total	**2,949,557**	**(2,369,468)**	**17,851**	**597,940**	**2,125,795**	**(1,851,957)**	**(11,101)**	**262,737**

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

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

In thousands of USD	At 31 December 2013 Impact on profit or loss	Impact on equity (pre-tax)	At 31 December 2012 Impact on profit or loss	Impact on equity (pre-tax)
USD strengthening by 15% (2012: by 15%)	(1,548)	(1,548)	1,521	1,521
USD weakening by 15% (2012: by 15%)	1,548	1,548	(1,521)	(1,521)
Euro strengthening by 15% (2012: by 15%)	(118)	(118)	(323)	(323)
Euro weakening by 15% (2012: by 15%)	118	118	323	323
SEK strengthening by 15% (2012: by 15%)	(72)	(72)	1,163	1,163
SEK weakening by 15% (2012: by 15%)	72	72	(1,163)	(1,163)

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

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

Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In 2013 the management of the Group started to use more precise historical data for the estimation of maturity of loans and advances to customers for the interest rate risk disclosure purposes. Disclosure as at 31 December 2012 was adjusted to conform to the updated methodology.

In thousands of USD	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
31 December 2013						
Total financial assets	1,859,785	902,248	131,986	73,189	200	2,967,408
Total financial liabilities	(519,215)	(711,998)	(424,831)	(515,715)	(197,709)	(2,369,468)
Net interest sensitivity gap at 31 December 2013	**1,340,570**	**190,250**	**(292,845)**	**(442,526)**	**(197,509)**	**597,940**
31 December 2012						
Total financial assets	1,293,573	735,825	81,936	15,287	–	2,126,621
Total financial liabilities	(269,426)	(487,658)	(365,889)	(618,181)	(122,730)	(1,863,884)
Net interest sensitivity gap at 31 December 2012	**1,024,147**	**248,167**	**(283,953)**	**(602,894)**	**(122,730)**	**262,737**

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

At 31 December 2013, if interest rates at that date had been 200 basis points lower (2012: 200 points lower), with all other variables held constant, profit would have been USD 11,773 thousand (2012: USD 5,255 thousand) lower.

25 Financial Risk Management continued

If interest rates had been 200 basis points higher (2012: 200 points higher), with all other variables held constant, profit would have been USD 11,773 thousand (2012: USD 5,255 thousand) higher.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates for the years 2013 and 2012 based on reports reviewed by key management personnel. Starting from 1 January 2013 customer accounts' interest rates include commission payable to customers who transfer money to deposit account in the Bank.

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

	2013			2012			
In % p.a.	RR	USD	EURO	RR	USD	EURO	SEK
Assets							
Cash and cash equivalents	0.5	0.2	0.2	0.5	0.4	–	0.8
Loans and advances to customers	56.7	–	–	60.0	–	–	–
Liabilities							
Due to banks	–	–	–	8.0	–	–	–
Customer accounts	12.5	7.8	4.5	10.4	6.0	6.2	–
Debt securities in issue	13.0	10.6	–	17.2	12.7	–	18.1
Subordinated debt	–	14.8	–	–	15.0	–	–

Other price risk. The Group has no exposure to equity price risk as no transactions in equity products are performed.

The Group is exposed to prepayment risk through providing fixed rate loans, which give the borrower the right to repay the loans early. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2012: no material impact).

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2013 is set out below:

In thousands of USD	Russia	OECD	Other Non-OECD	Total
Financial assets				
Cash and cash equivalents	293,440	281,764	–	575,204
Mandatory cash balances with the CBRF	28,447	–	–	28,447
Loans and advances to customers	2,259,806	–	–	2,259,806
Financial derivatives	8,545	9,306	–	17,851
Guarantee deposits with payment systems	–	50,644	–	50,644
Other financial assets	14,498	20,958	–	35,456
Total financial assets	**2,604,736**	**362,672**	**–**	**2,967,408**
Financial liabilities				
Customer accounts	1,275,778	–	44,347	1,320,125
Debt securities in issue	223,314	576,837	–	800,151
Subordinated debt	–	199,576	–	199,576
Other financial liabilities	4,345	45,271	–	49,616
Total financial liabilities	**1,503,437**	**821,684**	**44,347**	**2,369,468**
Unused limits on credit card loans (Note 27)	**1,266,185**	**–**	**–**	**1,266,185**

25 Financial Risk Management continued

The geographical concentration of the Group's financial assets and liabilities at 31 December 2012 is set out below:

In thousands of USD	Russia	OECD	Other Non-OECD	Total
Financial assets				
Cash and cash equivalents	187,038	270,344	–	457,382
Mandatory cash balances with the CBRF	22,560	–	–	22,560
Loans and advances to customers	1,573,266	–	–	1,573,266
Financial derivatives	–	826	–	826
Guarantee deposits with payment systems	–	33,592	–	33,592
Other financial assets	38,995	–	–	38,995
Total financial assets	**1,821,859**	**304,762**	**–**	**2,126,621**
Financial liabilities				
Due to banks	16,930	–	–	16,930
Customer accounts	844,168	–	33,978	878,146
Debt securities in issue	252,278	510,136	–	762,414
Financial derivatives	–	11,927	–	11,927
Subordinated debt	–	123,897	–	123,897
Other financial liabilities	70,570	–	–	70,570
Total financial liabilities	**1,183,946**	**645,960**	**33,978**	**1,863,884**
Unused limits on credit card loans (Note 27)	**833,026**	**–**	**–**	**833,026**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand and tangible fixed assets have been allocated based on the country in which they are physically held.

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group did not have any such significant risk concentrations at 31 December 2013 and 2012.

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

The Group seeks to maintain a stable funding base primarily consisting of amounts due to institutional investors, corporate and retail customer deposits and debt securities. The Group keeps all available cash in diversified portfolios of liquid instruments such as a correspondent account with CBRF and overnight placements in high-rated commercial banks, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The available cash at all times exceeds all accrued financing costs falling due within half a year plus two months of regular operating costs.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The liquidity analysis takes into account the covenant requirements and ability of the Group to waive any potential breaches within the grace period.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the CBRF. The Bank has complied with these ratios throughout 2013 and 2012.

25 Financial Risk Management continued

The CFO receives information about the liquidity profile of the financial assets and liabilities. This includes daily, weekly, monthly and quarterly updates on the level of credit card transactions and repayments, statistics on credit card issuance and credit card limit utilisation, inflow and outflow of retail deposits, level of expected outflows such as operating costs and financing activities. The CFO then ensures the availability of an adequate portfolio of short-term liquid assets, made up of an amount on the correspondent account with the CBRF and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole. Major assumptions used in liquidity analysis are based on long-standing statistics that shows that on average, about 71–75% of issued credit cards are activated, about 83–90% of activated credit cards are actually used, utilisation rate for credit cards is stable at 94–95%. The level of quarterly transactions is generally within 28–32% of the gross credit card portfolio while the level of quarterly repayments is generally 36–39% of the gross credit card portfolio. Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behavior is reviewed by the CFO.

The table below shows liabilities at 31 December 2013 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

In thousands of USD	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities						
Customer accounts	421,308	248,477	227,742	422,274	77,411	1,397,212
Debt securities in issue	78,039	84,375	191,836	71,285	465,170	890,705
Subordinated debt	–	–	13,970	13,970	297,819	325,759
Other financial liabilities	49,616	–	–	–	–	49,616
Unused limits on credit card loans (Note 27)	1,266,185	–	–	–	–	1,266,185
Total potential future payments for financial obligations	**1,815,148**	**332,852**	**433,548**	**507,529**	**840,400**	**3,929,477**

The maturity analyses of financial liabilities at 31 December 2012 is as follows:

In thousands of USD	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities						
Due to banks	–	–	–	17,770	–	17,770
Customer accounts	178,926	269,290	209,997	160,897	100,554	919,664
Debt securities in issue	9,187	16,331	36,985	257,024	611,399	930,926
Financial derivatives	11,927	–	–	–	–	11,927
Subordinated debt	–	–	8,716	8,716	202,965	220,397
Other financial liabilities	70,570	–	–	–	–	70,570
Unused limits on credit card loans (Note 27)	833,026	–	–	–	–	833,026
Total potential future payments for financial obligations	**1,103,636**	**285,621**	**255,698**	**444,407**	**914,918**	**3,004,280**

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

25 Financial Risk Management continued

The expected maturity analysis of financial instruments at carrying amounts as monitored by management at 31 December 2013 is presented in the table below.

In 2013 the management of the Group started to use more precise historical data for the estimation of maturity of loans and advances to customers for the liquidity risk disclosure purposes. Disclosure as at 31 December 2012 was adjusted to conform to the updated methodology.

In thousands of USD	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Assets						
Cash and cash equivalents	575,204	–	–	–	–	575,204
Mandatory cash balances with the CBRF	28,447	–	–	–	–	28,447
Loans and advances to customers	1,152,183	666,171	236,077	131,986	73,389	2,259,806
Financial derivatives	17,851	–	–	–	–	17,851
Guarantee deposits with payment systems	50,644	–	–	–	–	50,644
Other financial assets	35,456	–	–	–	–	35,456
Total financial assets	**1,859,785**	**666,171**	**236,077**	**131,986**	**73,389**	**2,967,408**
Liabilities						
Customer accounts	391,700	228,174	225,812	403,493	70,946	1,320,125
Debt securities in issue	77,899	77,818	180,194	19,471	444,769	800,151
Financial derivatives	–	–	–	–	–	–
Subordinated debt	–	–	–	1,867	197,709	199,576
Other financial liabilities	49,616	–	–	–	–	49,616
Total financial liabilities	**519,215**	**305,992**	**406,006**	**424,831**	**713,424**	**2,369,468**
Net liquidity gap at 31 December 2013	**1,340,570**	**360,179**	**(169,929)**	**(292,845)**	**(640,035)**	**597,940**
Cumulative liquidity gap at 31 December 2013	**1,340,570**	**1,700,749**	**1,530,820**	**1,237,975**	**597,940**	

In 2013 management of the Group revised the method of loan maturity determination which is based on the maturity distribution that was respectively applied to the loans to customers at 31 December 2013 and 2012.

In 2013 the management of the Group started to use more precise historical data for the estimation of maturity of loans and advances to customers for the interest rate risk disclosure purposes. Disclosure as at 31 December 2012 was adjusted to conform to the updated methodology.

25 Financial Risk Management continued

The expected maturity analysis of financial instruments at carrying amounts as monitored by management based on the revised approach at 31 December 2012 is as follows:

In thousands of USD	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Assets						
Cash and cash equivalents	457,382	–	–	–	–	457,382
Mandatory cash balances with the CBRF	22,560	–	–	–	–	22,560
Loans and advances to customers	740,218	542,404	193,421	81,936	15,287	1,573,266
Financial derivatives	826	–	–	–	–	826
Guarantee deposits with payment systems	33,592	–	–	–	–	33,592
Other financial assets	38,995	–	–	–	–	38,995
Total financial assets	**1,293,573**	**542,404**	**193,421**	**81,936**	**15,287**	**2,126,621**
Liabilities						
Due to banks	–	–	–	16,930	–	16,930
Customer accounts	178,432	267,124	198,249	162,471	71,870	878,146
Debt securities in issue	8,497	6,651	14,467	186,488	546,311	762,414
Financial derivatives	11,927	–	–	–	–	11,927
Subordinated debt	–	–	1,167	–	122,730	123,897
Other financial liabilities	70,570	–	–	–	–	70,570
Total financial liabilities	**269,426**	**273,775**	**213,883**	**365,889**	**740,911**	**1,863,884**
Net liquidity gap at 31 December 2012	**1,024,147**	**268,629**	**(20,462)**	**(283,953)**	**(725,624)**	**262,737**
Cumulative liquidity gap at 31 December 2012	**1,024,147**	**1,292,776**	**1,272,314**	**988,361**	**262,737**	

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

26 Management of Capital

The Group's objectives when managing capital are (i) for the Bank to comply with the capital requirements set by the CBRF, (ii) for the Group to comply with the financial covenants set by the terms of RR, USDand SEK denominated securities issued; (iii) to safeguard the Group's ability to continue as a going concern.

The Group considers total capital under management to be equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2013 was USD 627,911 thousand (2012: USD 298,267 thousand). Compliance with capital adequacy ratios set by the CBRF is monitored daily and submitted to the CBRF monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level of 10%.

Under the current capital requirements set by financial covenants on USD and SEK denominated securities issued, the Group has to maintain Russian statutory capital adequacy ratio (N1) above a prescribed minimum level of 13%. The Group also monitors capital requirements including capital adequacy levels calculated in accordance with the methodology set by Basel Committee with capital adjustments as set out in Basel III.

The amount of total capital calculated in accordance with the methodology set by Basel Committee with capital adjustments as set out in Basel III as at 31 December 2013 was USD 771,844 thousand (2012: USD 408,705 thousand), the amount of Tier 1 capital as at 31 December 2013 was USD 612,183 thousand (2012: USD 284,807 thousand). Total capital adequacy ratio and Tier 1 capital adequacy ratio were 25.03% and 19.85% respectively (2012: 20.1% and 14.0% respectively). The Group and the Bank have complied with all externally imposed capital requirements throughout 2013 and 2012.

27 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax contingencies. Russian tax legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing rules that become effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and the overall operations of the Group.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011 also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As at 31 December 2013 no material tax risks were identified (2012: same).

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

In thousands of USD	2013	2012
Not later than 1 year	11,427	6,462
Total operating lease commitments	**11,427**	**6,462**

27 Contingencies and Commitments continued

Compliance with covenants. The Group is subject to certain covenants related primarily to its debt securities in issue and subordinated debt. Non-compliance with such covenants may result in negative consequences for the Group. Management believes that the Group was in compliance with covenants as at 31 December 2013 and 2012.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of credit card loans. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards (Note 25). The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of USD	2013	2012
Unused limits on credit card loans	1,266,185	833,026
Total unused limits on credit card loans	**1,266,185**	**833,026**

The total outstanding contractual amount of unused limits on contingencies and commitments liability does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded and therefore its fair value is close to zero. In accordance with credit card service conditions the Group has a right to refuse the issuance, activation, reissuing or unblocking of a credit card, and is providing a credit card limit at its own discretion and without explaining its reasons for. Also the Group has a right to increase or decrease a credit card limit at any time without prior notice. Credit related commitments are denominated in RR.

28 Financial derivatives

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

	2013		2012	
In thousands of USD	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
– USD receivable on settlement (+)	472,076	16,653	–	308,953
– USD payable on settlement (-)	(7,723)	–	–	–
– RR payable on settlement (-)	(454,225)	(9,000)	(87,923)	(320,880)
– SEK receivable on settlement (+)	7,723	–	88,749	–
– SEK payable on settlement (-)	–	(8,203)	–	–
– EUR receivable on settlement (+)	–	550	–	–
Net fair value of foreign exchange forwards and swaps	**17,851**	**–**	**826**	**(11,927)**

Included in financial derivatives held by the Group as at 31 December 2013 are two outstanding swap contracts with positive fair values of USD 5,947 thousand and USD 806 thousand, respectively, with reference to the default of JSC VTB Bank and Russian Federation, respectively, and three outstanding swap contracts with total positive fair values of USD 5,292 thousand, USD 3,238 thousand and USD 1,326 thousand, respectively, with reference to the default of the Bank.

Foreign exchange derivative financial instruments entered into by the Group are generally net settled derivatives traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

29 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies its judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

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

	31 December 2013				31 December 2012			
In thousands of USD	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
Financial derivatives	–	17,851	–	17,851	–	826	–	826
Total assets recurring fair value measurements	**–**	**17,851**	**–**	**17,851**	**–**	**826**	**–**	**826**

	31 December 2013				31 December 2012			
In thousands of USD	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
LIABILITIES CARRIED AT FAIR VALUE								
Financial derivatives	–	–	–	–	–	11,927	–	11,927
Total liabilities recurring fair value measurements	**–**	**–**	**–**	**–**	**–**	**11,927**	**–**	**11,927**

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2013 are as follows:

In thousands of USD	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Foreign exchange swaps	17,851	Discounted cash flows adjusted for embedded options and counterparty credit risk.	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of embedded options and counterparty credit risk.
Forward foreign exchange forwards	–	Application of forward market quotes as of the date of valuation.	Bloomberg forward quotes.
Total recurring fair value measurements at level 2	**17,851**		

There were no changes in the valuation techniques for level 2 recurring fair value measurements during the year ended 31 December 2013 (2012: none).

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

29 Fair Value of Financial Instruments continued

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

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

	31 December 2013				31 December 2012			
In thousands of USD	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS CARRIED AT AMORTISED COST								
Cash and cash equivalents								
– Cash on hand	319	–	–	319	308	–	–	308
– Cash balances with the CBRF (other than mandatory reserve deposits)	–	109,025	–	109,025	–	39,366	–	39,366
– Placements with other banks with original maturities of less than three months	–	465,860	–	465,860	–	417,708	–	417,708
Mandatory cash balances with the CBRF	–	28,447	–	28,447	–	22,560	–	22,560
Loans and advances to customers	–	–	2,259,806	2,259,806	–	–	1,573,266	1,573,266
Guarantee deposits with payment systems	–	–	50,644	50,644	–	–	33,592	33,592
Other financial assets								
– Settlement of operations with plastic cards receivable	–	31,027	–	31,027	–	37,984	–	37,984
– Other financial assets	–	–	4,429	4,429	–	–	1,011	1,011
Total financial assets carried at amortised cost	**319**	**634,359**	**2,314,879**	**2,949,557**	**308**	**517,618**	**1,607,869**	**2,125,795**

29 Fair Value of Financial Instruments continued

In thousands of USD	31 December 2013 Level 1	Level 2	Level 3	Carrying value	31 December 2012 Level 1	Level 2	Level 3	Carrying value
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST								
Due to banks	–	–	–	–	–	–	16,930	16,930
Customer accounts								
Legal entities								
– Current/settlement accounts of corporate entities	–	4,437	–	4,437	–	189	–	189
– Term deposits of corporate entities	–	44,337	–	44,347	–	37,888	–	35,144
Individuals								
– Current/settlement accounts of individuals	–	256,794	–	256,794	–	79,360	–	79,360
– Term deposits of individuals	–	1,029,581	–	1,014,547	–	773,772	–	763,453
Debt securities in issue								
USDdenominated bonds	446,995	–	–	433,232	437,932	–	–	428,968
SEK denominated bonds	–	–	–	–	87,537	–	–	81,168
RR Bonds issued on domestic market	223,328	–	–	223,314	260,945	–	–	252,278
ECP	143,640	–	–	143,605	–	–	–	–
Subordinated debt	216,617	–	–	199,576	128,422	–	–	123,897
Other financial liabilities								
Settlement of operations with plastic cards	–	46,856	–	46,856	–	60,524	–	60,524
Trade payables	–	–	766	766	–	–	1,778	1,778
Other	–	–	1,994	1,994	–	–	8,268	8,268
Total financial liabilities carried at amortised cost	**1,030,580**	**1,382,005**	**2,760**	**2,369,468**	**914,836**	**951,733**	**26,976**	**1,851,957**

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

The fair value of the debt securities in issue and subordinated debt has been calculated based on quoted prices from OJSC Moscow Exchange MICEX-RTS, Berlin Stock Exchange, Frankfurt Stock Exchange and Irish Stock Exchange, where the Group's debt securities are listed and traded (2012: OJSC Moscow Exchange MICEX-RTS, Berlin Stock Exchange, Frankfurt Stock Exchange and Irish Stock Exchange).

Average discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

In % p.a.	2013	2012
Assets		
Cash and cash equivalents	0.3	0.4
Loans and advances to customers	56.7	60.0
Liabilities		
Due to banks	–	8.0
Customer accounts	11.1	9.6
Debt securities in issue	8.7	14.5
Subordinated debt	11.8	15.0

30 Presentation of Financial Instruments by Measurement Category

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

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2013:

In thousands of USD	Loans and receivables	FVTPL	Total
Cash and cash equivalents			
– Cash on hand	319	–	319
– Cash balances with the CBRF (other than mandatory reserve deposits)	109,025	–	109,025
– Placements with other banks with original maturities of less than three months	465,860	–	465,860
Mandatory cash balances with the CBRF	28,447	–	28,447
Loans and advances to customers	2,259,806	–	2,259,806
Financial derivatives	–	17,851	17,851
Guarantee deposits with payment systems	50,644	–	50,644
Other financial assets			
– Settlement of operations with plastic cards receivable	31,027	–	31,027
– Trade and other receivables	4,025	–	4,025
– Other financial assets	404	–	404
TOTAL FINANCIAL ASSETS	**2,949,557**	**17,851**	**2,967,408**

The following table provides a reconciliation of classes of financial assets with the measurement categories as of 31 December 2012:

In thousands of USD	Loans and receivables	FVTPL	Total
Cash and cash equivalents			
– Cash on hand	308	–	308
– Cash balances with the CBRF (other than mandatory reserve deposits)	39,366	–	39,366
– Placements with other banks with original maturities of less than three months	417,708	–	417,708
Mandatory cash balances with the CBRF	22,560	–	22,560
Loans and advances to customers	1,573,266	–	1,573,266
Financial derivatives	–	826	826
Guarantee deposits with payment systems	33,592	–	33,592
Other financial assets			
– Settlement of operations with plastic cards receivable	37,984	–	37,984
– Other financial assets	1,011	–	1,011
TOTAL FINANCIAL ASSETS	**2,125,795**	**826**	**2,126,621**

As of 31 December 2013 and 2012 all of the Group's financial liabilities except derivatives were carried at amortised cost.

31 Related Party Transactions

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

The outstanding balances with related parties were as follows:

	2013		2012	
In thousands of USD	Key management personnel	Other related parties	Key management personnel	Other related parties
ASSETS				
Gross amounts of loans and advances to customers (contractual interest rate: 24% (2012: 20%))	79	–	55	–
LIABILITIES				
Customer accounts (contractual interest rate: 11–15% p.a. (2012: 11–15% p.a.))	23,282	44,347	2,079	34,632
Securities issued (coupon rate: 20.5% p.a.)	–	–	66	–

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

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

	2013		2012	
In thousands of USD	Key management personnel	Other related parties	Key management personnel	Other related parties
Interest income	9	–	9	–
Interest expense	(774)	(3,861)	(448)	(4,972)
Gains less losses from operations in foreign currencies	–	(952)	–	(1,204)

Key management compensation is presented below:

	2013		2012		
In thousands of USD	Expense	Share based payment	Expense	Share based payment	Accrued liability
Short-term benefits:					
– Salaries	8,240	–	5,982	–	–
– Short-term bonuses	10,734	–	5,708	–	–
Long-term benefits:					
– Employee share option plan	8,217	11,831	7,408	10,990	–
– Equity long-term incentive plan	1,071	2,834	1,660	–	1,931
Total	**28,262**	**14,665**	**20,758**	**10,990**	**1,931**

Employee share option plan. In May 2011 the Group introduced a share-based payment plan (ESOP) as a long-term incentive and retention tool for the key management of the Bank. The maximum total number of share capital attributable to the plan is 2.98% of issued share capital at the date of 20 May 2011 (i.e. 1.2% of issued share capital at the date of 31 December 2013 and 2.8% of issued share capital at the date of 31 December 2012).

The plan vests gradually in three tranches and expenses are recognised in accordance with the graded vesting schedule. 40% vested on 30 June 2012; 30% vested on 30 June 2013 and 30% vests on 30 June 2014. In case a change of control occurs before the last vesting date the remaining tranche vests upon the change of control. The shares do not give the employees any voting power. The employees cannot own or exercise their shareholder rights or benefit in other ways from the rights over the shares, except for the dividends, if any.

The liquidity event when vested shares could be sold by the management is the earliest of the IPO, change of control or 1 January 2016 (unless shareholders extend this date to 30 September 2016 if change of control is seen as likely in the first half of 2016).

31 Related Party Transactions continued

In the second half of 2012 ESOP participants and the shareholders agreed to settle the existing cash-settled share-based compensation plan for USD 1 and to introduce a new equity-settled share-based compensation plan. Except for the manner of settlement, other terms and conditions of the new arrangement remain unchanged, including the amount of instruments granted. At the date of modification the full carrying amount of the liability was transferred to equity as this represents settlement provided by the employees for the equity instruments granted to them.

Due to the change in the nominal value of share of the Group from USD 1 to USD 0.04 (Note 15) in October 2013 the number of shares issued for ESOP purposes increased to 3,383 thousand from 135 thousand.

In October 2013 part of the vested shares in the amount of 1,214 thousand was sold by ESOP participants in the IPO.

Equity long-term incentive plan. In 2011 the Group also introduced a long-term incentive plan (Equity LTIP) for the management of the Bank. The key and middle management, not participate in ESOP, was entitled to cash payment calculated under their individual packages defined as a percentage of shares in 2011. The liquidity event was the earliest of the IPO or change of control.

In July 2013, management of the Bank and the shareholders agreed to settle the existing cash-settled share-based compensation plan for USD 1 and to introduce a new equity-settled share-based compensation plan. Except for the manner of settlement and maturity of the plan which is expected to continue at least five years from July 2013, other terms and conditions of the new arrangement remained unchanged, including the amount of instruments granted. At the date of modification the full carrying amount of the liability was transferred to equity as this represents settlement provided by the employees for the equity instruments granted to them.

In October 2013 part of the shares in the amount of 310 thousand was vested in Altruco Trustees Limited as trustee of Equity LTIP and sold for the benefit of plan participants in the IPO.

In 2013 the total remuneration of Directors listed in Report of the Board of Directors (included in key management personnel compensation above) amounted to USD 4,006 thousand (2012: USD 61 thousand).

32 Events after the End of the Reporting Period

On 10th January 2014 the Group redeemed Euro-Commercial Paper at maturity in amount of USD 75 mln at nominal value.

On 18th February 2014 the Group redeemed RR denominated bonds at maturity in amount of RR 645 mln at nominal value.

Glossary

Average cost of funding	n/a	Interest expense / Average IEL
Average interest rate on loans	n/a	Core revenue on loans / Average net loan portfolio
Capital adequacy ratio	CAR	Capital/RWA
CBRF	CBRF	Central Bank of the Russian Federation
Charge-off rate	n/a	Loan charge-off / Average gross loans
Charge-offs	n/a	Loans written off the balance
Class A share	n/a	One share in TCSGH PLC having one vote
Class B share	n/a	One share in TCSGH PLC having ten votes
Core revenue	n/a	Gross interest and fee income on loans
Cost of risk	n/a	Loan loss provision / Average gross loans
Cost to income ratio	C/I	Operating and acquisition expense / Core revenue
Cost to income ratio (excl. acquisition costs)	n/a	Operating expense / Core revenue
Corporate social responsibility	CSR	n/a
Global depositary receipt	GDR	One TCS Group Holding PLC GDR represents an interest in one class A share
Gross portfolio yield	n/a	Core revenue on loans / Average gross loan portfolio
IEA rate	n/a	Interest income / Average IEA
IEL rate	n/a	Interest expense / Average IEL
International financial reporting standards	IFRS	n/a
Interest-earning assets	IEA	Gross loans + interbank loans and accounts + securities + interest earning cash equivalents
Interest-earning liabilities	IEL	Deposits + interbank + debt securities + subordinated loans + syndicated loan
Key performance indicators	KPI	n/a
Loan loss provision	LLP	Allowance for bad loans
Net charge-offs	n/a	Loan charge-offs less recoveries
Net interest margin	NIM	Net interest income / Average 1 EA
Non-performing loans	NPLs	Loans 90+ days overdue
Russian accounting standards	RAS	n/a
Return on average assets	ROAA	Net income / Average assets
Return on average equity	ROAE	Net income / Average equity
Return on equity	ROE	n/a
Risk-adjusted net interest margin	Risk-adjusted NIM	(Net interest income – PL provisions) / Average IEA
Risk-weighted assets	RWA	Assets weighted by risk as per the CBRF methodology

Shareholders' information

Detailed below are contacts and various addresses shareholders may find useful. More up to date investor information, including the Group's current and historic share prices, corporate news, latest operational and financial results, presentations and other updates is available on the TCS Group corporate website at www.tcsbank.ru/eng.

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