2014

Creating Value in Challenging Times

TINKOFF ANNUAL REPORT

2014 highlights

Proven track record of driving high growth and profitability.

Growth

- Gross loans up 12.6% since 2013YE
- More than 560,000 new active customers acquired in 2014

Credit quality

- Focus on credit quality to maintain a robust portfolio
- NPLs (90d+) at 14.5% at year-end
- Conservative provisioning policy with provision coverage of 1.4x NPLs at 2014 year-end

Liquidity and capitalisation

- Cash at 10.0% of total assets and 25.0% of retail deposits and customer accounts at year-end
- 1 January 2015 statutory N1 ratio at 15.5%

Profitability

- FY net income at RUB3.4bn
- ROAE of 15.7%

Key Events

- Tinkoff Insurance launched travel and home insurance into the open market as well as car insurance products: OSAGO and KASKO
- Introduction of new co-branded credit cards with OneTwoTrip, eBay, Afimall, Kanobu
- Launch of credit line to Kukuruza cards (in partnership with Euroset)
- Expansion of KupivKredit system: new partner – Ozon.ru
- Launch of card-to-card money transfer service
- Launch of a number of mobile mono apps, including "Traffic Fines" and "Card-to-Card"

Credit cards issued in 2014	Total assets	Customer accounts
1.02mn	RUB109bn	RUB43.4bn
Net profit	**Return on average equity for 2014**	**Strong N1 capital ratio at the end of 2014 of**
RUB3.4bn	15.7%	15.5%

Summary of presentation of financial and other information

All financial information in this document is derived from the consolidated financial statements of TCS Group Holding PLC and has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap 113, which are for the year ended 31 December 2014 included in this document. A detailed description of the presentation of financial and other information is set out from page 40 of this document.

Market data used in this document, including statistics in respect of market share, have been extracted from official and industry sources TCS Group Holding PLC believes to be reliable and is sourced where it appears. Such information, data and statistics may be approximations or estimates. Some of the market data in this document has been derived from official data of Russian government agencies, including the CBRF, Rosstat and the FSFM. Data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries.

Certain statements and/or other information included in this document may not be historical facts and may constitute "forward looking statements". The words "believe", "expect", "anticipate", "intend", "estimate", "plan", "forecast", "project", "will", "may", "should" and similar expressions may identify forward looking statements but are not the exclusive means of identifying such statements. Forward looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, operations or performance, capital expenditures, financing needs, our plans or intentions relating to the expansion or contraction of our business as well as specific acquisitions and dispositions, our competitive strengths and weaknesses, our plans or goals relating to forecasted operations, reserves, financial position and future operations and development, our business strategy and the trends we anticipate in the industry and the political, economic, social and legal environment in which we operate, together with the assumptions underlying these forward looking statements. We do not make any representation, warranty or prediction that the results anticipated by such forward looking statements will be achieved.

Nothing in this document constitutes an invitation to invest in securities of TCS Group.

About us

Contents

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

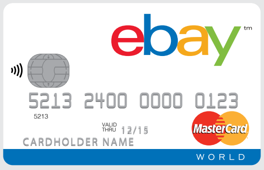
TCS Group is the name used in this document for TCS Group Holding PLC and its group of companies operating under the Tinkoff brand in Russia. These include Tinkoff Bank and Tinkoff Insurance (formerly TCS Bank and Tinkoff Online Insurance/TOI which carried on business under those names in 2014 until rebranded early in 2015): their current names are used in this document.

TCS Group at a glance

Consumer lending

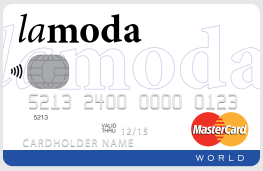
Tinkoff Bank offers its own Tinkoff branded credit cards including Tinkoff All Airlines and a variety of co-branded credit cards. While the focus remains on the mass market segment, Tinkoff Bank continues to expand into the mass affluent segment of the market.

Credit Cards



4,900,000

credit cards



E-Commerce lending

Tinkoff Bank offers point-of-sale unsecured lending to customers making online purchases through online retailers, for example, kupivkredit.ru. Tinkoff Bank has relationships with over 700 such online retailers. This product is offered to existing customers, as well as new customers without other accounts with Tinkoff Bank.

Cash Loans

Tinkoff Bank currently offers unsecured cash loans to its existing customers without loan products with other banks. The size of the loan depends on the customer's income and his or her behavioural risk score.

Transactional and savings products

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

Retail deposits

For a retail deposit programme, Tinkoff Bank offers high-quality customer service and competitive interest rates, a black MasterCard Platinum debit card with free cash withdrawals and account top-ups, the ability to switch between monthly interest capitalisation or monthly interest deposit on the card, a free option to convert deposited funds into U.S. dollars or euro without losing accrued interest and other features.

Payroll programme

Tinkoff Bank has successfully launched an online platform for payroll programmes for corporates. This was developed entirely in-house.

Stand-alone debit cards

Tinkoff Bank offers stand-alone debit cards (cards not linked to a term deposit) as a separate product under the “Tinkoff Black” brand.

Pre-Paid Cards

Tinkoff Bank offers a variety of pre-paid and virtual cards: Yandex Money, Tinkoff Mobile Wallet and a white label mobile wallet with NFC (Near Field Communication) capability. The funds loaded on these cards can be used for shopping, bill payments, everyday purchases and contactless payments. No credit check. No overdraft fees.

TCS Group at a glance
continued

Insurance

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

Tinkoff Insurance

Tinkoff 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 Tinkoff Bank to provide a customised choice of insurance products, and a convenient claims settlement and sales process, which can be accessed online from anywhere in Russia.

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

Tinkoff Insurance offers:

Personal accident insurance

Personal property insurance

Travel insurance

Car Insurance (KASKO, OSAGO)

Mobile mono applications

Tinkoff Bank offers a number of mobile applications to cover daily needs of its customers for smooth money transfer interaction.

Tinkoff Mobile Bank application available for the customers to satisfy their daily activity in managing accounts

Tinkoff Mobile Wallet with a focus on peer-to-peer money transfer and payment features

GIBDD traffic fines to access the track record of traffic fines and fast repayment of such

Card-to-Card money transfers available for peer-to-peer money transfers regardless the cards' issuer entity

Our history

Highlights of Tinkoff Bank's innovative development		Net loan portfolio growth (RUBmn)
• Tinkoff Insurance launched travel and home insurance into the open market as well as car insurance products: OSAGO and KASKO • Introduction of new co-branded credit cards with OneTwoTrip, eBay, Afimall, Kanobu • Launch of credit line to Kukuruza cards (in partnership with Euroset) • Expansion of KupivKredit system: new partner – Ozon.ru • Launch of card-to-card money transfer service • Launch of a number of mobile mono apps, including "Traffic Fines" and "Card-to-Card"	2014	74,580
• TCS Group IPO on the London Stock Exchange • Tinkoff Insurance started offering personal accident insurance to Tinkoff 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	73,962
• Minority stakes sold to Baring Vostok and Horizon • Launch of online POS loan programme • The number of Tinkoff Bank "smart couriers" reached 500	2012	47,784
• Launch of mobile banking • Launch of the mobile and telesales sub-channels of Tinkoff Bank online customer acquisition platform • The online channel became the largest customer acquisition channel for Tinkoff Bank	2011	21,359
• 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	9,643
• Launch of the retail deposit programme in four regions of Russia and a debit card product	2009	5,254
• Minority stake sold to Vostok Nafta • Launch of Internet bank	2008	4,117
• Minority stake sold to Goldman Sachs • First credit card issued • Launch of Tinkoff Bank's credit card lending programme using direct mail as the primary customer acquisition channel	2007	1,593
Tinkoff Credit Systems Bank was created by Oleg Tinkov	2006	**Net loan portfolio, (RUBmn)** Source: IFRS financial statements

Tinkoff Bank 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

Chairman's statement

Dear Stakeholders,

2014 was another positive year for the Group and its many stakeholders, but very different from 2013.

We outperformed the market, as we have done for a number of years, thanks to our unique business model, great customer service and innovative new products. The Group delivered impressive financial results in the most testing environment: we remain very well capitalised, highly liquid and optimistic we can exploit the opportunities which open up in 2015.

The years spent building and developing our high tech retail financial services platform again paid dividends. As we have said before our entirely branchless platform with a low fixed cost base gives us a very high degree of operating flexibility to ramp the business up or slow the business down according to the external environment. That external environment in 2014 was a perfect storm – from plunging commodities prices impacting Russia, a stricter regulatory and prudential regime, extreme volatility in the Rouble – our business and reporting currency, sanctions on a number of Russian banks and other businesses which had an impact though not directly targeted at us, to a broader, sharp downturn in the retail sector in Russia. All these challenges and more confronted us in 2014 and still we outperformed our competitors and count ourselves amongst the handful of profit making retail-focused private banks.

We always have in mind looking after our public investors, not simply in terms of the corporate governance structures we have in place, but also financially, our total shareholder return. Even in the hostile business environment of 2014, we had confidence in the Group's core business to generate solid cashflow more than adequate to support the need for capital and to fund the organic growth of the business, so in December 2014 we paid our first ever dividend of $.303 per share/GDR.

Besides the rebranding in 2014 of TCS Bank and TOI to Tinkoff Bank and Tinkoff Insurance, to reflect more accurately what we are about, a full service online retail bank with a broad range of financial and insurance products, other 2014 events which stand out in my mind are:

- the launch of auto insurance by Tinkoff Insurance;
- launching payroll programmes;
- launching several high profile co-brands including OneTwo Trip and eBay; and
- reaching a particular milestone-the number of customers using the mobile bank overtook the number using the internet bank.

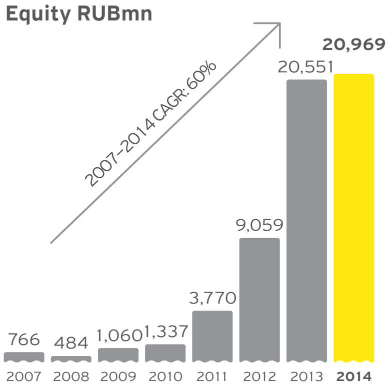
At the same time I want to take this chance to thank our entrepreneurial and multi-talented executive management team as well as the members of our seven – strong board of directors, including our non-executive board members Martin Cocker, Philippe Delpal and Jacques Der Megreditchian for offering their expertise and experience working in public companies in the Russian markets as well as their financial management skills and support in the course of the year.

I would also like to thank our many business and joint venture partners for their continued cooperation in 2014; they make an invaluable contribution to our success.

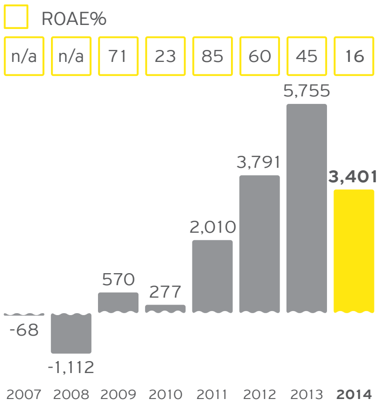
With a ROAE of 15.7% in 2014, and stable profitability over the years, TCS Group has demonstrated consistent long term growth throughout the phases of the Russian economic cycle. Looking ahead to 2015 and what many predict will be an even more challenging business environment, I have renewed confidence 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.

We will continue to deliver in 2015, whatever 2015 brings.

Equity RUBmn



Net income RUBmn



Oleg Tinkov
Chairman of the Board

Business model

Tinkoff Bank Diversified retail financial services provider delivering premium services to mass market customers in Russia through a unique online, branchless platform.

Operating Flexibility

Tinkoff 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. Cost efficiencies are enhanced by the best-in-class centralised IT system. The low level of retail financial services penetration in Russia, the rapid growth of online and mobile payments, and high margins and barriers to entry make our business model attractive in terms of sustainable profitability, growth potential and competitive edge.

Robust data and risk management

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

Diversified provider of retail financial and insurance services

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

Premium-level service and brand

Tinkoff Bank 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 Tinkoff Bank's free Internet, mobile and call centres service platforms.

Powerful Distribution

Tinkoff Bank offers remote access customer service through its award-winning Internet banking as well as through mobile banking and high-volume call centres. Our use of direct marketing channels has 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 Tinkoff Bank to attract new customers right across in the country. Supporting the branchless platform is a "smart courier" network which allows next day delivery.

High liquidity and well-balanced funding base

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

TCS Group continues to diversify its business, evolve its model and improve its quality of customer service.

Market context

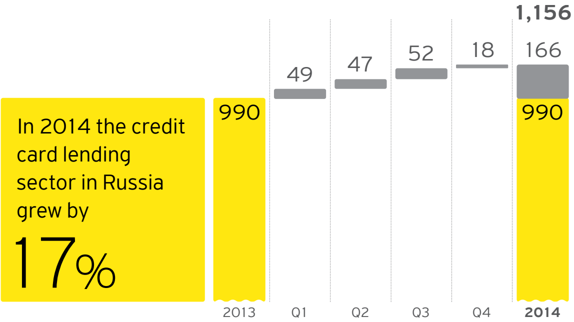
Credit card lending

Credit card lending experienced significant turbulence in 2014 due to a number of factors such as the geopolitical and macroeconomic situation. In particular continued customer deleveraging resulted in slower growth of this sub-segments of retail bank lending in Russia – the sector grew by 17% in 2014 vs 47% in 2013. At the same time the adoption of credit cards as a more convenient alternative to cash keeps rising. Russia is building up its electronic payments sector, as customers become more accustomed to cashless payments, such as payments made by credit cards, debit cards and prepaid cards.

Retail banking in Russia

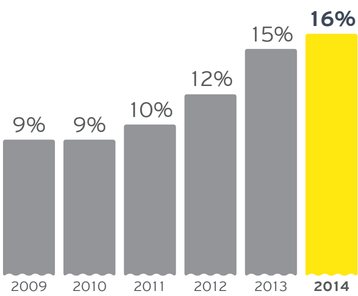
The Russian financial services sector stalled during 2014, constrained by economic and geopolitical factors. However, once the macroeconomic situation stabilises and Central Bank's efforts to regulate the financial market come into force – this sector will revive strongly again as in Russia it is still underdeveloped and underpenetrated relative to the most developed economies, as well as certain emerging high growth economies.

Credit card market in Russia (RUBbn)



Source: CBRF

Aggregate credit penetration in Russia



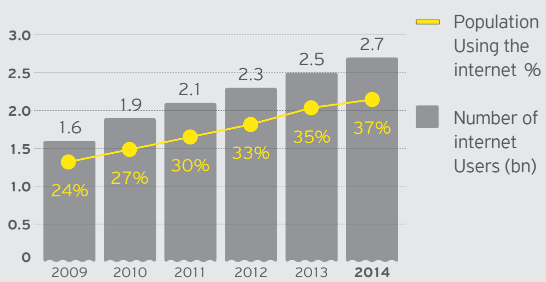
Source: CBRF. % of retail loans against GDP

Internet and mobile markets

Russia has the 6th largest internet audience globally and the largest in Europe with 83 mln internet users; TCS Group expects this to grow. The rapid adoption of Internet and mobile data services in Russia is creating significant opportunities for technology based financial services providers, such as Tinkoff Bank, to acquire and service customers across the country. Good growth opportunities should be driven by rising broadband and internet penetration and growing use of smartphones.

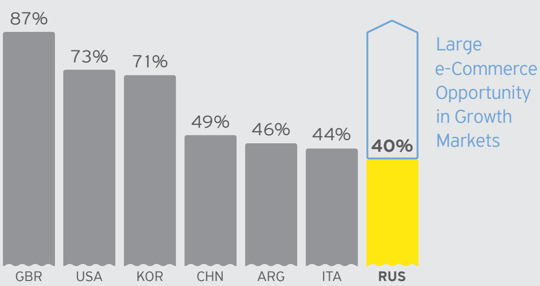
Russia's E-commerce market is expected to continue outperforming other markets by over 2.0x in growth and gain relevance relative to GDP. Greater volumes of e-commerce and the development of processing infrastructure mean Internet and mobile volumes could grow rapidly and account for a significant share of payment transactions.

Increasing internet availability in Russia



Source: Goldman Sachs public research report

E-commerce penetration[1] by country in 2014



Source: Goldman Sachs public research report

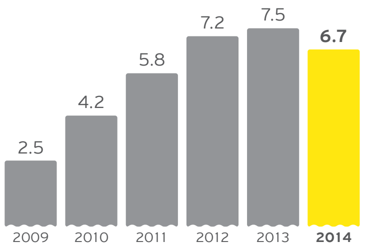
1 Defined as at least one purchase via digital channel

Market position

A leading credit card lender in Russia

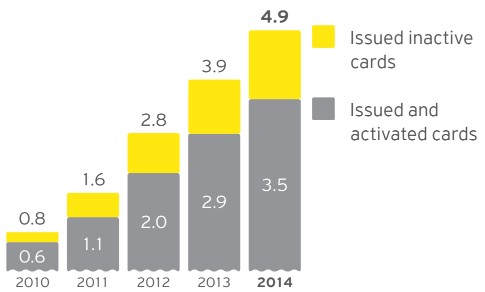
The overall slowdown in growth across the market and in particular tighter risk controls implemented in good time by Tinkoff Bank kept us in the top 4 by the year end with a share of the Russian credit card market of 6.7% (the fourth largest credit card loan portfolio in Russia).

Tinkoff Bank credit card market share (%) (as of 2014YE)

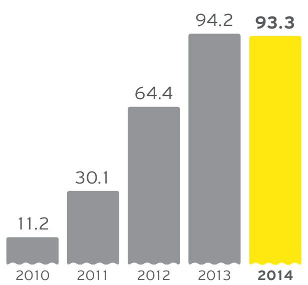


Source: CBRF

Number of issued Tinkoff Bank credit cards (m)



Tinkoff Bank credit card transactions (RUBbn)



First Russian bank to go to market with online deposits

Tinkoff Bank'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 Tinkoff Bank 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

Tinkoff Bank 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 set based on the calculation agreed by the CBRF and FAS.

Tinkoff Bank monitors any customer complaints frequently at senior management level in order to ensure that feedback is received and proper action taken. 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 2013–15, 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.

In 2014 the Government performed two initiatives to protect the consumers. The guaranteed deposit insurance was increased up to RUB1.4mn. The new bankruptcy law in relation to individual person came into force while still subject of negotiation and change of bankruptcy threshold level.

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

Strategy

Tinkoff Bank's strategy is to be a full service, online retail bank with a broad range of financial and insurance products, serving customers through a high-tech online and mobile platform that offers premium-quality service and convenience.

Effective data-driven risk management and tight control over operating expenses 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 Tinkoff Bank's core business for the foreseeable future and Tinkoff Bank 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 cobrand and payroll programmes, insurance, mobile mono applications.

In addition, Tinkoff Bank 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 Tinkoff Bank'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 Tinkoff Bank's revenue per customer.

E-commerce loans

- New product introduced in 2012
- Represents Tinkoff Bank'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
- Tinkoff Bank 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 Tinkoff Bank
- 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 Tinkoff Bank in building its high-tech online customer acquisition and service platform has 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 other products, particularly credit cards. These transactional and payment products are also being offered to existing customers of Tinkoff Bank, helping to boost retention rates.

Tinkoff E-commerce products

Since the end of 2013 Tinkoff Bank has focused on the high growth e-commerce market. Our existing electronic online and mobile platforms together with significant growth opportunities in this sector give us significant advantages on the market. Since the launch of Tinkoff Mobile Wallet in December 2013 TCS Group has released a number of mobile mono applications (traffic fines payments, card-to-card transfers) (and there are more to follow) and established a network of partners to provide loans to internet shoppers. A wide range of insurance products, now including car insurance, is also available online for customers. We have launched upgrades to our internet and mobile bank with additional features in 2014 and these initiatives have already been recognised and received awards from international leaders in this sector.

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

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

Tinkoff Insurance

Tinkoff Insurance has developed a proprietary and advanced IT platform and leveraged the vast expertise of Tinkoff Bank to build a customised choice of insurance products, as well as a convenient claims settlement and sales process, which can be done online from anywhere in Russia. The new online insurance products are delivered according to the Group's traditionally high customer service standards. Tinkoff Insurance started offering personal accident insurance to Tinkoff Bank's customers in September 2013 and in 2014 the range was extended to include property, travel and car insurance – KASKO and OSAGO.

04. Maintain leadership in customer service

High-quality customer service has been a key driver of Tinkoff Bank's rapid growth. Tinkoff Bank 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 process.

05. Support business expansion by using advanced IT systems

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

Tinkoff Bank's in-house IT team develops a significant part of the software used by Tinkoff Bank, including software used in its online customer acquisition and service platform. This enables Tinkoff Bank to regularly roll-out new products and services to customers or new versions with enhancements. Tinkoff Bank intends to increase its technological advantages over traditional Russian banks. In 2014 Tinkoff Bank launched a real-time voice authentication system for its call centres which received the "Technology Projects of the Year" award for Customer Service, presented by The Banker magazine, a part of the Financial Times Group.

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

As a data-driven organisation, Tinkoff Bank 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.

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

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

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

08. High liquidity and well-balanced funding base

Tinkoff Bank has established a robust liquidity risk management framework that ensures it maintains sufficient liquidity, including an significant cushion of liquid assets. Tinkoff Bank'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. Tinkoff Bank has been transforming the Russian financial services market and driving a differentiated customer proposition. We currently operate through two wholly-owned subsidiaries: Tinkoff Bank and Tinkoff Insurance.

1034 6784 0037 9125

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, Tinkoff Bank has grown into a leader in credit cards. In addition to our market-leading credit card offering, Tinkoff Bank has developed a successful online retail deposits programme, retail and car insurance, financial products in the fast emerging mobile payments and e-wallet segments. Leveraging its innovative approach, existing infrastructure and customer base, Tinkoff Bank has been expanding to bring additional online products and services to Russian consumers such as mobile mono applications, payroll programme and a number of new concepts to be launched in 2015.

Nearly 5mn credit cards issued since inception

5mn

Over RUB93bn of customer credit card transactions in 2014

>RUB93bn

#4 player in the Russian credit card market with 6.7% market share[1]

6.7%

1 As of 31 December 2014 based on CBRF data.

High-tech virtual platform

Tinkoff Bank 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. This high-tech platform includes the internet bank, mobile bank and a real-time voice authentication system implemented in 2014 which creates voice prints during the traditional Q&A verification process for each new caller; these voice prints are later used as a benchmark for verification when the customer next calls.

Received over 500,000 applications per month on average during 2014[1]

500k

Approximately 2mn inbound calls / 8mn outbound calls in December 2014 via call centres

8mn

Most Efficient Retail Internet Bank 2014 and Best Mobile Bank App[2]

1 503,890 applications received and 115,284 applications approved monthly average for 2014.

2 According to Markswebb Rand & Report.

What makes us different?

Powerful distribution

Tinkoff Bank offers remote access customer service through its award-winning Internet banking as well as through mobile banking and high-volume call centres. Our use of direct marketing channels has 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 Tinkoff Bank 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, Tinkoff Bank'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)

Creating Value in Adverse Markets

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

96% net loan portfolio CAGR in 2007–2014

96%

ROAE 2014

15.7%

More than 20x increase in equity since 2007

20x

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 Tinkoff Bank project from its inception.

Oliver Hughes
Chief Executive Officer

Chief Executive's strategic review

By the end of 2014 Tinkoff Bank had issued 4,9m credit cards

4.9m

ROAE is 15.7% and total equity hit RUB21bn

15.7%

Dear Investor,

In 2014 challending year, Tinkoff Bank delivered on its promise of strong, profitable growth.

Total assets grew by 10% to RUB109bn, net income reached RUB3.4bn and ROAE was 15.7%. Portfolio growth was the main driver of top line growth with net interest income up 15% to RUB30.8bn. These results put us in a different space to most other consumer lending specialists and indeed many other banks in the Russian market who struggled to grow profitably in an increasingly challenging and competitive market.

At the end of last year, we launched our new brand Tinkoff Bank, a relatively minor change to our brand but one which more accurately reflects what we are about and where we are heading- namely a full service, online retail bank with a broad range of financial and insurance products. The brand repositioning also applies to our insurance company which is now known as Tinkoff Insurance. This allows us to leverage the strong Tinkoff brand and grow our business in a number of different directions.

Many factors contributed to these impressive results. Some of the main ones are highlighted below. However, I think it important to repeat 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 Tinkoff Bank project from its inception in 2007. The unique corporate culture that underpins our business ethos is an unrivalled 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 more difficult times like 2014.

The Tinkoff Bank business model is now well tested and, beyond the team, the main elements of its success in 2014 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 over 750 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 supported and developed in-house, giving us increased competitive edge

The events of last December were challenging for the Tinkoff management team. But as a result of the strength of our brand, service and products, the sterling work of our call centres team and some innovative solutions that we introduced on the fly, we acted decisively to limit the negative impact on our liquidity position.

Despite the negative view on the Russian baking sector fuelled by bad headlines around Russia, normal business life goes on. Tinkoff continues to diversify its business, evolve its model and improve its quality of customer service.

New, innovative products were developed and successfully launched, including:

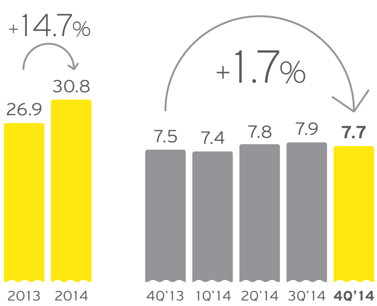
- launch of co-brands
- salary card programme
- new versions of our award winning Internet Bank and Mobile Banking application
- and last but not least, the in-house insurance programme "Tinkoff Insurance".

All this will help put us even further ahead in the online space where we are already established as industry leaders.

By way of illustration of our technological leadership, I give you a few examples:

- by mid-2014, we had more monthly visits by users of the Mobile Banking App than the Internet Bank and we expect this strong trend will be cemented by other initiatives in the mobile arena;

Net interest income RUBbn



2014-strong delivery in a challenging year continued

First to market with innovative offerings

MOBILE BANKING
- User friendly application

ONLINE DEPOSITS
- c.1,000 "smart couriers" and sales agents covering almost 750 cities and towns
- "Smart couriers" equipped with Android smartphones fully integrated with CRM[1]

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

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

NATIONWIDE COURIER NETWORK
- User friendly application

- we launched Real Time Authentication (voice authentication in the call centres) in Spring 2014, and we now have 1.2 million voice prints and a major part of calls are now identified using the service-this enhances the customer experience as well as reducing call handling times and further preventing fraud;
- the share of card to card transfers in our card repayments now exceeds 11% and we are targeting 25% in the course of 2015;
- mobile mono apps will be a key feature of Tinkoff's development in mobile and so far we have exceeded 1.1million downloads of "Traffic Fines", 150,000 Tinkoff Mobile Wallet and 25,000 card to card transfers with every prospect of more;

Tinkoff Bank issued over 1m cards in 2014

1,000,000

As at 31 December 2014, Tinkoff Bank was top 4 in Russia, with a market share of

6.7%

At the same time measures that we put in place in collections and portfolio management throughout 2014 stood us in good stead in 2014 and continue to do so.

"Tinkoff Online Insurance" was launched in Q4 2013 with a separate management team of insurance experts. Now renamed "Tinkoff Insurance" it is actively expanding its range of products successfully beyond credit protection, accident, home and car insurance.

On the banking side, we diversified our sources of funding, optimised the duration and cost of retail deposits to retire older, more expensive wholesale debt. Our cost of funding was 11% at the end of 2014, a decrease of 1.5% during the year. 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 2014, but with my thoughts very much on 2015, I would like to thank a number of stakeholders, employees and other contributors for their creativity, skill and energy. I know what a unique business, what a special corporate culture we have created at Tinkoff Bank. 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, focused on moving the Group forward. 2015 will be another challenging year as we maneuver through uncertain economic terrain, now compounded by a nationwide liquidity squeeze. However as I think we amply demonstrated last year, the Tinkoff model, team and platform can handle the tests that are thrown at it and can adapt quickly to whatever comes our way.

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

1 Customer relationship management programme

Our awards

The most profitable bank in Russia in 2013
The Banker (Top 1000 World Banks 2014)

The Banker's Technology Project of the Year Award for NICE real-time voice authentication system at the call centres
The Banker

Best Mobile Bank in Russia 2014
Best Mobile Bank in Russia 2013
Deloitte

Bank of the Year 2013
The Banker

Best Internet Bank 2012
Global Finance

Event of the Year 2013: TCS Group Holding PLC IPO
Best Internet Bank 2012
Bank of the Year 2012
Banki.ru – Russian leading online banking portal

Best Payment Service 2013
Russian Mobile Awards

Award winner in the category "Attractive Employer 2014"
Superjob.ru

Best Mobile Bank App 2014 for iPhone (1st place)
Frank Research Group Ranking

Best Mobile Bank App for iPhone 2013
Best Retail Internet Bank 2013 (the most user-friendly)
E-payments Russia

Most Efficient Retail Internet Bank 2014
Best Mobile Bank App 2014 for iPhone, Android, Windows Phone and 3rd place for iPad
Best Mobile Bank for iPhone 2013
Markswebb Rank & Report

Bank Product of the Year 2013 (ALL Airlines Credit Card)
Non-bank of the Year 2013 (Tinkoff Mobile Wallet)
Event of the Year 2013: TCS Group Holding PLC IPO
Bank Product of the Year 2012 (KupiVkredit)
Most Innovative Bank 2012
Bank Review Magazine

2nd place in "Finance, Investment, Banks" best website nomination 2013
Special Nomination "Most Innovative Solution for the Website" 2013
Award winner in "Finance, Investment, Banks" best website nomination 2012
Runet Ranking

Award winner in the category "Best Mobile Bank" (2nd place)
One of the leaders of the rating in the category "Best Internet Bank" (3rd place)
Synovate Comcon Ranking

Now that the year 2014 is over, I can say that it was a year of re-learning. We re-learned how to cope with the credit cycle downturn in Russia and how to remain healthily profitable by managing costs while continuing customer acquisition.

Ilya Pisemsky
Chief Financial Officer

Financial review

Dear Investor,

Balance sheet

Total assets grew by almost 13% to RUB109bn primarily due to a positive revaluation of the Group's financial derivatives

In 2014, the Group's total assets increased by almost 10% to RUB109bn. Cross-currency swaps that we use to hedge foreign exchange liabilities were the main driver of that growth, as significant Rouble devaluation kicked in December. Gross loans grew by 12.6% to RUB94bn, which represents a deliberate slowing down of the loan portfolio expansion and significant tightening of approval rates to address the current credit risk environment. Net loans remained flat during the past year, and their share in the total assets decreased to 68.5%. The increase in other assets, again, was driven primarily by the positive revaluation of the Group's financial derivatives (swaps).

Tinkoff Bank liquidity policy proved to be highly robust with cash at 10% of assets

Despite a challenging December 2014 in particular and significant pressure on our deposit base, we managed to stabilise the situation. In the last week of December we had strong cash inflow from depositors. We continue to deploy some excess cash into highly liquid CBRF repo-able debt securities in order to decrease negative carry on our borrowings. Year-end cash balances represent 10% of the assets and 25% of customer accounts. At 31 December, 2014 cash and treasury portfolio accounted to RUB16.3bn.

The total share of non-performing loans (including loans in court) in total gross loans increased to 14.5% from 7.0% as at YE2013. The loan loss provisioning coverage ratio stayed at 1.4x NPLs. Balance sheet provisioning for impairment of loans grew to RUB19.3bn compared to RUB9.4bn as at YE2013. The basket of loans that are 90 to 180 days delinquent reduced to 4.1% in the third and fourth quarters of 2014 which is a result of our enhanced collection process. We continued to refrain largely from selling overdue loans from our portfolio since we judged we would secure a much better recovery rate under the instalment loan repayments programme and court enforcement collection strategies.

At 31 December 2014 total liabilities increased to RUB87.8bn as result of currency revaluation and short-term interbank borrowings. Customer deposits increased to RUB43.4bn and accounted for 49% of total liabilities as of 31 December 2014. The proportion of Rouble denominated deposits to currency denominated deposits has changed considerably and the latter increased to RUB11.1bn in fourth quarter vs. RUB5.4bn in third quarter. CBRF has increased the threshold for DIA coverage from RUB700k to RUB1.4mn and as a result 80% of the deposit book now falls under the protection of DIA.

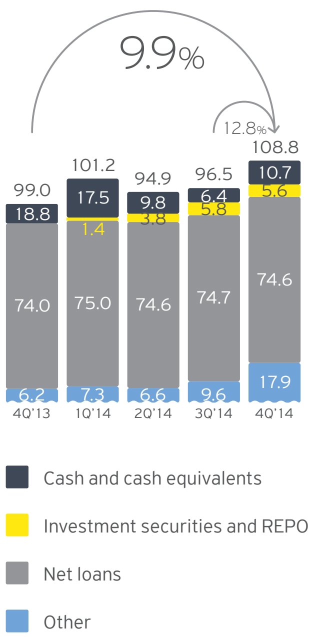
At 31 December 2014, the book value of TCS Group's debt securities (including subordinated debt) amounted to RUB30.7bn representing an increase due to the currency revaluation of our Eurobonds while off-set by repayment of USD175m Eurobond in the second quarter 2014. There were no debt issuances in 2014 and as of 31 December 2014 the debt profile contains a USD250m Eurobond maturing in third quarter 2015, USD200m subordinated debt maturing in the second quarter of 2018 and three series of RUB denominated bonds for an aggregate amount of RUB4.6bn, with two-thirds of the value to be redeemed in 2015.

The Group is well capitalised with the CBRF N1.0 capital adequacy ratio at 15.5%

The equity of the Group amounting to RUB21bn at 31 December 2014 demonstrates the solid capital position of TCS Group. Our capital base remains very strong, with the statutory CBRF N1.0 total capital ratio at 15.5% at the end of 2014. The N1.0 ratio decreased by 100 bps from 16.5% at 9M14 mainly due to the dividend payment made in December 2014.

At the end of 2014 we maintained a Core Tier 1 (or N1.1) capital ratio of 9.4% (and the same for Tier 1, or N1.2, capital ratio), well above the 5% and 6% respectively minimum requirements set by the CBRF.

Assets growth RUBmn



Financial review
continued

PROFIT AND LOSS STATEMENT

Net interest income increased by 15% year-on-year to RUB30.8bn

Despite 2014 being a challenging year I believe the Group achieved good results for the year. Gross interest income grew to RUB39.1bn or by almost 12% compared to 2013. Net interest income increased by 15% to RUB30.8bn. The 2014 gross yield was 7 percentage points lower than in the same period 2013 which is attributable to retention of non-performing loans on the balance sheet and portfolio ageing.

Average cost of borrowing for the Group declined to 10.9% in 2014 from 12.4% in 2013 with interest expense amounting to RUB8.3bn at 31 December 2014.

Net interest margin before credit charge was sustained at 34.8% which gives us substantial profitability and meaningful loss absorption capacity. Despite the increase in cost of risk across the market, we were still able to generate a very solid 16.9% risk-adjusted net interest margin after provisions for loan losses.

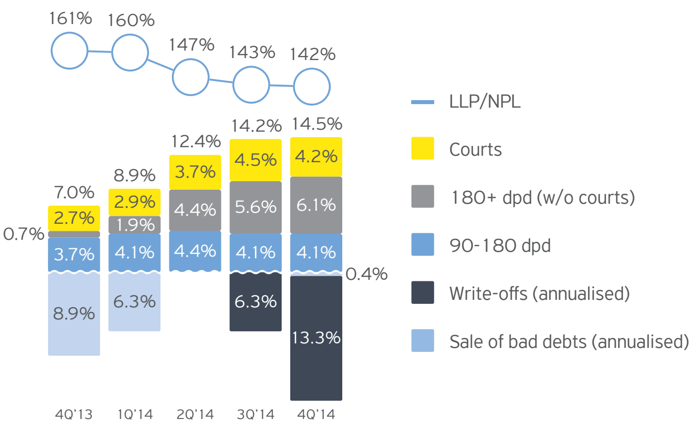
We are proud to report the continued positive trend in cost of risk which has decreased to 15.2% in fourth quarter after a 20.5% spike in first quarter of 2014. Loan loss provision amounted to RUB15.8bn in 2014 compared to RUB9.8bn in 2013. We are still making risk management and collections a priority to help ensure that the cost of risk is even better-managed in future quarters, and to mitigate any further deterioration in the Russian consumer lending market.

Tinkoff Bank's operating expenses in 2014 were at the same level as 2013 representing our moderate policy in terms of growth we announced at the end of 2013. At the same time we have constant interest in our products which resulted in more than 1 million cards issued in 2014. A moderate pay rise was made to the Group's staff in October to retain and motivate staff in a market where there is still fierce competition for good people. We paid a performance-based bonus to the management team in December. The increase in administrative expenses was off-set by a decrease in marketing and acquisition expenses.

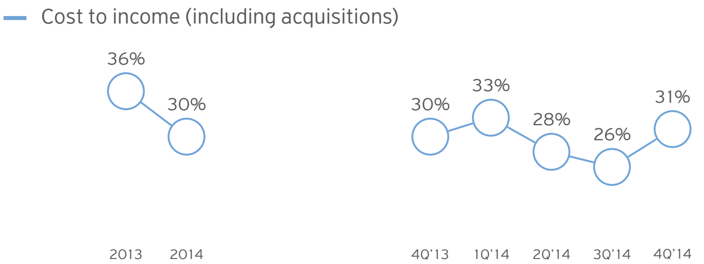
Among other items contributing to our P/L in 2014 were:

- Tinkoff Insurance with almost RUB0.8bn to non-interest revenue. On a standalone basis, the net income of Tinkoff Insurance was RUB97mn.
- FX results had some material importance in 2014 with a net revaluation loss of RUB1.1bn in 2014 compared to RUB0.4bn in 2013.
- The dividend payment made in December by Tinkoff Bank entailed a 5% dividend tax.

Conservative credit risk policy, % of gross loan portfolio



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.

Operating efficiency further improved in 2014 as a result of continued strict control over costs

As a result of continued strict control over costs the total cost-to-income ratio remained under 30% in 2014 which is a 6 percentage points reduction as compared to 2013. When taken without acquisition expenses, the cost-to-income ratio in 2014 fell below 20%.

The quarterly evolution of yields and expense profile in 2014 demonstrates the flexibility and agility of our business model which successfully navigated the various ups and downs of the year by slowing down and speeding up card issuance and a hands-on regime for managing operating expenses.

The Group reported net income of RUB3.4bn

Net income for 2014 amounted to RUB3.4bn. Right after the challenging first quarter we were able to generate solid profit in the following quarters despite significant losses from currency revaluation and other unplanned costs. This has resulted in a robust ROAE at 15.7% for the year 2014.

Ilya Pisemsky
Chief Financial Officer

Risk review

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

TCS Group is subject to a number of material, Principal Risks which might adversely impact the Group's performance.

In addition, the Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2014 and into 2015, the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. This over-arching risk environment could impact one or more of the Principal Risks.

Management consider that the Principal Risks are:

Liquidity Risk: There is a risk that TCS Group will not be able to meet it obligations as they fall due or can do so only by securing funds at an unacceptably high cost. The deterioration in the commercial soundness and/or the perceived soundness of TCS Group's banking operation or that of other financial institutions could result in significant systemic liquidity problems or losses and defaults by other financial institions. These might include an inability to access domestic and international capital markets or the Russian interbank loan market, to receive sufficient funding from retail deposits or the withdrawal of a large proportion of such deposits.

TCS Group's banking operation is also exposed to a risk that it is unable to maintain appropriate capital ratios and regulatory capital.

Credit Risk: TCS Group is exposed to the risk that counterparties, including customers and other commercial organisations, will be unable to pay amounts in full when they fall due. The deterioration in the economic conditions in Russia has resulted in a significant increase in TCS Group's provisions for loan impairment and in the proportion of non-performing loans. Ongoing shifts in distribution channel mix and demographic characteristics of TCS Group's customers could result in the future deterioration of quality or profitability of TCS Group's loan portfolio.

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

Operational Risk: TCS Group is exposed to the risk of losses resulting from inadequate or failed 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, legal risks, including consumer protection or banking legislation or their interpretation by courts and regulators, and misuse of TCS Group's property.

The identification, assessment and management of risk is central to the continued successful execution of TCS Group's strategy. Accordingly, this is an area of significant and constant management focus.

TCS Group designs its risk management policy to manage the Principal Risks, described above, by establishing procedures and setting limits that are monitored by relevant departments of Tinkoff Bank and Tinkoff Insurance.

Risk Management Structure

Tinkoff Bank'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 Tinkoff 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 Tinkoff Bank's risk management consists of the Finance Department, the Risk Management Department, the Collections Department and the Internal Control Service.

TCS Group has implemented an online analytical processing management reporting system based on a common SAS data warehouse that is updated on a daily basis. The set of daily reports includes 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.

Liquidity Risk

Liquidity risk is the risk that TCS Group will encounter difficulty in meeting its obligations associated with financial liabilities or can do so only by securing funds at unacceptably high costs. The Group's banking operation is also exposed to a risk that it is unable to maintain appropriate capital ratios.

TCS Group 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 Tinkoff Bank (the "CFO") is principally responsible for the management of TCS's liquidity risk. For the purposes of managing TCS Group's liquidity risk, the CFO regularly receives extensive information about the liquidity profile of the financial assets and liabilities.

TCS Group seeks to maintain a stable funding base primarily consisting of retail customer deposits and debt securities. TCS Group keeps all available cash in diversified portfolios of liquid instruments, to be able to respond quickly to unforeseen liquidity requirements. TCS Group 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 Group can go from being cash-negative to being cash positive in a short period of time (estimated to be two weeks).

Tinkoff 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 review
continued

Credit Risk

TCS Group is exposed to the risk that a counterparty, including customers and other commercial organisations, will be unable to pay amounts in full when they fall due.
The main focus of Credit Risk management is on the customers of TCS Group's banking operation.

TCS Group structures the levels of its credit risk exposure by placing limits on the amount of risk accepted under different customer acquisition channels and sub-channels. Such risks are monitored on an ongoing basis and are subject to regular review. TCS Group uses automated systems to evaluate an applicant's creditworthiness (scoring). The system is regularly modified to incorporate past experience and new data acquired on an iterative basis.

A factor in credit risk is a trend towards greater consumer activism and an increasingly onerous consumer protection legal and regulatory framework.

Loan Approval Criteria and Procedures

TCS Group 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 Group's own acquisition channel-specific scoring models. TCS Group also maintains a flexible initial limit allocation system that allows it to reduce or increase the average initial limits in order to manage anticipated loan losses and liquidity.

Credit Line Management Procedures

Credit line management procedures for credit card products include a flexible initial limit allocation system and regular updates of credit lines.

Loan Collection

TCS Group employs a multi-stage collection process that seeks to achieve greater efficiency in the recovery of credit card loans. This enables TCS Group to apply a variety of collections tools and collections treatments to different groups of customers.

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

Card Fraud Prevention

TCS Group 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 combatting 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 Tinkoff Bank's Management Board.

Tinkoff Bank 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 Group's balance sheet.

Market Risk

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

TCS Group is generally not engaged in significant trading operations. Any mismatches in its foreign currency positions that arise are generally due to relatively short-term lending in Roubles and relatively long-term borrowings in other currencies.
TCS Group manages the positions through hedging, matching or controlled mismatching.

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

Foreign Currency Exchange Risk

TCS Group 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.

Interest Rate Risk

TCS Group'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 Group monitors market interest rates on a regular basis and takes decisions on interest rate re-pricing that may be undertaken on its assets.

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

Operational Risk

TCS Group is exposed to operational risk which is the risk of losses resulting from inadequate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, technical failures, settlement errors, natural disasters, legal risks, including consumer protection or banking legislation or their interpretation by courts and regulators, 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. Tinkoff 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 Group have to undertake 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 Tinkoff Bank's Internal Control Service. External control is provided by the CBRF and, within an annual audit, by a statutory auditor.

Employees and corporate social responsibility

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

Employees and CSR

Overview

In parallel with providing our customers with ever more convenient, innovative and cutting-edge products and services matching their needs and aspirations, TCS Group also sets itself a challenge – to foster an internal working culture which inspires and motivates our personnel to tackle the most challenging and complex tasks to create those products and services ahead of our competitors.

We actively encourage a working environment where employees are encouraged and incentivised to take on more responsibility at all levels. This approach helps us motivate our staff to keep on looking for unconventional solutions to any issue, to improve existing services and products and generally to "think outside the box'. This gives us a significant competitive advantage as it makes us more flexible and efficient, and empowers us to create the best-in-class financial products to the benefit of our customers.

Despite the weakening market environment in Russia and slower loan portfolio expansion in 2014, TCS Group did not abandon its expansion plans but refined them and used its momentum to develop new business and launch new product lines, expanding further into retail daily banking and diversifying our business to attract new higher quality, lower risk clients from new segments. This business development effort was reflected in an increase in our employee base which at the end of 2014 totalled 6,160 employees[1], a 2.2% increase compared to the end of 2013 (6,025). The average age of employees is 26.

TCS Group has built a unique branchless, high-tech retail financial services platform that provides deep reach throughout Russia, including underserved parts of the country. We serve customers remotely through award-winning Internet and mobile banking interfaces and high-volume call centres. One of the pillars of our branchless platform is a "smart courier" network covering almost 600 cities and towns in Russia which allows next day delivery to most customers across the country. Our strong focus on premium quality customer service underpins the successes to date. TCS Group dedicates significant resources to finding, hiring, training and retaining its best-in-class team of professionals.

Tinkoff regularly hosts or sponsors off-site activities.
The picture is of employees ice-skating in Gorky Park, Moscow.

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

Tinkoff offices and call centres are equipped with recreational zones.
Here two of the Call centre team play ping-pong.

Diversity and Inclusion

The Group's innovative business model based on a 100% remote customer service provides it with additional flexibility to hire on their merits those who are not part of the conventional workforce, thus widening and diversifying the Group's actual and potential employee base. Our human resources structure includes Home Call Centre and the Smart Courier Network which allow us to recruit from a wider pool of people compared to businesses with conventional branch-based customer service models.

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

The majority of Tinkoff's personnel are employed in customer support functions (collections, underwriting, smart courier services, the Call Centres, telemarketing and telesales, and Home Call Centre). Some 662 employees are regarded as core personnel and are employed in management, operations, IT and administrative functions (2013: 530).

Tinkoff Human Resources Core Principles

Tinkoff 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 all employees in customer services, underwriting and collection departments;
- creating an intellectually stimulating working environment;
- embracing open dialogue, cooperation and creativity;
- building efficiency with minimum bureaucracy; and
- promoting team spirit and a unique entrepreneurial culture.

One of our key approaches to HR strategy is not to focus on hiring people with a conventional banking background: rather Tinkoff aims to bring together commercially minded people with numerical, analytical, technical and programming skills with completely different experiences and skills sets in order to manage and enhance the business from an NPV perspective. Tinkoff employs people with various backgrounds, including retail, online and IT, and this approach ensures TCS Group has a working environment, which takes and moulds the best aspects and practices of other businesses, with the aim of stimulating creativity and the free exchange of ideas.

Tinkoff senior management are part of a programme which involves them leaving HQ and going into the "field' to see first-hand how things work on different levels of customer service and how it can be improved. This exercise involves members of the management team, on a coordinated rotating basis, spending a day or sometimes more as a smart courier, as a debt collector or as a credit inspector, which improves their understanding of the smallest details of the day to day implementation of business processes.

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 ongoing development and training, to maximise employees' opportunities to progress and grow.

Our employees and corporate social responsibility continued

Recruitment and training

TCS Group recruits general personnel to operating departments with the help of advertising and searches via job sites, student forums, social media and other internet channels. IT and other core business specialists are hired through a highly selective head hunting 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 a clear career path in terms of increased responsibility, promotions 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 specialised 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 professional conferences, trainings 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 the team spirit in the company, and offers the following benefits and team-building activities to its employees:

- free gym on its premises for all to use;
- regular group activities and off-sites: 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 Bank football team has won the championship among financial companies in Moscow;
- participation by Tinkoff in many charity programmes 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 KPIs, determine incentive compensation, and provide feedback for their career development.

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 partially linked to achievement of specific productivity KPIs, partially to the overall financial performance of the business.

TCS Group has for some years had in place stock option and long term incentive plans as retention and motivational tools for 33 (as of 31 December 2014) of its key and senior managers, set up before the IPO, and more recently has been looking to develop a further equity linked retention and reward plan.

Tinkoff offers free gym facilities at HQ and Call centres.

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 for the benefit of our customers.

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. In fact TCS Group goes well beyond mere compliance. TCS Group offers regular annual medical exams, vaccination, voluntary medical insurance, free membership to our own fitness gym at Tinkoff Bank's HQ 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, and actively encourages participation in others.

Tinkoff office at Olympia Park, Moscow.

CSR

TCS Group believes in making a contribution to the society in which it operates and its sustainable development. We encourage and support employee-led initiatives aimed at improving the quality of life of vulnerable groups in Russia. TCS Group and its employees believe in providing not just monetary support but hands-on assistance for a number of causes, including care homes, and orphanages, and facilities for homeless people and individuals in need of critical medical help. During the year these charity campaigns targeted underfunded care homes and orphanages located in underdeveloped regions of Russia. TCS Group's employees raised funds which were spent on renovating facilities, buying food, supplies, medicine and toys for vulnerable groups.

In 2014, the Group provided assistance to care homes and orphanages in several Russian regions: employees organised works to repair rundown care facilities buying much-needed equipment, clothes, medicine and food for their residents. The Group also purchased racerunners – a special custom-built tricycle without pedals – for a charity foundation assisting disabled children with impaired balance.

Board of Directors

Oleg Tinkov

Chairman of the Board of Directors (47)

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 Tinkoff 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 (55)

Martin Cocker has been a director 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 (41)

Philippe Delpal has been a non-executive director of TCS Group Holding PLC since October 2013. Mr Delpal is an Operational Partner for Financial Services in Baring Vostok Capital Partners, one of the largest private equity businesses in Russia. He is also currently serving as a non-executive director of Orient Express Bank, Europlan Bank, HMS Group (Russia) and Komercijalna Banka AD (Serbia). He has had a career in banking, most recently as chief executive at BNP Paribas in Moscow.

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

Jacques Der Megreditchian

Member of the Board of Directors
Independent Non-Executive Director
Chairman of the Remuneration Committee
Member of the Audit Committee (55)

Jacques Der Megreditchian has been a director since October 2013. Mr Der Megreditchian has also been Chairman of the Exchange Council of the Moscow Exchange and Chairman of the Board of Russian brokerage house IT Invest, and a member of the board of directors of the Russian National Association of Stock Market Participants since 2006. Mr Der Megreditchian has almost 30 years of experience in finance from CCF, Societe Generale and Troika Dialog where he held the position of Chief Business Officer. Mr Der Megreditchian holds a degree in business administration from the European Business Institute, France and in financial analysis from the French Center for Financial Analysis, France.

Constantinos Economides

Member of the Board of Directors (39)

Constantinos Economides has been a director since November 2008.

Mr. Economides is also the Managing Director of Orangefield Cyprus since October 2006 and has held the post of board member in Global Ports Investments PLC since 2013. Prior to 2006, he worked with Deloitte Ltd in Cyprus from 2003 to 2006 and Ernst & Young in the United Kingdom from 1999 to 2002.

Mr. Economides is a fellow member of the Institute of Chartered Accountants in England & Wales (ICAEW) and holds an MSc in Management Sciences from Warwick Business School, United Kingdom.

Alexios Ioannides

Member of the Board of Directors (38)

Alexios Ioannides has been a director of TCS Group Holding PLC since November 2008. Mr. Ioannides previously worked for Deloitte from 2001 to 2008 where he trained and qualified as a Chartered Accountant in 2004. Mr. Ioannides has also been a director of AXEPT Limited since June 2008 and a director of Epsilou Management Services Limited from May 2013 to March 2015.

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

Maria Trimithiotou

Member of the Board of Directors (36)

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

GDRs of TCS Group Holding PLC (a Cyprus company), with each GDR issued under a deposit agreement dated on or about 24th October 2013 with JPMorganChase Bank N.A. as depositary representing one class A share, are listed on London Stock Exchange and the Company is required to comply with its corporate governance regime to the extent it applies to foreign issuers of GDRs. No shares of TCS Group Holding PLC are listed on any exchange. As the class A shares themselves 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.

The Board of Directors

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

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The seven strong Board of directors is comprised of four executive directors including the chairman, and three non-executive directors two of whom are independent. There were no changes in the composition of the Board in 2014. The names of the people who served on the Board throughout 2014 are listed at page 34/35. The Group has established two committees of the Board. Specific responsibilities have been delegated to those committees.

The Board is required to undertake a formal and rigorous review annually of its own performance, that of its committees and of its individual directors. That review was carried out in-house in the second half of 2014 looking at performance from the time of the IPO in October 2013: it did not show up any deficiencies in the performance of the Board, its committees or individual directors of a nature that required changes to be made.

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 described below. Both Committees were constituted in October 2013. The Board reserves the right to amend their terms of reference and arranges a periodic review of each committee's role and activities.

Committee composition

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 under page 34.

Audit Committee

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

Under its terms of reference the Audit Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Audit Committee met this obligation in two main ways, through members participating in the main Board review above in the second half of 2014 and by arranging a complementary committee review on a rolling basis driven by the audit cycle. As a result of the Audit Committee's own review, certain minor changes were proposed to the committee's terms of reference based on practical experience since formation in October 2013, to clarify certain procedural matters and to align them more closely with how the committee operated in practice and recommended to the Board. The Board approved these changes in March 2015.

The Audit Committee has developed a risk matrix which constantly evolves to reflect new risks, the perceived impact of, and the Group's appetite for, any given risk and the measures taken to eliminate or mitigate those risks.

Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing among other things the framework of remuneration of the executive directors, senior management and its overall cost and the Group's remuneration policies. The objective is to ensure that the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are in a fair and responsible manner rewarded for their individual contributions to the success of the Group. The Remuneration Committee's Terms of Reference include reviewing the design and determining targets for any performance related pay schemes and reviewing the design of all share incentive plans for approval by the Board 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 continued work in 2014 on a review of the Group's share incentive plans for senior and middle management in the post IPO environment. In addition the Remuneration Committee was active in reviewing changes to the ESOP which went into a three year run-down process under changes to its trust deed executed in Q3 2014, so that the ESOP would wind up in 2016.

Under its terms of reference the Remuneration Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Remuneration Committee met this obligation through members participating in the main Board review above under which detailed questionnaires were completed by directors assessing the operation of the Board and committees. As a result of the review, certain minor changes were proposed to the Remuneration Committee's terms of reference based on practical experience since formation in October 2013, to clarify certain procedural matters and to align them more closely with how the committee operated in practice and recommended to the Board. The Board approved these changes too in March 2015.

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 Tinkoff 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

Chief Executive Officer, Chairman of the Management Board of Tinkoff Bank (44)

Oliver Hughes has served as Chairman of the Management Board and Chairman of the Credit Committee and Financial Committee of Tinkoff Bank since 2011 and has been a member of the Board of Directors of Tinkoff 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 Tinkoff Bank (39)

Ilya Pisemsky has been Deputy Chairman of the Finance Committee of Tinkoff Bank and a member of the Credit Committee of Tinkoff Bank since November 2011, Deputy Chairman of the Management Board since 2010 and Chief Financial Officer of Tinkoff 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 Tinkoff Bank (44)

Sergei has been Head of Corporate Finance at Tinkoff Bank since January 2010 and a member of Tinkoff 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).

Stanislav Bliznyuk

Chief Operating Officer, Deputy Chairman of the Management Board of Tinkoff Bank (34)

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 Tinkoff Bank between December 2006 and June 2012. Mr Bliznyuk holds a degree in mathematics and applied mathematics from the Moscow State University, Russia.

Evgeny Ivashkevich

Deputy Chairman of the Management Board of Tinkoff Bank (44)

Evgeny Ivashkevich has been Deputy Chairman of the Management Board since December 2011, Deputy Chairman of the Credit Committee of Tinkoff Bank since November 2011 and Risk Director of Tinkoff 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.

Dmitry Kobzar

Chief Legal Counsel, Deputy Chairman of the Management Board of Tinkoff Bank (35)

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 Tinkoff Bank (42)

Anatoly Makeshin has been a member of the Management Board since September 2012 and Payment Systems Director and Vice President of Tinkoff Bank from January 2010. Mr Makeshin was previously Head of Payment Systems for Tinkoff 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 (33)

Artem Yamanov has been the Business Development Director and Senior Vice President since January 2010 and a member of the Finance Committee of Tinkoff Bank since November 2011. Mr Yamanov was previously the Head of Products at Tinkoff 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 (39)

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

Tatiana Kouznetsova

Head of Human Resources (46)

Tatiana Kuznetsova has been a Vice President since August 2013 and the Head of HR of Tinkoff 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

31 December 2014

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

Contents

Board of Directors and Other Officers

Board of Directors

Oleg Tinkov (appointed 22 October 2013)

Constantinos Economides (appointed 21 November 2008)

Alexios Ioannides (appointed 21 November 2008)

Mary Trimithiotou (appointed 18 May 2012)

Philippe Delpal (re-appointed 06 June 2014)

Jacques Der Megreditchian (appointed 22 October 2013)

Martin Cocker (re-appointed 06 June 2014)

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

01 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 2014.

Principal activities

02 The Group's principal activity is on-line retail banking operations within the Russian Federation through its subsidiary CJSC "Tinkoff Credit Systems" (the "Bank") and insurance operations through the subsidiary OJSC "Tinkoff Insurance" (the "Insurance Company").

03 The Bank in credit cards. The Bank which is fully licensed by the Central Bank of Russia and launched its operations in the summer of 2007 is a member of the Russian Deposit Insurance System. The Insurance Company in providing non-life insurance coverage such as accident, property, travelers', financial risks and auto insurance. The founder and controlling shareholder of the Company is Oleg Tinkov. In late 2007 Goldman Sachs became a minority shareholder in the Company (which is the 100% owner of the Bank). The Swedish Investment Fund, Vostok Nafta, Baring Vostok Private Equity Fund and Horizon Capital have also acquired minority stakes in the Company. 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

04 The Bank operates a flexible business model. Its virtual network enables it to increase business 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 (co-brands) to acquire new customers. These customer acquisition models, combined with the Bank's virtual network, afford it a geographic reach across all of Russia's regions resulting in a highly diversified portfolio.

05 On 12 August 2014 the Group established a collection agency — LLC Feniks. The subsidiary provides debt collection services to the Group.

06 The net profit of the Group for the year ended 31 December 2014 was RR 3,400,613 thousand (2013: RR 5,754,871 thousand). On 31 December 2014 the total assets of the Group were RR 108,806,274 thousand (2013: RR 98,993,935 thousand) and the net assets were RR 20,969,068 thousand (2013: RR 20,551,007 thousand).

Principal risks and uncertainties

07 The Group conducts its activities in Russia through its subsidiaries; the Group's business and financial position during 2014 have been affected by the increased uncertainties and volatility of the Russian economic environment.

08 Other risks and uncertainties, which affect the Group, are presented in Notes 2, 29 and 31 of the consolidated financial statements.

Future developments

09 Subject to the scheduled repayment of debt in 2015 and the ongoing uncertainty of the Russian economy the Board of Directors does not plan 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 F-5 of the consolidated financial statements.

Dividends

11 On 2 December 2014 the Board of Directors declared a dividend of USD 0.303 per ordinary share amounting to USD 55,340 thousand. The dividend was fully paid as of 31 December 2014.

Share capital

12 June 2014 the Company issued 1,449,750 ordinary shares with a par value of USD 0.04 per share to the trustee of the "employee share option plan" (Note 18).

Board of Directors

13 The members of the Board of Directors as of 31 December 2014 and at the date of this report are presented on page F-1.

Auditors

14 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
3 March 2015

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 2014, 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 the 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 2014, 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 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 the 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.

A Loizou

Anna G Loizou
Certified Public Accountant and Registered Auditor for and on behalf of
PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
Limassol, 3 March 2015

Consolidated Statement of Financial Position

In thousands of RR	Note	31 December 2014	31 December 2013	31 December 2012
ASSETS				
Cash and cash equivalents	6	10,699,577	18,825,970	13,891,926
Mandatory cash balances with the CBRF		685,510	931,046	685,208
Loans and advances to customers	7	74,579,998	73,961,647	47,784,336
Financial derivatives	33	8,879,972	584,265	25,088
Investment securities available for sale	8	216,535	—	—
Repurchase receivables	9	5,366,280	—	—
Current income tax assets	26	1,094,088	—	—
Deferred income tax assets	26	—	214,081	345,337
Guarantee deposits with payment systems	10	2,967,132	1,657,533	1,020,280
Tangible fixed assets	11	541,348	620,806	545,250
Intangible assets	11	1,125,307	514,765	408,859
Other financial assets	12	1,890,667	1,160,437	1,184,383
Other non-financial assets	12	759,860	523,385	123,516
TOTAL ASSETS		**108,806,274**	**98,993,935**	**66,014,183**
LIABILITIES				
Due to banks	13	10,331,216	—	514,210
Customer accounts	14	43,366,434	43,206,628	26,671,665
Debt securities in issue	15	19,414,780	26,188,305	23,156,572
Financial derivatives		—	—	362,255
Current income tax liabilities		12,593	52,009	84,406
Deferred tax liabilities	26	1,039,795	6,523	—
Subordinated debt	16	11,250,686	6,531,955	3,763,086
Other financial liabilities	17	1,822,270	1,623,879	2,143,401
Other non-financial liabilities	17	599,432	833,629	259,386
TOTAL LIABILITIES		**87,837,206**	**78,442,928**	**56,954,981**
EQUITY				
Share capital	18	188,112	186,162	170,799
Share premium	18	8,622,919	8,622,919	3,253,521
Treasury shares	18	(4,474)	(2,524)	(2,171)
Share-based payment reserve	36	587,200	477,740	333,803
Retained earnings		11,800,358	11,266,710	5,303,250
Revaluation reserve		(225,047)	—	—
TOTAL EQUITY		**20,969,068**	**20,551,007**	**9,059,202**
TOTAL LIABILITIES AND EQUITY		**108,806,274**	**98,993,935**	**66,014,183**

Approved for issue and signed on behalf of the Board of Directors on 3 March 2015.

Constantinos Economides
Director

Mary Trimithiotou
Director

The notes set out on pages F:9 to F:54 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of RR	Note	2014	2013
Interest income	19	39,062,011	35,037,577
Interest expense	19	(8,264,026)	(8,177,133)
Net interest income		**30,797,985**	**26,860,444**
Provision for loan impairment	7	(15,839,175)	(9,800,808)
Net interest income after provision for loan impairment		**14,958,810**	**17,059,636**
Customer acquisition expense	20	(3,057,962)	(3,683,189)
Losses less gains from operations with foreign currencies	21	(1,122,054)	(366,316)
Income from insurance operations	22	759,483	193,031
Gain from sale of impaired loans	7	28,159	296,537
Gain from sale of investment securities available for sale		13,815	—
Fee and commission income		312,145	71,658
Fee and commission expense	23	(991,130)	(472,083)
Administrative and other operating expenses	24	(6,128,897)	(5,937,996)
Other operating income	25	122,316	359,182
Profit before tax		**4,894,685**	**7,520,460**
Income tax expense	26	(1,494,072)	(1,765,589)
Profit for the year		**3,400,613**	**5,754,871**
Other comprehensive loss: *Items that may be reclassified to profit or loss* Investment securities available for sale and repurchase receivables			
• Losses less gains arising during the year, net of tax		(213,995)	—
• Gains less losses reclassified to profit or loss upon disposal or impairment, net of tax		(11,052)	—
Other comprehensive loss for the year		**(225,047)**	—
Total comprehensive income for the year		**3,175,566**	**5,754,871**
Earnings per share for profit attributable to the owners of the Group, basic (expressed in RR per share)	18	**19.00**	**34.00**
Earnings per share for profit attributable to the owners of the Group, diluted (expressed in RR per share)	18	**18.89**	**33.36**

The notes set out on pages F:9 to F:54 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of RR	Note	Share capital	Share premium	Share-based payment reserve	Treasury shares	Retained earnings	Revaluation reserve	Total
Balance at 31 December 2012		**170,799**	**3,253,521**	**333,803**	**(2,171)**	**5,303,250**	—	**9,059,202**
Profit for the year		—	—	—	—	5,754,871	—	5,754,871
Total comprehensive income for 2013		—	—	—	—	**5,754,871**	—	**5,754,871**
Share issue	18	15,363	5,529,190	—	(353)	—	—	5,544,200
Initial public offering costs	18	—	(159,792)	—	—	—	—	(159,792)
Share-based payment reserve	36	—	—	143,937	—	208,589	—	352,526
Total transactions with owners		**15,363**	**5,369,398**	**143,937**	**(353)**	**208,589**	—	**5,736,934**
Balance at 31 December 2013		**186,162**	**8,622,919**	**477,740**	**(2,524)**	**11,266,710**	—	**20,551,007**
Profit for the year		—	—	—	—	3,400,613	—	3,400,613
Other comprehensive income: Revaluation of investment securities available for sale and transfers to profit or loss upon disposal or impairment		—	—	—	—	—	(225,047)	(225,047)
Total comprehensive income for 2014		—	—	—	—	**3,400,613**	**(225,047)**	**3,175,566**
Share issue	18	1,950	—	—	(1,950)	—	—	—
Share-based payment reserve	36	—	—	109,460	—	—	—	109,460
Dividend	27	—	—	—	—	(2,866,965)	—	(2,866,965)
Total transactions with owners		**1,950**	—	**109,460**	**(1,950)**	**(2,866,965)**	—	**(2,757,505)**
Balance at 31 December 2014		**188,112**	**8,622,919**	**587,200**	**(4,474)**	**11,800,358**	**(225,047)**	**20,969,068**

The notes set out on pages F:9 to F:54 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

In thousands of RR	Note	2014	2013
Cash flows from operating activities			
Interest received		36,394,790	31,994,453
Interest paid		(8,449,325)	(7,964,625)
Customers acquisition expenses paid		(1,942,562)	(2,793,263)
Cash received/(paid) from trading in foreign currencies		760,543	(506,807)
Cash received from insurance operations		984,123	210,415
Cash received from sale of impaired loans	8	86,613	446,668
Fees and commissions paid		(996,483)	(355,245)
Fees and commissions received		312,145	71,658
Other operating income received		240,485	231,656
Administrative and other operating expenses paid		(3,116,721)	(3,219,928)
Income tax paid		(1,323,993)	(1,646,660)
Cash flows from operating activities before changes in operating assets and liabilities		**22,949,615**	**16,468,322**
Changes in operating assets and liabilities			
Net decrease/(increase) in CBRF mandatory reserves		245,536	(245,838)
Net increase in loans and advances to customers		(17,988,220)	(34,163,014)
Net increase in guarantee deposits with payment systems		(68,499)	(637,245)
Net (increase)/decrease in other financial assets		(791,277)	23,937
Net increase in other non-financial assets		(58,196)	(358,672)
Net decrease/(increase) in due to banks		10,329,208	(514,210)
Net (decrease)/increase in customer accounts		(2,775,532)	15,976,510
Net decrease in other financial liabilities		(529,138)	(519,509)
Net increase in other non-financial liabilities		4,978	304,251
Net cash from/(used in) operating activities		**11,318,475**	**(3,665,468)**
Cash flows used in investing activities			
Acquisition of tangible fixed assets		(126,276)	(340,777)
Acquisition of intangible assets		(567,122)	(212,558)
Acquisition of investments available for sale	8	(7,079,917)	—
Proceeds from disposal and redemption of investment securities available for sale	8	1,245,926	—
Consideration paid for insurance company net of cash acquired		—	(44,172)
Net cash used in investing activities		**(6,527,389)**	**(597,507)**
Cash flows from financing activities			
Proceeds from debt securities in issue		143,149	8,953,702
Repayment of debt securities in issue		(13,723,674)	(7,400,615)
Proceeds from subordinated debt		—	2,259,578
Proceeds from initial public offering		—	5,518,212
Initial public offering costs paid		—	(132,880)
Dividends paid	27	(3,521,808)	—
Net cash from financing activities		**(17,102,333)**	**9,197,997**
Effect of exchange rate changes on cash and cash equivalents		4,184,854	(978)
Net (decrease)/increase in cash and cash equivalents		**(8,126,393)**	**4,934,044**
Cash and cash equivalents at the beginning of the year	6	**18,825,970**	**13,891,926**
Cash and cash equivalents at the end of the year	6	**10,699,577**	**18,825,970**

The notes set out on pages F:9 to F:54 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2014

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 2014 for TCS Group Holding PLC (the "Company") and its subsidiaries (together referred to as the "Group"), and in accordance with the requirements of the Cyprus Companies Law, Cap.113.

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

The Board of Directors of the Company at the date of authorisation of these consolidated financial statements consists of: 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.

At 31 December 2014 and 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 USD 0.04 per share and carrying one vote. A "class B" share is an ordinary share with a nominal value of USD 0.04 per share and carrying 10 votes. As at 31 December 2014 the number of "class A" shares is 90,494,146 and "class B" shares is 92,144,679. As at 31 December 2013 the number of "class A" shares was 90,494,146 and "class B" shares was 92,144,679.

As at 31 December 2014 and 31 December 2013 holding either Class A or Class B shares of the Company (or global depository receipts during post initial public offering (Note 18) lock-up period) were:

	31 December 2014	31 December 2013	Country of Incorporation
Tadek Holding & Finance S.A.	50.45%*	50.86%*	British Virgin Islands
Guaranty Nominees Limited (JP Morgan Chase Bank NA)	43.91%**	39.42%**	United Kingdom
Rousse Nominees Limited	2.88%	2.25%	Guernsey
Lorimer Ventures Limited	1.44%	1.45%	Cyprus
Altruco Trustees Limited	1.32%***	1.20%***	Cyprus
Tasos Invest & Finance Inc.	0.00%****	0.00%****	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
Vostok Komi (Cyprus) Limited	—	4.82%	Cyprus
Total	**100.00%**	**100.00%**	

* The shareholding of Tadek Holding & Finance S.A. consists of Class B shares (31 December 2013: Class B shares and GDRs).

** Guaranty Nominees Limited is a company holding class A shares of the Company for which global depositary receipts were issued under a deposit agreement made between the Company and JP Morgan Chase Bank NA signed in October 2013 (Note 18). The percentage of class A shares held by Guaranty Nominees Limited in the total share capital of the Company is equal to 43.91% (31 December 2013: 39.42%). As 31 December 2013 ELQ II Investors Limited (the global investment firm Goldman Sachs) owned global depositary receipts (4.5% out of 39.42%).

*** The shareholding of Altruco Trustees Limited represents Class A shares vested under the ESOP (Note 36) and GDRs purchased for and on behalf of members of the ESOP, acting individually.

**** Tasos Invest & Finance Inc. owns 1 Class B share at 31 December 2014 and 31 December 2013.

***** Vizer Limited, Maitland Commercial Inc and Norman Legal S.A. each own 25 Class B shares of the Company at 31 December 2014 and 31 December 2013.

1 Introduction continued

As at 31 December 2014 and 2013 the ultimate controlling party of the Company is Oleg Tinkov.

As at 31 December 2014 and as at 31 December 2013 the beneficial owner of Tadek Holding & Finance S.A., Tasos Invest & Finance Inc., Vizer Limited, Maitland Commercial Inc and Norman Legal S.A. was Russian entrepreneur Mr. Oleg Tinkov and the beneficial owner of Rousse Nominees Limited was Baring Vostok Private Equity Fund IV, L.P. As at 31 December 2013 the beneficial owner of Vostok Komi (Cyprus) Limited was investment fund Vostok Nafta, the beneficial owner of Lorimer Ventures Limited was Horizon Capital. Mr. Oleg Tinkov controls 91.1% of voting rights associated with the A+B Class shares.

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

		2014		2013		
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	Banking operations	100%	100%	100%	100%	Russia
OJSC Tinkoff Insurance	Insurance 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
Goward Group Ltd	Investment holding company	100%	100%	100%	100%	British Virgin Islands
LLC Feniks	Collection services	100%	100%	—	—	Russia

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

OJSC Tinkoff Insurance (the "Insurance Company") provides insurance services mainly to clients of the Group.

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 Bank.

TCS Finance Ltd is a structured entity which issued debt securities for the Group. 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 RR 14,426,424 thousand. On 12 August 2014 the Group established a collection agency – LLC Feniks. The Bank owns 51% and Goward Group Ltd. owns 49% of voting shares in collection agency. The subsidiary provides debt collection services to the Group.

Principal activity. The Group's principal business activity is retail banking and insurance operations within the Russian Federation through the Bank and Insurance Company. The Bank has operated under general banking license № 2673 issued by the Central Bank of the Russian Federation ("CBRF") since 8 December 2006. The Insurance Company operates under the insurance license issued by the Central Bank of the Russian Federation.

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 1,400 thousand (before 29 December 2014: 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. This consolidated financial statements are presented in thousands of Russian Rubles (RR). The Group's management decided to present the consolidated financial statements in the functional currency of the Group's entities from 1 January 2014 to provide the users of the consolidated financial statements with reliable and more relevant information (refer to Note 3).

Notes to the Consolidated Financial Statements continued

31 December 2014

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 31). During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014:

- the CBRF exchange rate fluctuated between RR 32.7292 and RR 56.2584 per USD;
- the CBRF key refinancing interest rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 12.0% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index ranged between 1,445 and 791;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- the CBRF exchange rate fluctuated between RR 56.2584 per USD and RR 69.6640 per USD;
- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a decade. In February 2015 Moody's downgraded Russia's rating to Ba1 from Baa3. Fitch Ratings still have Russia as investment grade. All these rating agencies indicated a negative outlook, meaning further downgrades are possible;
- the RTS stock exchange index ranged between 733 and 908;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates; and
- the CBRF key refinancing interest rate decreased from 17.0% p.a. to 15.0% p.a.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

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, investment securities available for sale and repurchase receivables 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 investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

3 Summary of Significant Accounting Policies continued

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, irrespective of the extent of any non-controlling interest.

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank 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 (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 34.

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.

3 Summary of Significant Accounting Policies continued

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.

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

The Group uses discounted cash flow valuation techniques to determine the fair value of currency swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. 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. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or 2 inputs.

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

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

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

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

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

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. In the course of business the Group sells impaired loans to third parties. Gains or losses on disposal of impaired loans are recognized in the Statement of Profit or Loss in the period when sale occurred. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

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

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

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired.

3 Summary of Significant Accounting Policies continued

The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

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

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

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the consolidated statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

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

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

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

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

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

3 Summary of Significant Accounting Policies continued

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

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

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

At each reporting date management assesses whether there is any indication of impairment of intangible assets. 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 other banks. Amounts due to banks are recorded when money or other assets are advanced to the Group by counterparty banks. Non-derivative liability is carried at amortised cost.

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

Debt securities in issue. Debt securities 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.

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.

Notes to the Consolidated Financial Statements continued

31 December 2014

3 Summary of Significant Accounting Policies continued

Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, where the 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.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Group entities are the basis for profit distribution and other appropriations. The separate financial statements of the Company prepared in accordance with IFRS as adopted by the EU is the basis of available reserves for distribution.

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.

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.

3 Summary of Significant Accounting Policies continued

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

Non-life insurance (short-term insurance). The below items from the consolidated statement of financial position of the Group are accounted within Other financial assets and Other financial liabilities lines, the below items from the consolidated statement of profit 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 inforce 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.

- 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.

Notes to the Consolidated Financial Statements continued

31 December 2014

3 Summary of Significant Accounting Policies continued

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

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

- ***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.

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.

At 31 December 2014 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 56.2584 (2013: USD 1 = RR 32.7292), and the principal average rate of exchange was USD 1= RR 38.3165 (2013: USD 1= RR 31.8480).

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.

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

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.

Change in presentation currency. On 1 January 2014 the management of the Group made a decision to change the presentation currency from USD to RR. The Group's management considers that the change results in the consolidated financial statements providing reliable and more relevant information about the performance of the Group and its financial position.

The new accounting policy is more in line with market practice. The change has been applied retrospectively in line with IAS 8 "Accounting Policies, changes in Accounting Estimates and Errors". In accordance with IAS 8 balance sheet as at 31 December 2012 was presented in these consolidated financial statements. These consolidated financial statements are presented in thousands of RR.

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 judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the 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.

Given the nature of the borrowers and the loans it is the Group's view and experience that there is a very short time lag between a possible loss event that could lead to impairment and the non or under payment of a monthly installment. 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 historical retail loan loss statistics for assessment of probabilities of default. The last twelve months of historical loss data give the most weighting 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 proceeds from sale of impaired loans which was estimated at 1.6% of the provision of loan impairment and was based on conservative sampling of historical data and current market trends (Note 7). As at 31 December 2014 the positive effect of the above adjustment on provision for loan impairment is approximately RR 315,302 thousand (2013: RR 363,390 thousand).

To the extent that the incurred losses as at 31 December 2014 resulting from future cash flows vary by 0.5% (31 December 2013: 0.5%) from the calculated estimate, the profit would be approximately RR 469,537 thousand (31 December 2013: RR 416,835 thousand) higher or lower.

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

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.

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:

Notes to the Consolidated Financial Statements continued

31 December 2014

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies continued

- 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 RR 18,041 thousand lower/RR 21,079 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 RR 17,009 thousand higher/RR 16,675 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 sharebased payment would be RR 216 thousand lower/RR 256 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 RR 182 thousand higher/RR 182 thousand.

Fair value of financial derivatives. The description of valuation techniques and the description of the inputs used in the fair value measurement of financial derivatives are disclosed in Note 34.

Tax legislation. Russian and Cypriot tax, currency and customs legislation are subject to varying interpretations. Refer to Note 31.

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 2014 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 2014 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 2014. This adoption did not have a material effect on the accounting policies of the Group.

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

Adopted by the European Union

IFRIC 21 – Levies (issued on 20 May 2013 and effective for annual periods beginning 17 June 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its consolidated financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual consolidated financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a “vesting condition” and to define separately “performance condition” and “service condition”; The amendment is effective for sharebased payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

5 Adoption of New or Revised Standards and Interpretations continued

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ("the management entity"), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the consolidated financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Not adopted by the European Union

New standards

IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

5 Adoption of New or Revised Standards and Interpretations continued

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in consolidated financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations continued

Annual improvements

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim consolidated financial statements to the location of "information disclosed elsewhere in the interim financial report".

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

6 Cash and Cash Equivalents

In thousands of RR	31 December 2014	31 December 2013
Cash on hand	25,571	10,451
Cash balances with the CBRF (other than mandatory reserve deposits)	2,295,541	3,568,306
Placements with other banks and organizations with original maturities of less than three months, including:		
- A- to A+ rated	3,426,240	5,057,741
- BBB rated	2,655,663	8,455,654
- BB- to BB+ rated	33,721	—
- B- to B+ rated	118,936	11,553
Unrated	2,143,905	1,722,265
Total Cash and Cash Equivalents	**10,699,577**	**18,825,970**

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 34 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 29.

7 Loans and Advances to Customers

In thousands of RR	31 December 2014	31 December 2013
Loans to individuals:		
Credit card loans	85,064,092	78,608,684
Installment loans	6,534,975	2,577,774
Cash loans	1,564,940	1,697,847
POS loans	743,319	482,668
Total loans and advances to customers before impairment	**93,907,326**	**83,366,973**
Less: Provision for loan impairment	(19,327,328)	(9,405,326)
Total loans and advances to customers	**74,579,998**	**73,961,647**

Notes to the Consolidated Financial Statements continued

31 December 2014

7 Loans and Advances to Customers continued

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

The Bank 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 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	31 December 2014	31 December 2013
Credit card limits		
Up to 10 RR thousand	657,321	402,848
10–20 RR thousand	288,254	216,685
20–30 RR thousand	228,313	223,300
30–40 RR thousand	186,365	197,551
40–50 RR thousand	161,874	185,982
50–60 RR thousand	136,570	169,763
60–80 RR thousand	254,678	283,249
80–100 RR thousand	204,724	208,944
More than 100 RR thousand	376,673	295,102
Total cards	**2,494,772**	**2,183,424**

Movements in the provision for loan impairment for the year ended 31 December 2014 are as follows:

In thousands of RR	As at 31 December 2013	Sales of impaired loans	Amounts written-off during the period	Provision for impairment during the period	As at 31 December 2014
Loans to individuals:					
Credit card loans	8,372,032	(1,067,868)	(4,220,841)	12,526,131	15,609,454
Installment loans	884,867	(294,677)	(225,117)	2,768,561	3,133,634
POS loans	116,680	—	(108,670)	118,337	126,347
Cash loans	31,747	—	—	426,146	457,893
Total provision for loan impairment	**9,405,326**	**(1,362,545)**	**(4,554,628)**	**15,839,175**	**19,327,328**

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 RR	As at 31 December 2012	Sales of impaired loans	Amounts written-off during the period	Provision for impairment during the period	As at 31 December 2013
Loans to individuals:					
Credit card loans	4,032,202	(4,234,190)	—	8,574,020	8,372,032
Installment loans	178,619	(400,951)	—	1,107,199	884,867
POS loans	28,838	—	—	87,842	116,680
Cash loans	—	—	—	31,747	31,747
Total provision for loan impairment	**4,239,659**	**(4,635,141)**	—	**9,800,808**	**9,405,326**

In 2014 the Group sold impaired loans to third parties (external debt collection agencies) with a gross amount of RR 1,420,999 thousand (2013: RR 4,785,272 thousand), and provision for impairment of RR 1,362,545 thousand (2013: RR 4,635,141 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 impaired loans in the amount of RR 28,159 thousand (2013: RR 296,537 thousand). The criteria for impaired loans to qualify for sale to external debt collection agencies are disclosed in Note 29.

During 2014 the Group wrote off impaired loans with gross amount of RR 4,554,628 thousand and provision for impairment of RR 4,554,628 thousand (2013: none).

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

	31 December 2014				31 December 2013			
In thousands of RR	Credit card loans	Installment loans	Cash loans	POS loans	Credit card loans	Installment loans	Cash loans	POS loans
Neither past due norimpaired:								
– new	965,111	—	—	291,659	1,321,747	—	—	141,123
Loans collectively assessed for impairment (gross):								
– non-overdue	66,142,385	4,083,880	1,080,654	305,023	65,822,383	1,822,099	1,683,774	219,623
–less than 30 days overdue	3,230,355	490,447	68,554	27,136	3,013,717	286,898	11,558	11,983
–30 to 90 days overdue	3,015,618	518,151	79,082	19,892	2,893,876	269,322	2,515	13,997
–90 to 180 days overdue	3,126,610	609,545	107,693	22,388	2,878,909	166,332	—	14,611
–180 to 360 days overdue	4,625,476	832,952	228,957	77,221	409,708	25,003	—	56,147
–over 360 days overdue	—	—	—	—	41,482	8,120	—	25,184
–loans in courts	3,958,537	—	—	—	2,226,862	—	—	—
Less: Provision for loan impairment	(15,609,454)	(3,133,634)	(457,893)	(126,347)	(8,372,032)	(884,867)	(31,747)	(116,680)
Total loans to individuals	**69,454,638**	**3,401,341**	**1,107,047**	**616,972**	**70,236,652**	**1,692,907**	**1,666,100**	**365,988**

Notes to the Consolidated Financial Statements continued

31 December 2014

7 Loans and Advances to Customers continued

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

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 34 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 29. Information on related party balances is disclosed in Note 36.

8 Investment Securities Available for Sale

In thousands of RR	31 December 2014	31 December 2013
Corporate bonds	216,535	—
Total investment securities available for sale	**216,535**	—

Analysis by credit quality of debt securities outstanding at 31 December 2014 is as follows:

In thousands of RR	Corporate bonds	Total
Neither past due nor impaired BB- to BB+ rated	216,535	216,535
Total neither past due nor impaired investment securities available for sale	**216,535**	**216,535**

The movements in investment securities available for sale for the period ended 31 December 2014 are as follows:

In thousands of RR	31 December 2014
Carrying amount at 1 January	—
Purchases	7,079,917
Disposals of investment securities available for sale	(551,788)
Redemption of investment securities available for sale	(694,138)
Interest income accrued on investment securities available for sale and repurchase receivables (Note 19)	319,684
Interest received	(303,367)
Pledged under sale and repurchase agreements (Note 9)	(5,366,280)
Revaluation through other comprehensive income	(267,493)
Carrying amount at 31 December 2014	**216,535**

9 Repurchase Receivables

Repurchase receivables represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge. The repurchase agreements are short-term in nature and matured on 14 January 2015.

In thousands of RR	31 December 2014	31 December 2013
Available-for-sale securities sold under sale and repurchase agreements		
Corporate bonds	5,098,868	—
Russian government bonds	267,412	—
Total repurchase receivables	**5,366,280**	—

9 Repurchase Receivables continued

Analysis by credit quality of debt securities classified as repurchase receivables outstanding at 31 December 2014 is as follows:

	Available-for-sale securities	
In thousands of RR	**Russian government bonds**	**Corporate bonds**
Neither past due nor impaired		
BBB rated	267,412	3,694,426
BB- to BB+ rated	—	1,404,442
Total neither past due nor impaired debt securities classified as repurchase receivables	**267,412**	**5,098,868**

10 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 2014 and 2013) as a guarantee deposit in favour of MasterCard 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 2014 was RR 2,967,132 thousand (2013: RR 1,657,533 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.

11 Tangible Fixed and Intangible Assets

In thousands of RR	**Equipment**	**Leasehold improvements**	**Vehicles**	**Total tangible fixed assets**	**Intangible assets**
Cost					
At 31 December 2012	**510,717**	**336,833**	**29,522**	**877,072**	**679,619**
Additions	138,661	191,842	9,614	340,117	227,438
Disposals	—	—	(3,822)	(3,822)	—
Cost					
At 31 December 2013	**649,378**	**528,675**	**35,314**	**1,213,367**	**907,057**
Additions	149,618	13,744	20,986	184,348	799,574
Disposals	—	—	(16,106)	(16,106)	—
At 31 December 2014	**798,996**	**542,419**	**40,194**	**1,381,609**	**1,706,631**
Depreciation and amortisation					
At 31 December 2012	**(196,299)**	**(124,498)**	**(11,025)**	**(331,822)**	**(270,760)**
Charge for the period (Note 24)	(148,274)	(108,992)	(6,021)	(263,287)	(121,532)
Disposals	—	—	2,548	2,548	—
At 31 December 2013	**(344,573)**	**(233,490)**	**(14,498)**	**(592,561)**	**(392,292)**
Charge for the period (Note 24)	(177,627)	(73,644)	(6,658)	(257,929)	(189,032)
Disposals	—	—	10,229	10,229	—
At 31 December 2014	**(522,200)**	**(307,134)**	**(10,927)**	**(840,261)**	**(581,324)**
Net book value					
At 31 December 2013	**304,805**	**295,185**	**20,816**	**620,806**	**514,765**
At 31 December 2014	**276,796**	**235,285**	**29,267**	**541,348**	**1,125,307**

Intangible assets include the license on insurance operations.

Intangible assets acquired during the years ended 31 December 2014 and 2013 mainly represent accounting software, retail banking software, licenses and development of software.

Notes to the Consolidated Financial Statements continued

31 December 2014

12 Other Financial and Non-financial Assets

In thousands of RR	**31 December 2014**	**31 December 2013**
Other Financial Assets		
Settlement of operations with plastic cards	1,813,784	1,015,493
Trade and other receivables	76,633	131,735
Other	250	13,209
Total Other Financial Assets	**1,890,667**	**1,160,437**
Other Non-Financial Assets		
Prepaid expenses	691,438	501,673
Other	68,422	21,712
Total Other Non-Financial Assets	**759,860**	**523,385**

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 2014 prepaid expenses consist of prepayments for office equipment, cycling team sponsorship, postal services and office rent (2013: prepaid expenses for postal services, cycling team sponsorship and office rent).

Other financial assets are not impaired and not past due. Refer to Note 34 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 29.

13 Due to banks

In thousands of RR	**31 December 2014**	**31 December 2013**
Sale and repurchase agreements with CBRF	5,002,399	—
Loan from OJSC Sberbank of Russia	2,994,061	—
Short-term loan from CBRF	2,005,548	—
Due to other banks	329,208	
Total due to banks	**10,331,216**	—

On 18 November 2014 the Bank raised a loan from CBRF in the amount of RR 1,000 mln with the contractual interest rate 11.25% maturing 16 February 2015.

On 10 December 2014 the Bank raised a loan from CBRF in the amount of RR 1,000 mln with the contractual interest rate 11.25% maturing 10 March 2015.

As at 31 December 2014, in amounts due to banks are included liabilities of RR 5,000 mln from sale and repurchase agreements with CBRF.

On 14 March 2014 the Bank raised a loan from OJSC Sberbank of Russia in the amount of RR 3,000 mln with the contractual interest rate 11.2% maturing 13 September 2015.

Refer to Note 34 for the disclosure of the fair value of due to banks.

14 Customer Accounts

In thousands of RR	31 December 2014	31 December 2013
Legal entities		
• Current/settlement accounts of corporate entities	196,242	145,192
• Term deposits of corporate entities	1,878,589	1,451,454
Individuals		
• Current/settlement accounts of individuals	11,056,383	8,404,652
• Term deposits of individuals	30,235,220	33,205,330
Total Customer Accounts	**43,366,434**	**43,206,628**

Refer to Note 34 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 29. Information on related party balances is disclosed in Note 36.

15 Debt Securities in Issue

In thousands of RR	Date of maturity	31 December 2014	31 December 2013
USD denominated bonds issued in September 2012	18.09.2015	14,426,424	8,345,510
RR denominated bonds issued in July 2012	14.07.2015	2,094,954	2,090,688
RR denominated bonds issued in April 2012	16.04.2015	1,538,870	1,528,679
RR denominated bonds issued in May 2013	24.05.2016	1,131,498	3,012,444
Euro-Commercial Paper issued in February 2014	26.02.2015	223,034	—
Euro-Commercial Paper issued in July 2013	09.07.2014	—	637,279
Euro-Commercial Paper issued in July 2013	10.01.2014	—	2,453,223
Euro-Commercial Paper issued in March 2013	26.03.2014	—	1,609,550
RR denominated bonds issued in February 2011	18.02.2014	—	677,113
USD denominated bonds issued in April 2011	22.04.2014	—	5,833,819
Total Debt Securities in Issue		**19,414,780**	**26,188,305**

On 18 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 16 July 2012 the Group issued RR denominated bonds with a nominal value of RR 2,000 mln (equivalent of USD 61.2 mln) at 13.9% coupon rate maturing on 14 July 2015.

On 19 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 28 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. As a result of offer event as at 25 November 2014 1,880,007 securities were repurchased by the Group at nominal value of RR 1,880 mln. In November 2014 the Group has set the coupon rate at 14.00% of RR denominated bonds till the next offer event on 26 May 2015.

On 27 February 2014 the Group issued USD denominated Euro-Commercial Paper (ECP) with a nominal value of USD 4 mln with a discount of 5.5% maturing on 26 February 2015.

On 9 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 9 July 2014 it was fully redeemed at maturity.

On 9 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 10 January 2014 it was fully redeemed at maturity.

On 27 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 17 March 2014 it was fully redeemed before maturity at a nominal value.

15 Debt Securities in Issue continued

On 22 February 2011 the Group issued RR denominated bonds with a nominal value of RR 1,500 million at 14.0% coupon rate maturing on 18 February 2014. On 22 of August 2012 the Group redeemed part of these bonds in according with the public offer at nominal value. On 18 February 2014 the Group fully redeemed RR denominated bonds at maturity at a nominal value.

On 22 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 21 April 2014 the Group fully redeemed USD denominated bonds at maturity in amount of USD 175 mln at nominal value.

All bonds issued by the Group are traded on stock exchanges. Refer to Note 34 for the disclosure of the fair value of debt securities in issue.

16 Subordinated Debt

As at 31 December 2014 the carrying value of the subordinated debt was RR 11,250,686 thousand (31 December 2013: RR 6,531,955 thousand). On 6 December 2012 and 18 February 2013 respectively 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.

Interest rate, maturity and geographical risk concentration analyses of subordinated debt are disclosed in Note 29. Refer to Note 34 for the disclosure of fair value of subordinated debt.

17 Other Financial and Non-financial Liabilities

In thousands of RR	31 December 2014	31 December 2013
Other Financial Liabilities		
Settlement of operations with plastic cards	1,009,440	1,533,559
Trade payables	470,608	25,071
Insurance provisions	248,409	52,454
Other	93,813	12,795
Total Other Financial Liabilities	**1,822,270**	**1,623,879**
Other Non-financial Liabilities		
Accrued administrative expenses	213,965	529,362
Taxes payable other than income tax	355,468	304,260
Other	29,999	7
Total Other Non-financial Liabilities	**599,432**	**833,629**

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

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

Interest rate, maturity and geographical risk concentration analyses of other financial liabilities are disclosed in Note 29. Refer to Note 34 for disclosure of fair value of other financial liabilities.

18 Share Capital

In thousands of RR except for number of shares	Number of authorised shares	Number of outstanding shares	Ordinary shares	Share premium	Treasury shares	Total
At 31 December 2012	**7,619,180**	**6,777,173**	**170,799**	**3,253,521**	**(2,171)**	**3,422,149**
Effect of decrease of nominal value of shares	182,860,320	162,652,152	—	—	—	—
Shares issued	—	11,759,750	15,363	5,529,190	(353)	5,544,200
Initial public offering costs	—	—	—	(159,792)	—	(159,792)
At 31 December 2013	**190,479,500**	**181,189,075**	**186,162**	**8,622,919**	**(2,524)**	**8,806,557**
Shares issued	—	1,449,750	1,950	—	(1,950)	—
At 31 December 2014	**190,479,500**	**182,638,825**	**188,112**	**8,622,919**	**(4,474)**	**8,806,557**

On 22 October 2013 the nominal value of each share was changed from USD 1 to USD 0.04. The total authorised number of ordinary shares is 190,479,500 shares (2013: 190,479,500 shares) with a par value of USD 0.04 per share (2013: USD 0.04 per share). All issued ordinary shares are fully paid.

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 represented the issue of 10,000,000 new shares and the secondary component represented the sale of existing shares owned by shareholders. The total offering comprised USD 1,087 million (RR 34,416 million). The primary component amounted to USD 175 million (RR 5,542 million).

In October 2013 the Group issued 12,400 ordinary shares with a par value of USD 1 per share (which is equal to 310,000 ordinary shares with a par value of USD 0.04 per share), fully paid, to Altruco Trustees Limited under the Equity long term incentive plan (“Equity LTIP”). Refer to Note 36.

In June 2013 the Group issued 57,990 ordinary shares with a par value of USD 1 per share (which is equal to 1,449,750 ordinary shares with a par value of USD 0.04 per share), fully paid, to Altruco Trustees Limited under the employee share option plan (“ESOP”).

In June 2014 the Group issued 1,449,750 ordinary shares with a par value of USD 0.04 per share, fully paid, to Altruco Trustees Limited under the ESOP. Refer to Note 36.

Treasury shares represent shares issued by the Group under the ESOP and Equity LTIP and all legally owned by a trustee. Refer to Note 36.

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 36.

Earnings per share are calculated as follows:

In thousands of RR except for number of shares	2014	2013
Profit for the year attributable to ordinary shareholders	3,400,613	5,754,871
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation (thousands)	179,025	169,265
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation (thousands)	179,991	172,490
Basic earnings per ordinary share (expressed in RR per share)	**19.00**	**34.00**
Diluted earnings per ordinary share (expressed in RR per share)	**18.89**	**33.36**

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19 Interest Income and Expense

In thousands of RR	2014	2013
Interest income		
Loans and advances to customers, including:		
Credit card loans	37,226,170	34,291,665
Cash loans	707,121	246,089
Installment loans	558,832	259,211
POS loans	236,013	214,178
Interest income accrued on investment securities available for sale and repurchase receivables	319,684	—
Placements with other banks	14,191	26,434
Total Interest Income	**39,062,011**	**35,037,577**
Interest expense		
Customer accounts	4,606,577	4,022,753
Eurobonds	1,329,731	1,942,983
Subordinated debt	1,093,672	847,889
RR denominated bonds	708,101	1,143,375
Due to banks	469,819	73,314
Euro-Commercial Paper	56,126	146,819
Total Interest Expense	**8,264,026**	**8,177,133**
Net Interest Income	**30,797,985**	**26,860,444**

20 Customer Acquisition Expenses

In thousands of RR	2014	2013
Marketing and advertising	1,395,675	1,770,685
Staff costs	1,385,296	1,429,275
Credit bureaux	186,235	181,693
Telecommunication expenses	68,557	61,498
Personalisation, printing and distribution	21,793	212,554
Acquisition and partnerships	406	8,344
Other	—	19,140
Total customer acquisition expenses	**3,057,962**	**3,683,189**

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 pension fund in the amount of RR 222,295 thousand (2013:225,640 thousand).

21 Losses less Gains from Operations with Foreign Currencies

In thousands of RR	2014	2013
Foreign exchange translation losses less gains	(9,636,327)	(911,458)
Gains less losses from derivative revaluation	7,654,876	321,824
Gains less losses from trading in foreign currencies	859,397	223,318
Losses less gains from operations with foreign currencies	**(1,122,054)**	**(366,316)**

22 Income from insurance operations

In thousands of RR	2014	2013
Insurance premiums earned	923,363	132,615
Insurance agency fees	46,180	81,722
Insurance claims incurred	(210,060)	(21,306)
Total income from insurance operations	**759,483**	**193,031**

23 Fee and Commission Expense

In thousands of RR	2014	2013
Service fees	524,575	293,543
Payment systems	446,113	155,355
Banking and other fees	20,442	23,185
Total fee and commission expense	**991,130**	**472,083**

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

Payment systems fees represent fees for MasterCard and Visa services.

24 Administrative and Other Operating Expenses

In thousands of RR	Note	2014	2013
Staff costs		3,481,854	3,360,888
Taxes other than income tax		884,052	772,059
Rental expenses		377,283	350,678
Communication services		295,422	425,426
Depreciation of tangible fixed assets	11	257,929	263,287
Amortization of intangible assets	11	189,032	121,532
Expenses on deposit insurance		166,745	120,545
Information services		151,199	102,105
Professional services		105,192	207,426
Stationary and office expenses		56,805	87,805
Transportation		15,705	18,281
Other administrative expenses		147,679	107,964
Total administrative and other operating expenses		**6,128,897**	**5,937,996**

The expenses stated above include fees of RR 5,220 thousand (2013: RR 1,879 thousand) for audit services, RR 3,191 thousand (2013: RR 127 thousand) for tax consultancy services and RR 2,846 thousand (2013: RR 6,019 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 RR	2014	2013
Statutory social contribution to the pension fund	444,459	324,780
Share-based remuneration	109,460	295,804

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25 Other Operating Income

In thousands of RR	2014	2013
Income from marketing services	95,892	40,861
Other operating income	26,424	18,727
Gain from stabilisation operations related to IPO	—	170,610
Reimbursement of IPO costs	—	128,984
Total other operating income	**122,316**	**359,182**

In 2013 the Group incurred costs related to the IPO. 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 18). 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 were due to be reimbursed by JPMorgan Chase Bank, N. A., which were 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 limit volatility in the GDR offer price in the period following the start of trading.

26 Income Taxes

Income tax expense comprises the following:

In thousands of RR	2014	2013
Current tax	(190,457)	(1,627,810)
Deferred tax	(1,303,615)	(137,779)
Income tax expense for the year	**(1,494,072)**	**(1,765,589)**

The income tax rate applicable to the majority of the Group's income is 20% (2013: 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% (2013: 12.5%).

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

In thousands of RR	2014	2013
Profit before tax	**4,894,685**	**7,520,460**
Theoretical tax expense at statutory rate of 20% (2013: 20%)	(978,937)	(1,504,092)
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	(370,657)	(338,187)
- Dividend tax	(150,000)	—
- Other	(79)	(21,880)
Effects of different tax rates in other countries		
- Financial result of parent entity at 12.5% (2013: 12.5%)	1,110	98,570
- Utilization of parent entity tax losses brought forward not previously recognized at 12.5% (2013: 12.5%)	4,491	—
Income tax expenses for the year	**(1,494,072)**	**(1,765,589)**

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% (2013: 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.

26 Income Taxes continued

In thousands of RR	31 December 2013	Charged/(credited) to profit or loss	Charged/(credited) to equity	31 December 2014
Tax effect of deductible and taxable temporary differences				
Loans and advances to customers	169,341	(21,282)	—	148,059
Tangible fixed assets	(51,483)	795	—	(50,688)
Intangible assets	(92,558)	(72,026)	—	(164,584)
Revaluation of investment securities available for sale and repurchase receivables	—	—	56,262	56,262
Accrued expenses	281,166	(24,548)	—	256,618
Customer accounts	(52,858)	(4,030)	—	(56,888)
Debt securities in issue	6,546	(1,863)	—	4,683
Financial derivatives	(52,596)	(1,723,398)	—	(1,775,994)
Due to banks	—	(2,108)	—	(2,108)
Insurance provision	—	(14,480)	—	(14,480)
Tax loss carried forward	—	559,325	—	559,325
Net deferred tax assets/(liabilities)	**207,558**	**(1,303,615)**	**56,262**	**(1,039,795)**

In thousands of RR	31 December 2012	(Charged)/credited to profit or loss	(Charged)/credited to equity	31 December 2013
Tax effect of deductible and taxable temporary differences				
Loans and advances to customers	339,202	(169,861)	—	169,341
Tangible fixed assets	(63,509)	12,026	—	(51,483)
Intangible assets	(81,551)	(11,007)	—	(92,558)
Accrued expenses	135,310	145,856	—	281,166
Customer accounts	(35,293)	(17,565)	—	(52,858)
Debt securities in issue	(16,249)	22,795	—	6,546
Financial derivatives	67,427	(120,023)	—	(52,596)
Net deferred tax assets	**345,337**	**(137,779)**	—	**207,558**

27 Dividends

In thousands of RR	2014
Dividends payable at 1 January 2014	—
Dividends declared during the year	2,866,965
Dividends paid during the year	(3,521,808)
Foreign exchange loss on dividends payable	654,843
Dividends payable at 31 December 2014	—
Dividends per share declared during the year (in RR)	**15.70**
Dividends per share declared during the year (in USD)	**0.303**
Dividends per share paid during the year (in RR)	**19.28**
Dividends per share paid during the year (in USD)	**0.303**

All dividends are declared and paid in USD.

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28 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.

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

The Group is organised on the basis of 2 main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- Insurance operations – representing insurance services provided to individuals

Factors that management used to identify the reportable segments

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

Measurement of operating segment profit or loss, assets and liabilities

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

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2014 is set out below:

In thousands of RR	**Retail banking**	**Insurance operations**	**Eliminations**	**Total**
Cash and cash equivalents	10,692,202	896,304	(888,929)	10,699,577
Mandatory cash balances with the CBRF	685,51	—	—	685,51
Loans and advances to customers	74,579,998	—	—	74,579,998
Financial derivatives	8,879,972	—	—	8,879,972
Investment securities available for sale	216,535	—	—	216,535
Repurchase receivables	5,366,280	—	—	5,366,280
Current income tax assets	1,080,050	14,038	—	1,094,088
Deferred income tax assets	—	—	—	—
Guarantee deposits with payment systems	2,967,132	—	—	2,967,132
Tangible fixed assets	540,702	646	—	541,348
Intangible assets	864,181	261,126	—	1,125,307
Other financial assets	1,890,667	32,581	(32,581)	1,890,667
Other non-financial assets	648,062	111,798	—	759,86
Total reportable segment assets	**108,411,291**	**1,316,493**	**(921,510)**	**108,806,274**
Due to banks	10,331,216	—	—	10,331,216
Customer accounts	44,255,363	—	(888,929)	43,366,434
Debt securities in issue	19,414,780	—	—	19,414,780
Current income tax liabilities	12,593	—	—	12,593
Deferred income tax liability	1,013,610	26,185	—	1,039,795
Subordinated debt	11,250,686	—	—	11,250,686
Other financial liabilities	1,553,207	301,644	(32,581)	1,822,270
Other non-financial liabilities	594,158	5,274	—	599,432
Total reportable segment liabilities	**88,425,613**	**333,103**	**(921,510)**	**87,837,206**

28 Segment Analysis continued

Prior to 1 January 2014, the insurance business was not reviewed by CODM as a separate operating segment due to its immateriality. The comparative segment analysis information has therefore not been restated.

In thousands of RR	**Retail banking**	**Insurance operations**	**Eliminations**	**Total**
2014				
External revenues:				
Interest income	39,062,011	7,327	(7,327)	39,062,011
Income from insurance operations	323,113	713,303	(276,933)	759,483
Gain from sale of impaired loans	28,159	—	—	28,159
Fee and commission income	312,145	—	—	312,145
Gain from sale of investment securities available for sale	13,815	—	—	13,815
Other operating income	124,316	—	(2,000)	122,316
Total revenues	**39,863,559**	**720,630**	**(286,260)**	**40,297,929**
Interest expense	(8,271,353)	—	7,327	(8,264,026)
Provision for loan impairment	(15,839,175)	—	—	(15,839,175)
Customer acquisition expenses	(2,920,638)	(414,257)	276,933	(3,057,962)
Losses less gains from operations with foreign currencies	(1,122,054)	—	—	(1,122,054)
Fee and commission expense	(991,130)	—	—	(991,130)
Administrative and other operating expenses	(5,946,696)	(184,201)	2,000	(6,128,897)
Segment result	**4,772,513**	**122,172**	—	**4,894,685**

Depreciation charge for 2014 included in the administrative and other operating expenses in the amount of RR 257,929 and RR 39 thousand relate to the Bank and to the Insurance Company, correspondingly. Amortisation for 2014 included in the administrative and other operating expenses in the amount of RR 173,975 thousand and RR 15,057 thousand relate to the Bank and to the Insurance Company, correspondingly.

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

In thousands of RR	**2014**
Total revenues for reportable segments	40,584,189
Intercompany transactions	(286,260)
Total consolidated revenues	**40,297,929**

Total consolidated revenues comprise interest income, income from insurance operations, gain from sale of impaired loans, fee and commission income, income from sale of investment securities available for sale and other operating income.

In thousands of RR	**2014**
Total reportable segment result	4,894,685
Profit or loss before tax	**4,894,685**

In thousands of RR	**31 December 2014**
Total reportable segment assets	109,727,784
Intercompany balances	(921,510)
Total consolidated assets	**108,806,274**
Total reportable segment liabilities	88,758,716
Intercompany balances	(921,510)
Total consolidated liabilities	**87,837,206**

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29 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 recent economic crisis resulted in growth of credit risk. The management of the Group takes special measures to mitigate growing credit risk such as decreasing of credit limits for unreliable clients, diversifying of modes of work with overdue borrowers, toughening of scoring for the new borrowers etc.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position and within contingencies and commitments (Note 31). The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

- Citizenship of the Russian Federation;
- Valid passport of the Russian Federation;
- Age 18 to 70 inclusive;
- Monthly income above RR 7 thousand;
- Availability of a cell-phone;
- Permanent employment;
- Absence of delinquent loans with the Bank.

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 loans balance in other banks according to credit bureau information;
- Cash loan volumes range within RR 50 thousand and 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 credit exposure to a customer does not exceed RR 200 thousand.

A credit decision process includes:

- the first step includes validation of the application data. Credit officers check the documents and validate contact information (addresses and telephone numbers).
- 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.
- 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).
- 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.
- 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 may decide to sell these loans to a debt collection agency. The Collection Department considers the following criteria for impaired loans qualifying for sale to external debt collection agencies:

a) loans remain unpaid after all collection procedures were performed (no payment during last 4-6 months);
b) the debtor cannot be either reached or found for the previous 4 months;
c) the debtor has no assets and there is no expectation he/she will have any in the future;
d) the debtor has died and there is no known estate or guarantor;
e) it is determined that it is not cost effective to continue collection efforts.

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.

29 Financial Risk Management continued

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 installment 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 impaired loans. Defaulted clients that could be subject to the court process are chosen by the Bank's Collection Department considering the following criteria:

a) the client's account balance was fixed, accrual of interest stopped;
b) information about the client is considered to be up to date;
c) the client denied restructuring program;
d) term of limitation of court actions has not expired;
e) court process is economically justified;
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.

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

	At 31 December 2014				At 31 December 2013			
In housand s of RR	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
RR	86,800,421	(49,192,192)	(15,948,808)	21,659,421	81,513,865	(46,403,533)	(15,160,967)	19,949,365
USD	6,821,521	(34,173,757)	24,816,488	(2,535,748)	13,803,147	(29,883,952)	15,742,969	(337,836)
Euro	2,783,757	(2,819,437)	12,292	(23,388)	1,219,621	(1,263,282)	18,001	(25,660)
SEK	—	—	—	—	—	—	(15,738)	(15,738)
Total	**96,405,699**	**(86,185,386)**	**8,879,972**	**19,100,285**	**96,536,633**	**(77,550,767)**	**584,265**	**19,570,131**

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

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

	At 31 December 2014		At 31 December 2013	
In housand s of RR	**Impact on profit or loss**	**Impact on equity (pre-tax)**	**Impact on profit or loss**	**Impact on equity (pre-tax)**
USD strengthening by 30% (2013: by 15%)	(760,724)	(760,724)	(50,675)	(50,675)
USD weakening by 30% (2013: by 15%)	760,724	760,724	50,675	50,675
Euro strengthening by 30% (2013: by 15%)	(7,016)	(7,016)	(3,849)	(3,849)
Euro weakening by 30% (2013: by 15%)	7,016	7,016	3,849	3,849

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.

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29 Financial Risk Management continued

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 thousands of RR	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
31 December 2014						
Total financial assets	22,387,295	33,949,670	23,443,642	22,922,238	2,582,826	105,285,671
Total financial liabilities	(22,268,649)	(20,115,194)	(29,317,647)	(3,233,210)	(11,250,686)	(86,185,386)
Net interest sensitivity gap at 31 December 2014	**118,646**	**13,834,476**	**(5,874,005)**	**19,689,028**	**(8,667,860)**	**19,100,285**
31 December 2013						
Total financial assets	29,584,679	31,004,642	19,830,821	15,939,368	761,388	97,120,898
Total financial liabilities	(16,993,475)	(23,303,124)	(16,888,201)	(13,895,110)	(6,470,857)	(77,550,767)
Net interest sensitivity gap at 31 December 2013	**12,591,204**	**7,701,518**	**2,942,620**	**2,044,258**	**(5,709,469)**	**19,570,131**

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

At 31 December 2014, if interest rates at that date had been 500 basis points lower (2013: 200 points lower), with all other variables held constant, profit would have been RR 955,014 thousand (2013: RR 391,403 thousand) lower.

If interest rates had been 500 basis points higher (2013: 200 points higher), with all other variables held constant, profit would have been RR 955,014 thousand (2013: RR 391,403 thousand) higher.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates for the years 2014 and 2013 based on reports reviewed by key management personnel.

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

	2014			2013		
In % p.a.	RR	USD	EURO	RR	USD	EURO
Assets						
Cash and cash equivalents	0.3	0.0	0.1	0.5	0.2	0.2
Loans and advances to customers	52.1	—	—	56.7	—	—
Investment Securities available for sale	9.2	—	—	—	—	—
Repurchase receivables	9.3	4.3	—	—	—	—
Liabilities						
Due to banks	18.9	—	—	—	—	—
Customer accounts	11.9	7.9	6.8	12.5	7.8	4.5
Debt securities in issue	12.2	11.7	—	13.0	10.6	—
Subordinated debt	—	14.8	—	—	14.8	—

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 (2013: no material impact).

29 Financial Risk Management continued

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2014 is set out below:

In thousands of RR	Russia	OECD	Other Non-OECD	Total
Financial assets				
Cash and cash equivalents	7,239,616	3,459,961	—	10,699,577
Mandatory cash balances with the CBRF	685,510	—	—	685,510
Loans and advances to customers	74,579,998	—	—	74,579,998
Financial derivatives	5,244,630	3,635,342	—	8,879,972
Investment securities available for sale	216,535	—	—	216,535
Repurchase receivables	5,309,915	56,365	—	5,366,280
Guarantee deposits with payment systems	—	2,967,132	—	2,967,132
Other financial assets	788,260	1,102,407	—	1,890,667
Total financial assets	**94,064,464**	**11,221,207**	—	**105,285,671**
Financial liabilities				
Due to banks	10,331,216	—	—	10,331,216
Customer accounts	41,487,846	—	1,878,588	43,366,434
Debt securities in issue	4,765,322	14,649,458	—	19,414,780
Subordinated debt	—	11,250,686	—	11,250,686
Other financial liabilities	979,364	842,906	—	1,822,270
Total financial liabilities	**57,563,748**	**26,743,050**	**1,878,588**	**86,185,386**
Unused limits on credit card loans (Note 31)	**38,320,923**	—	—	**38,320,923**

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

In thousands of RR	Russia	OECD	Other Non-OECD	Total
Financial assets				
Cash and cash equivalents	9,604,060	9,221,910	—	18,825,970
Mandatory cash balances with the CBRF	931,046	—	—	931,046
Loans and advances to customers	73,961,647	—	—	73,961,647
Financial derivatives	279,687	304,578	—	584,265
Guarantee deposits with payment systems	—	1,657,533	—	1,657,533
Other financial assets	474,498	685,939	—	1,160,437
Total financial assets	**85,250,938**	**11,869,960**	—	**97,120,898**
Financial liabilities				
Customer accounts	41,755,186	—	1,451,442	43,206,628
Debt securities in issue	7,308,891	18,879,414	—	26,188,305
Subordinated debt	—	6,531,955	—	6,531,955
Other financial liabilities	142,195	1,481,684	—	1,623,879
Total financial liabilities	**49,206,272**	**26,893,053**	**1,451,442**	**77,550,767**
Unused limits on credit card loans (Note 31)	**34,693,463**	—	—	**34,693,463**

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

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 2014 and 2013.

29 Financial Risk Management continued

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

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

The liquidity management of the Group requires 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 2014 and 2013.

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 55% of issued credit cards are activated, about 89% of activated credit cards are actually used, utilisation rate for credit cards is stable at 94%. The level of quarterly transactions is generally within 28-30% of the gross credit card portfolio while the level of quarterly repayments is generally 33-36% 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 behaviour is reviewed by the CFO.

The table below shows liabilities at 31 December 2014 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 RR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities						
Due to banks	5,411,600	2,077,737	831,699	2,283,140	—	10,604,176
Customer accounts	15,269,009	8,099,825	7,066,577	12,299,714	3,415,079	46,150,204
Debt securities in issue	104,720	981,006	2,780,440	17,003,490	—	20,869,656
Subordinated debt	—	—	787,618	787,618	15,189,768	16,765,004
Other financial liabilities	1,822,270	—	—	—	—	1,822,270
Financial derivatives	5,700,492	91,329	150,211	3,476,567	9,849,940	19,268,539
Unused limits on credit card loans (Note 31)	38,320,923	—	—	—	—	38,320,923
Total potential future payments for financial obligations	**66,629,014**	**11,249,897**	**11,616,545**	**35,850,529**	**28,454,787**	**153,800,772**

29 Financial Risk Management continued

The maturity analyses of financial liabilities at 31 December 2013 is as follows:

In thousands of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities						
Customer accounts	13,789,074	8,132,453	7,453,813	13,820,690	2,533,600	45,729,630
Debt securities in issue	2,554,154	2,761,526	6,278,639	4,057,616	13,500,127	29,152,062
Subordinated debt	—	—	457,227	457,227	9,747,378	10,661,832
Other financial liabilities	1,623,892	—	—	—	—	1,623,892
Financial derivatives	2,900,638	3,111,877	154,121	305,167	13,628,667	20,100,470
Unused limits on credit card loans (Note 31)	34,693,463	—	—	—	—	34,693,463
Total potential future payments for financial obligations	**55,561,221**	**14,005,856**	**14,343,800**	**18,640,700**	**39,409,772**	**141,961,349**

Financial derivatives receivable and payable are disclosed in the Note 33. The tables above present only the gross payables.

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.

The Group takes on exposure to liquidity risk, which is the risk of cash surplus in case of assets-liabilities cash-flow profile mismatch. Exposure to liquidity risk arises as a result of the Group's borrowing and operational activities that assume cash payment obligations.

The Group uses daily, short-term and long-term reporting, stress-testing and forecasting practices to monitor and prevent potential liquidity problems. The Group is actively increasing the number of counterparties for interbank lending, looks for new wholesale markets, improves and creates additional debit and credit products to have more instruments over cash-flow management. The recent economic situation has resulted in increased liquidity risk. In response the management of the Group preserves cash safety cushions for possible cash outflows and has planned Group's liquidity position for the next year to ensure it can cover all upcoming payment obligations.

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29 Financial Risk Management continued

The expected maturity analysis of financial instruments at carrying amounts as monitored by management at 31 December 2014 is presented in the table below.

In thousands of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Assets						
Cash and cash equivalents	10,699,577	—	—	—	—	10,699,577
Mandatory cash balances with the CBRF	237,363	119,996	101,590	175,452	51,109	685,510
Loans and advances to customers	9,193,912	15,127,382	16,389,873	18,488,062	15,380,769	74,579,998
Financial derivatives	—	—	—	2,705,553	6,174,419	8,879,972
Investment securities available for sale	—	—	—	—	216,535	216,535
Repurchase receivables	—	608,718	348,211	1,339,036	3,070,315	5,366,280
Guarantee deposits with payment systems	365,776	601,836	652,064	735,539	611,917	2,967,132
Other financial assets	1,890,667	—	—	—	—	1,890,667
Total financial assets	**22,387,295**	**16,457,932**	**17,491,738**	**23,443,642**	**25,505,064**	**105,285,671**
Liabilities						
Due to banks	5,331,607	2,005,548	748,515	2,245,546	—	10,331,216
Customer accounts	15,015,964	7,591,138	6,426,760	11,099,362	3,233,210	43,366,434
Debt securities in issue	98,808	672,865	2,670,368	15,972,739	—	19,414,780
Subordinated debt	—	—	—	—	11,250,686	11,250,686
Other financial liabilities	1,822,270	—	—	—	—	1,822,270
Total financial liabilities	**22,268,649**	**10,269,551**	**9,845,643**	**29,317,647**	**14,483,896**	**86,185,386**
Net liquidity gap at 31 December 2014	**118,646**	**6,188,381**	**7,646,095**	**(5,874,005)**	**11,021,168**	**19,100,285**
Cumulative liquidity gap at 31 December 2014	**118,646**	**6,307,027**	**13,953,122**	**8,079,117**	**19,100,285**	—

29 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 2013 is as follows:

In thousands of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Assets						
Cash and cash equivalents	18,825,970	—	—	—	—	18,825,970
Mandatory cash balances with the CBRF	276,255	160,925	159,258	284,572	50,036	931,046
Loans and advances to customers	9,117,684	12,873,340	16,948,147	19,117,805	15,904,671	73,961,647
Financial derivatives	—	194,651	—	—	389,614	584,265
Guarantee deposits with payment systems	204,333	288,501	379,820	428,444	356,435	1,657,533
Other financial assets	1,160,437	—	—	—	—	1,160,437
Total financial assets	**29,584,679**	**13,517,417**	**17,487,225**	**19,830,821**	**16,700,756**	**97,120,898**
Liabilities						
Customer accounts	12,820,021	7,467,952	7,390,646	13,206,003	2,322,006	43,206,628
Debt securities in issue	2,549,575	2,546,921	5,897,605	3,621,100	11,573,104	26,188,305
Subordinated debt	—	—	—	61,098	6,470,857	6,531,955
Other financial liabilities	1,623,879	—	—	—	—	1,623,879
Total financial liabilities	**16,993,475**	**10,014,873**	**13,288,251**	**16,888,201**	**20,365,967**	**77,550,767**
Net liquidity gap at 31 December 2013	**12,591,204**	**3,502,544**	**4,198,974**	**2,942,620**	**(3,665,211)**	**19,570,131**
Cumulative liquidity gap at 31 December 2013	**12,591,204**	**16,093,748**	**20,292,722**	**23,235,342**	**19,570,131**	—

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.

30 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 and USD 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 2014 was RR 20,969,068 thousand (2013: RR 20,551,007 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 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 2014 was RR 27,156,707 thousand (2013: RR 25,261,805 thousand), the amount of Tier 1 capital as at 31 December 2014 was RR 19,843,761 thousand (2013: RR 20,036,241 thousand). Total capital adequacy ratio and Tier 1 capital adequacy ratio were 21.81% and 15.94% respectively (2013: 25.03% and 19.85% respectively). The Group and the Bank have complied with all externally imposed capital requirements throughout 2014 and 2013.

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31 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 challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This 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.

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 Group.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. 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. In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and noncorporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income will be subject to a 20% tax rate if the CFC is controlled by a legal entity and a rate of 13% if it is controlled by an individual. As a result, management reassessed the Group's tax positions and recognised deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation will apply to.

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

As at 31 December 2014 no material tax risks were identified (2013: 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 RR	2014	2013
Not later than 1 year	541,735	373,997
Total operating lease commitments	**541,735**	**373,997**

Other commitments. Other commitments include the fixed sponsorship fee under contract with the Tinkoff-Saxo Cycling Team. The future sponsorship payments are as follows:

In thousands of RR	31 December 2014	31 December 2013
Not later than 1 year	512,570	337,274
Later than 1 year and not later than 5 years	1,025,141	1,349,097
Total other commitments	**1,537,711**	**1,686,371**

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 2014 and 2013.

31 Contingencies and Commitments continued

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

Outstanding credit related commitments are as follows:

In thousands of RR	**2014**	**2013**
Unused limits on credit card loans	38,320,923	34,693,463
Total unused limits on credit card loans	**38,320,923**	**34,693,463**

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

32 Transfers of Financial Assets

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

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

Sale and repurchase transactions. At 31 December 2014, the Group has available for sale securities represented by Russian government bonds of RR 267,412 thousand and corporate bonds of RR 5,098,868 thousand that are subject to obligation to repurchase the securities for a fixed pre-determined price. Refer to Note 13 for the carrying value of obligations from this sale and repurchase transactions.

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

	Note	**31 December 2014**	
In thousands of Russian Roubles		**Carrying amount of the assets at year end**	**Carrying amount of the associated liabilities**
Investment securities available for sale	9	5,366,280	5,002,399
Total		**5,366,280**	**5,002,399**

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33 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.

	2014		2013	
In thousands of RR	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	24,816,488	—	15,450,670	545,054
- USD payable on settlement (-)	—	—	(252,755)	—
- RR payable on settlement (-)	(15,936,516)	(12,292)	(14,866,405)	(294,562)
- SEK receivable on settlement (+)	—	—	252,755	—
- SEK payable on settlement (-)	—	—	—	(268,493)
- EUR receivable on settlement (+)	—	12,292	—	18,001
Net fair value of foreign exchange forwards and swaps	**8,879,972**	—	**584,265**	—

Included in financial derivatives held by the Group as at 31 December 2014 is one outstanding swap contract with positive fair value of RR 929,788 thousand, which includes reference to the default of JSC VTB Bank, JSC Gazprom or the Russian Federation. There are also four other outstanding swap contracts with total positive fair value of RR 7,950,184 thousand which include reference to the default of the Bank. Where there is a reference in the swap contract to default of the entity or the country the swap contract would be cancelled and all of the rights and obligations are terminated in the event of an actual default of this entity or the country.

Foreign exchange derivative financial instruments entered into by the Group are generally gross 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.

34 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 2014				31 December 2013			
In thousands of RR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
Financial derivatives	—	8,879,972	—	8,879,972	—	584,265	—	584,265
Investment securities available for sale	216,535	—	—	216,535	—	—	—	—
Repurchase receivables	5,366,280	—	—	5,366,280	—	—	—	—
Total assets recurring fair value measurements	**5,582,815**	**8,879,972**	—	**14,462,787**	—	**584,265**	—	**584,265**

34 Fair Value of Financial Instruments continued

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2014 are as follows:

In thousands of RR	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
Foreign exchange swaps	8,879,972	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.
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	**8,879,972**		

There were no changes in the valuation techniques for level 2 recurring fair value measurements during the year ended 31 December 2014 (2013: none) except for the refining of the method of the counterparty's' credit risk applying.

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.

(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 2014				31 December 2013			
In thousands of RR	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL Assets CARRIED AT AMORTISED COST								
Cash and cash equivalents								
- Cash on hand	25,571	—	—	25,571	10,451	—	—	10,451
- Cash balances with the CBRF (other than mandatory reserve deposits)	—	2,295,541	—	2,295,541	—	3,568,306	—	3,568,306
- Placements with other banks with original maturities of less than three months	—	8,378,465	—	8,378,465	—	15,247,213		15,247,213
Mandatory cash balances with the CBRF	—	685,510	—	685,510	—	931,046	—	931,046
Loans and advances to customers	—	—	74,579,998	74,579,998	—	—	73,961,647	73,961,647
Guarantee deposits with payment systems	—	—	2,967,132	2,967,132	—	—	1,657,533	1,657,533
Other financial assets					—			
Settlement of operations with plastic cards receivable	—	1,813,784	—	1,813,784	—	1,015,493	—	1,015,493
Trade and other receivables	—	—	76,633	76,633	—	—	131,735	131,735
Other financial assets	—	—	250	250	—	—	13,209	13,209
Total financial assets carried at amortised cost	**25,571**	**13,173,300**	**77,624,013**	**90,822,884**	**10,451**	**20,762,058**	**75,764,124**	**96,536,633**

Notes to the Consolidated Financial Statements continued

31 December 2014

34 Fair Value of Financial Instruments continued

In thousands of RR	31 December 2014 Level 1	Level 2	Level 3	Carrying value	31 December 2013 Level 1	Level 2	Level 3	Carrying value
FINANCIAL liabilities CARRIED AT AMORTISED COST								
Due to banks	—	10,167,498	—	10,331,216	—	—	—	—
Customer accounts								
Legal entities								
-Current/settlement accounts of corporate entities	—	196,242	—	196,242	—	145,192	—	145,192
-Term deposits of corporate entities	—	1,878,589	—	1,878,589	—	1,451,118	—	1,451,454
Individuals								
-Current/settlement accounts of individuals	—	11,056,383	—	11,056,383	—	8,404,652	—	8,404,652
-Term deposits of individuals	—	27,797,931	—	30,235,220	—	33,697,383	—	33,205,330
Debt securities in issue								
USD denominated bonds	13,912,820	—	—	14,426,424	14,629,803	—	—	14,179,329
RR Bonds issued on domestic market	4,590,139	—	—	4,765,322	7,309,342	—	—	7,308,924
ECP	215,094	—	—	223,034	4,701,223	—	—	4,700,052
Subordinated debt	8,079,644	—	—	11,250,686	7,089,690	—	—	6,531,955
Other financial liabilities								
Settlement of operations with plastic cards	—	1,009,440	—	1,009,440	—	1,533,572	—	1,533,559
Trade payables	—	—	470,608	470,608	—	—	25,071	25,071
Insurance provisions	—	—	248,409	248,409	—	—	52,454	52,454
Other financial liabilities	—	—	93,813	93,813	—	—	12,795	12,795
Total financial liabilities carried at amortised cost	**26,797,697**	**52,106,083**	**812,830**	**86,185,386**	**33,730,058**	**45,231,917**	**90,320**	**77,550,767**

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 (2013: OJSC Moscow Exchange MICEX-RTS, Berlin Stock Exchange, Frankfurt Stock Exchange and Irish Stock Exchange).

34 Fair Value of Financial Instruments continued

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

In % p.a.	2014	2013
Assets		
Cash and cash equivalents	0.2	0.3
Loans and advances to customers	52.1	56.7
Investment securities available for sale	9.3	—
Repurchase receivables	9.1	—
Liabilities		
Due to banks	18.9	—
Customer accounts	18.2	11.1
Debt securities in issue	18.4	8.7
Subordinated debt	27.7	11.8

35 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 2014:

In thousands of RR	Loans and receivables	FVTPL	Available-for-esale assets	Total
Cash and cash equivalents				
-Cash on hand	25,571	—	—	25,571
-Cash balances with the CBRF (other than mandatory reserve deposits)	2,295,541	—	—	2,295,541
-Placements with other banks with original maturities of less than three months	8,378,465	—	—	8,378,465
Mandatory cash balances with the CBRF	685,510			685,510
Loans and advances to customers	74,579,998			74,579,998
Financial derivatives	—	8,879,972	—	8,879,972
Guarantee deposits with payment systems	2,967,132	—	—	2,967,132
Investment securities available for sale	—	—	216,535	216,535
Repurchase receivables	—	—	5,366,280	5,366,280
Other financial assets				
-Settlement of operations with plastic cards receivable	1,813,784	—	—	1,813,784
-Trade and other receivables	76,633	—	—	76,633
-Other financial assets	250	—	—	250
TOTAL FINANCIAL ASSETS	**90,822,884**	**8,879,972**	**5,582,815**	**105,285,671**

Notes to the Consolidated Financial Statements continued

31 December 2014

35 Presentation of Financial Instruments by Measurement Category continued

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

In thousands of RR	Loans and receivables	FVTPL	Available-for-sale assets	Total
Cash and cash equivalents				
-Cash on hand	10,451	—	—	10,451
-Cash balances with the CBRF (other than mandatory reserve deposits)	3,568,306	—	—	3,568,306
-Placements with other banks with original maturities of less than three months	15,247,213	—	—	15,247,213
Mandatory cash balances with the CBRF	931,046	—	—	931,046
Loans and advances to customers	73,961,647	—	—	73,961,647
Financial derivatives	—	584,265	—	584,265
Guarantee deposits with payment systems	1,657,533	—	—	1,657,533
Other financial assets				
-Settlement of operations with plastic cards receivable	1,015,493	—	—	1,015,493
-Trade and other receivables	131,735	—	—	131,735
-Other financial assets	13,209	—	—	13,209
TOTAL FINANCIAL ASSETS	**96,536,633**	**584,265**	—	**97,120,898**

As of 31 December 2014 and 2013 all of the Group's financial liabilities except derivatives were carried at amortised cost.

36 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:

	2014		2013	
In thousands of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
ASSETS				
Gross amounts of loans and advances to customers (contractual interest rate: 24% (2013: 24%))	2,663	—	2,586	—
Other non-financial assets	—	423,194	—	112,420
LIABILITIES				
Customer accounts (contractual interest rate: 11-21% p.a. (2013: 11-15% p.a.))	485,181	1,878,589	761,994	1,451,454
Other non-financial liabilities	—	—	131,013	—

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

36 Related Party Transactions continued

Other non-financial assets represent a prepayment made under the sponsorship contract with the Tinkoff- Saxo Cycling Team ("Team"), the related expense is included in customer acquisition expense. In November 2014 the Group paid a bonus fee to the Team in amount of RR 27,939 thousand (equivalent of EUR 500 thousand) for winning Vuelta a Espana in accordance with the sponsorship contract. The Team is owned by the Company's ultimate controlling party. Commitments in relation to this sponsorship agreement are disclosed in Note 31.

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

	2014		2013	
In thousands of RR	**Key management personnel**	**Other related parties**	**Key management personnel**	**Other related parties**
Interest income	910	—	1,123	—
Interest expense	(46,140)	(62,027)	(24,655)	(122,965)
Customer acquisition expense	—	(494,596)	—	(16,369)
Unrealised foreign exchange translation losses less gains	—	(773,636)	—	(31,147)

Key management compensation is presented below:

	2014		2013	
In thousands of RR	**Expense**	**Share based payment**	**Expense**	**Share based payment**
Short-term benefits:				
-Salaries	261,654	—	262,428	—
-Short-term bonuses	90,532	—	341,860	—
Long-term benefits:				
- Employee share option plan	95,976	526,444	261,689	430,468
- Equity long term incentive plan	13,484	60,756	34,117	47,272
Total	**461,646**	**587,200**	**900,094**	**477,740**

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 share capital attributable to the plan was 2.98% of issued share capital at 20 May 2011 (i.e. 2.65% of issued share capital at 31 December 2014 and 31 December 2013).

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% vested on 30 June 2014. The shares do not give the employees any voting power. The employees cannot own or exercise their shareholder rights directly, except for the dividends, if any.

Due to the change in the nominal value of shares of the Group from USD 1 to USD 0.04 (Note 18) in October 2013 the number of shares in issue for ESOP purposes increased to 3,383 thousand from 135 thousand.

The liquidity event when vested shares could be sold by the key 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).

In October 2013 1,214 thousand of the vested shares were sold for the benefit of ESOP participants in the IPO.

In November 2013 one of ESOP participants forfeited his rights on vested and unvested shares of ESOP. On 25 September 2014 these shares were reallocated among one new and two existing participants of the plan. The number of reallocated shares comprised 756,571 and their fair value as at 25 September 2014 comprised RR 134,946 thousand.

On 27 October 2014 the amendments to the ESOP were signed. According to them the shares of the plan may be sold by participants in three tranches of approximately 33% each between 25 October 2014 and 30 November 2014; between 1 June 2015 and 30 November 2015 and between 1 June 2016 and 30 November 2016, respectively. These amendments resulted in accelerated recognition of the expenses.

Notes to the Consolidated Financial Statements continued

31 December 2014

36 Related Party Transactions continued

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 senior and middle management, not participating in the 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 for at least five years from July 2013, other financial 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 310 thousand of the shares were vested in Altruco Trustees Limited as trustee of Equity LTIP and sold for the benefit of plan participants in the IPO.

In 2014 the total remuneration of Directors listed in the Report of the Board of Directors (included in key management personnel compensation above) amounted to RR 77,542 thousand (2013: RR 127,583 thousand).

37 Events after the End of the Reporting Period

On 16 January 2015 the sole shareholder of the Bank made a decision to change the name of TCS Bank to Joint Stock Company "Tinkoff Bank".

In January 2015 Tinkoff Online Insurance was renamed as Joint Stock Company "Tinkoff Insurance".

On 26 February 2015 the Group redeemed Euro-Commercial Paper at maturity at amount of USD 4,000 thousand (equivalent of RR 254,033 thousand) 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
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
Days past due	dpd	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
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
KASKO	KASKO	Voluntary car insurance programme
Key performance indicators	KPI	n/a
Loan loss provision	LLP	Allowance for bad loans
N1	N1	Russian statutory capital adequacy ratio
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
NPV	NPV	Net present value
Compalsory car insurance programme	OSAGO	n/a
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

Investors' information

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

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