ALL SYSTEMS GO

TCS Group Holding PLC

Annual Report 2016

THE
LARGEST
INDEPENDENT GLOBAL
DIRECT BANK

* According to a report by Frost & Sullivan (October, 2016), an international consulting firm. Frost & Sullivan analysed online and direct banks across the globe and compiled a comprehensive study and global ranking by number of customers. Tinkoff, as an unaffiliated and totally branchless bank, came out on top of this ranking in terms of number of customers.

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

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TCS Group (or the 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.

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 2016 included in this document. A detailed description of the presentation of financial and other information is set out after page 45 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.

1 Day-to-Day Banking

Debit Cards

Point-of-Sale online lending

Internet Acquiring

Cash Loans

Deposits

Insurance

Pre-Paid Cards

Credit Cards
- Tinkoff Platinum
- ALL Airlines
- All Games

Co-branded cards
- OneTwoTrip
- Google Play
- WWF
- Planetacard
- Ulmart

Mobile Applications
- Gibdd traffic fines
- Card-to-card
- MoneyTalk mobile messenger
- Tinkoff mobile bank

debit cards 1.8mn

credit cards 6.9mn

2 Full Cycle Brokerage Platform

Mortgages

Retail Securities Trading

Travel

Car Loans

3 SME

Mobile and Internet banking

Personal manager

Quick payments

Built-in CRM

Payroll projects

Built-in accounting

POS-and e-acquiring

Built-in government relations

Marketplace banking and non-banking services

4 ...

Tinkoff.ru

The ecosystem built around customer needs through a unique online, branchless platform

Highlights

Proven track record of driving sustainable growth

Growth

- Gross loans up 19% to RUB120.4bn since YE2015
- More than one million new active customers acquired in 2016 and over 1.3mn new credit cards issued
- SME business developing rapidly, over 50,000 SME customers acquired
- Customer accounts up at RUB124.6bn

Credit quality

- Ongoing focus on credit quality
- NPLs (90d+) dropped to 10.2% at YE2016
- Loan loss provision coverage stayed at 1.4x at YE2016

Liquidity and capitalisation

- Total assets up by 25.6% over 2016 at RUB175.4bn, with cash and treasury portfolio up at RUB49.5bn
- Total equity up by 28.6% to RUB29.5bn at YE2016
- 31 December 2016 CBRF N1 statutory capital ratio of 11.1% and Tier 1 up at 14.8%
- Treasury portfolio of RUB33.3bn of highly liquid CBRF repoable bonds

Profitability

- FY2016 net income, a Group record at RUB11bn, with 4 consecutive quarters of record net income
- ROAE of 42.5% for FY2016
- Growing contribution from non-credit-card business income streams

Key events

- Launched a network of software development hubs countrywide, the first in St Petersburg
- Joined the Russian blockchain consortium
- Introduced a face recognition system for scoring
- Launched a new management long term incentive plan
- Launched Tinkoff Investments, now accounting for around 25% of all new accounts opened on the Moscow Exchange
- One of the first launching Apple Pay and Samsung Pay in Russia
- Credit rating agency upgrades

Credit cards issued in 2016
1.3 mn

Total assets
>175 RUBbn

Customer accounts
125 RUBbn

Net profit
11.0 RUBbn

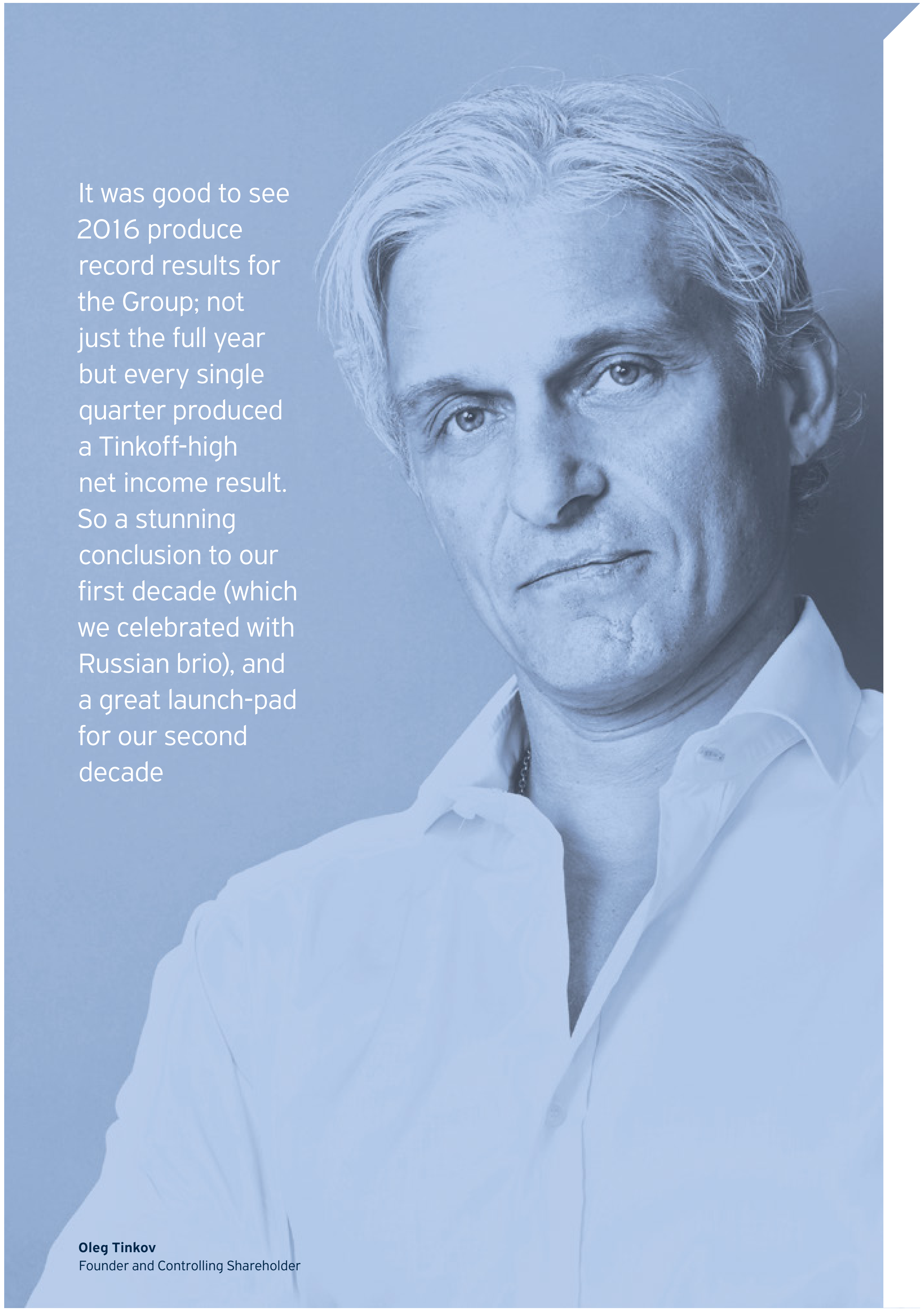
ROAE for 2016
42.5 %

Strong N1.0 capital ratio at the end of 2016 of
11.1 %

10 YEARS ANNIVERSARY TINKOFF BANK

Our history

	Highlights of TCS Group's innovative development	Net loan portfolio growth (RUBmn)
2016	• Launched a network of software development hubs countrywide, the first in St Petersburg • Joined the Russian blockchain consortium • Introduced a face recognition system for scoring • Launched a new management long term incentive plan • One of the first launching Apple Pay and Samsung Pay in Russia	102,912
'15	• Acquired parts of Svyaznoy Bank's credit card portfolios • Became Russia's second largest credit card provider • Launched a range of new business lines, transitioning to online financial marketplace Tinkoff.ru • Issued new co-branded cards	82,067
'14	• New brand - Tinkoff Bank • Launch of a series of co-branded cards • Launch of a number of mono mobile applications	74,580
'13	• TCS Group IPO on the London Stock Exchange Main Market • Launch of Tinkoff Insurance • Launch of cash loans	73,962
'12	• Minority stakes sold to Baring Vostok and Horizon • Launch of online POS loan programme	47,784
'11	• Launch of mobile banking • Launch of the mobile and telesales sub-channels of Tinkoff Bank online customer acquisition platform	21,359
'10	• Launch of online acquisition channel for credit cards • Launch of "smart courier" service	9,643
'09	• Launch of the retail deposit programme • First debit card issued	5,254
'08	• Minority stakes sold to Goldman Sachs and Vostok Nafta • Launch of internet bank	4,117
'07	• First credit card issued	1,593
'06	**Tinkoff Credit Systems Bank was created by Oleg Tinkov**	



It was good to see 2016 produce record results for the Group; not just the full year but every single quarter produced a Tinkoff-high net income result. So a stunning conclusion to our first decade (which we celebrated with Russian brio), and a great launch-pad for our second decade

Oleg Tinkov
Founder and Controlling Shareholder

Founder's statement

Dear Stakeholders,

It is my privilege to be writing to you to share with you my take on the year just gone, a year in which after navigating the crisis we continued rolling out Tinkoff.ru, our online financial supermarket. I wrote a year ago that I felt it would be a huge success, that the timing felt instinctively right. It was good to see 2016 produce record results for the Group; not just the full year but every single quarter produced a Tinkoff-high net income result. So a stunning conclusion to our first decade (which we celebrated with Russian brio), and a great launch-pad for our second decade; and it is to that I would like to turn next.

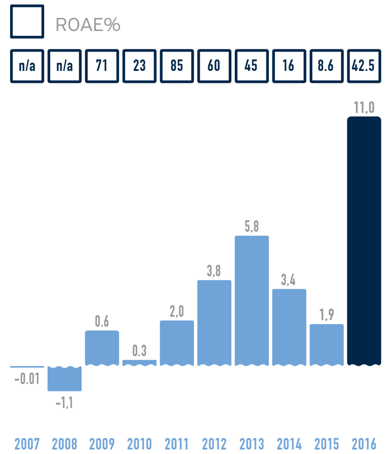
Last year, then, in my statement I predicted a promising future for our online financial supermarket, explaining how it helps us exploit current market conditions but more importantly tap into longer-term trends in retail financial services, Fintech and especially mobile. In October 2016 I was pleased to participate along with management in a multi-venue 'Strategy Day', engaging with many of our international stakeholders. In a variety of formats, we developed these themes, setting out where we thought the Group could reach by YE2019.

I believe passionately there are huge opportunities in retail finance in Russia, for us especially. Upheavals in the Russian economic environment, the fallout from the crisis, the interventions of the regulator and the impact of new technology are the catalysts of great change and these changes present us with a huge market opportunity to:

- diversify and smoothe the cyclicality of our core credit card business;
- add new sources of non-credit revenue;
- create a 'financial ecosystem' which captures an ever increasing share of customers' wallets.

The investments made into the Tinkoff.ru brand and associated new business lines were made cautiously, and in any case minor compared to our total cost base, but have been transformational. We already have good visibility on many of these new business lines; the growth of non-credit

Net income RUBmn



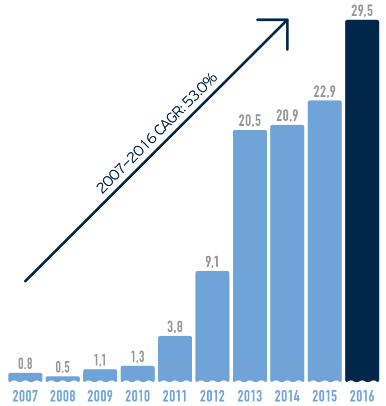
business lines as part of Tinkoff.ru exceeded expectations with increasingly positive contributions from all lines. My conclusion: no longer can we sensibly be viewed as a single product bank.

So how do we achieve this? Naturally, we leverage Tinkoff's core capabilities-product design, offline fulfilment, online marketing, user interface, analytics and data, funnel (debt) management and customer service. Of course we have built and update our online platform around ever-evolving customer needs. But the final, vital component I want to mention is talent management.

We recruit through advertisements and job websites, through student forums, and social media. We headhunt, we target top IT graduates, winners of mathematics, physics and coding competitions, we scour all manner of online channels, unconventional media too. But the point I want to make here is that melding these talented individuals into a team, the Tinkoff team and part of the unique Tinkoff culture, and retaining, incentivising and motivating them is not by chance. My management team I view as my partners and I want them to share in the Group's success. From the launch of Tinkoff Credit Systems over ten years ago I have been a supporter of share based compensation and well placed to introduce it.

The Group set up way back two long-term employee incentive plans; and leading up to our IPO (October 2013) some 36 top managers participated in a share based pool of 2.71% (with a further portion unawarded) of the Group's share capital. Following the IPO, the Group's success, and growth story, continued. We consolidated the existing plans and expanded them to embrace a wider band of management. We launched their successor MLTIP (Management Long Term Incentive Plan) in March 2016 which at that time had 51 senior management participating in a pool of 4.1% of share capital. With the continuing dynamic growth of the Group and the remarkable continuity and cohesion of the management team over this period confirming the merits of share ownership plans generally and of MLTIP as an incentive and retention (and increasingly a recruitment) tool, we recently announced plans to increase the number of MLTIP participants to 69 in 2017 and to over 80 going into 2018, and to increase the size of the MLTIP pool to 5.6%.

Equity RUBmn



So without downplaying the contributions of many, many others in this and previous years, I would like to end by expressing my particular thanks to the core management team of Tinkoff Group who have joined me, many from the very beginning of this remarkable story. I applaud their professionalism, dedication, loyalty, creativity and skill.

Oleg Tinkov
Founder and Controlling Shareholder

Business model

Operating flexibility

TCS Group has built an advanced platform that is highly suited for the Russian market and operating environment. The Bank's platform is entirely branchless, with a low fixed cost base and high degree of operating flexibility. Cost efficiencies are enhanced by 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

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

Diversified provider of retail financial, insurance and quasi-financial services

Originally the first purpose built credit card focused lender in Russia, Tinkoff Bank has evolved into a focused online financial supermarket living in the cloud, providing a full range of its own retail financial services such as retail lending, transactional, savings products, insurance, SME, internet acquiring, mobile solutions as well as non-Tinkoff products through the full-cycle brokerage model where we started with mortgages and retail securities and have more to come soon. Tinkoff Bank continues to focus on the mass market segment, but also successfully works with the mass affluent segment offering a wide range of co-branded and premium credit cards.

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. TCS Group's funding strategy provides effective diversification in the sources and tenor of funding. The Group maintains strong relationships with market participants to promote effective diversification of funding sources.

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 TCS Group to attract new customers right across the country. Supporting the branchless platform is a "smart courier" network which allows next day delivery.

Premium-level service and brand

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

TCS Group is evolving rapidly into a unique online financial supermarket and will continue to expand the range of products and improve the quality of its customer service.

Tinkoff Bank is an online financial supermarket offering customers the full range of financial, insurance and quasi-financial services. Through the platform www.tinkoff.ru we offer Tinkoff-branded products – credit cards, current accounts, deposits, cash loans, insurance and mobile solutions, as well as non-Tinkoff products through our full-cycle brokerage model starting with mortgages, retail securities trading, non-Tinkoff insurance and other products coming soon. For small businesses, we offer current accounts, transactional services, salary projects and online merchant acquiring. We deliver premium services to mass market customers in Russia through a unique online, branchless platform.

Market context

Credit card lending

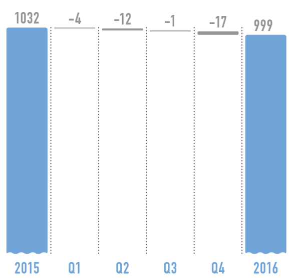
In 2016 the operating environment in Russia significantly improved and the consumer lending market continues its recovery, supported by stronger oil prices, a rebounding Rouble and continued consumer deleveraging as the macroeconomic environment further improved and by the ongoing clean-up of the market. At the same time, the unsecured consumer lending market remained largely flat, with some loan categories still shrinking. The competitive environment has been and still remains slow with many lenders struggling to find the right distribution model and customer value proposition in a market that has changed radically over the last three years.

At the same time despite the fact that credit card market volumes hit a three-year low (RUB999bn based on CBRF 101 form) in 2016, just a few participants managed to further grow their loan books and even increase their market share by the year end and Tinkoff Bank is one of them. Together with the CBRF's increasing efforts to regulate the market, expectations are this sector should revive strongly as in Russia it is still underdeveloped and underpenetrated relative to the most developed economies as well as certain high growth emerging economies.

Credit card market in Russia (RUBbn)

In 2016 the credit card lending sector in Russia contracted by

3.3%



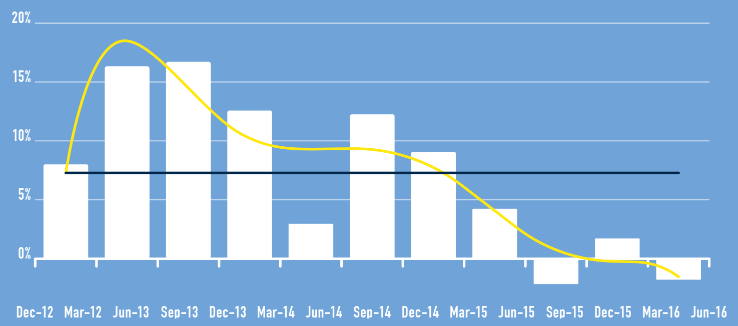
Market dynamics in 2016 (RUBbn)

Source: CBRF

The Credit Environment: Consumer Deleveraging

Slowdown of Retail NPL formation since the middle of 2015*

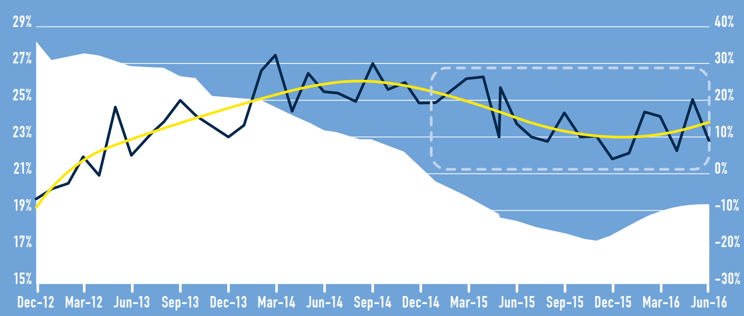
- Retail (90d+) average
- Trend retail (90d+)
- Retail (90d+)



* The NPL origination ratio is calculated as increase in loan loss reserves + loans written off over 12 previous months / average net loan book over this period of time. Source: Central Bank of Russia

Households' leverage decline driven by contraction of individual loans since YE2015**

- Household debt/annual income
- Trend Household debt/annual income
- Individual loans' real growth, yoy (right axis)



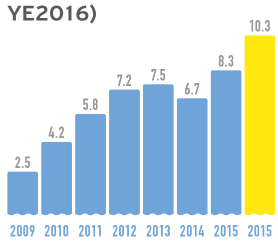
** Source: Moody's estimates, Rosstat, Central Bank of Russia

Market position

A leading credit card lender in Russia

In 2016 Tinkoff Bank managed to further improve its position on the market and cemented its position as the number 2 credit card player in Russia with its share of the Russian credit card market at 10.3% (the second largest non-delinquent credit card loan portfolio in Russia), thanks to tighter risk controls implemented in good time.

Tinkoff Bank credit card market share (%) (as of YE2016)

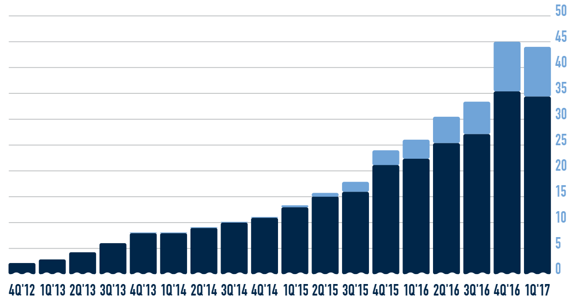


Based on CBRF 101 form

Tinkoff Black debit card is flying

In 2016 we brought our current accounts product to a new level of customer servicing and satisfaction with a Net Promoter Score (NPS) approaching 60, which is much higher than smartphones which came next with a NPS of 40. As a result the current accounts portfolio doubled in 2016 and allowed us to attract very different customer base from our traditional typical credit card customer. These customers spend more money and use internet, mobile bank and other services more frequently. They are the key target audience for the Tinkoff.ru platform.

Tinkoff Black: retail portfolio growing by 70-80% a year

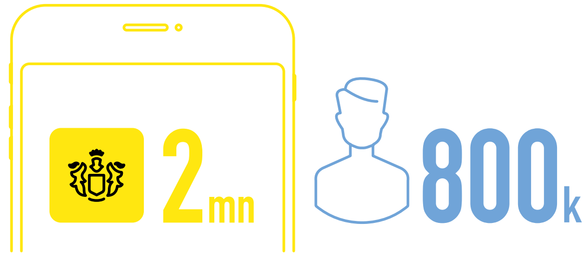


- Debit cards
- Saving accounts

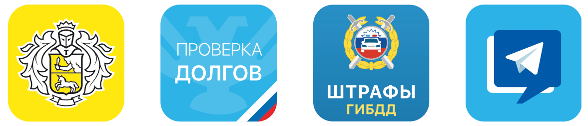
Average NPS	Sector
57	Tinkoff Black
40	Smartphones
39	Auto Insurance
39	OnlineShopping
37	Laptop
35	Banking
34	Credit Cards
32	Supermarkets
31	Hotels
30	Online Games
24	Airlines
23	Travelwebsites
21	Pharmacies
21	Cellular Phone Service
19	Software & Apps
3	Cable/SatelliteTV Service
-3	Internet Service

A leader in the internet and mobile financial solutions in Russia

Tinkoff Bank is a widely-acknowledged leading provider of internet and mobile financial solutions for customers and continues to enhance and streamline its online platform. In 2016 Tinkoff Mobile Bank became a part of Tinkoff.ru platform with its full scope of services now available not only for existing customers but also for non-Tinkoff clients by way of easy authorization through their mobile phone number or even without it where the level of identification is directly linked to the scope of services the client may access at each stage.



2 million downloads of Tinkoff Mobile Bank since inception/
More than 800,000 active users of Tinkoff Mobile Bank per month



6.5mn downloads of Tinkoff mobile applications since inception

In 2016 Tinkoff Bank launched Apple Pay and Samsung Pay fully integrated into the Tinkoff mobile banking App – a touch free wireless payment solution for mobile devices. In December 2016 the mobile bank for Windows 10 was fully upgraded and became the very first banking application on that platform in Russia available at one time on smartphones, tablet computers and desktops (UWP-application). In 2016 we added one more mobile application to our apps-box called Going Abroad («За Границу») which helps customers to keep track of and settle their tax debts, and also acquired In-The-Pocket («ВКармане») application aimed at storage of documents, cards, etc.

Strategy

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

01. Sell or cross-sell other new financial, insurance and quasi-financial products

By developing and cross-selling new products to 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 accessed online from anywhere in Russia. The new online insurance products are delivered to the Group's traditionally high customer service standards.

Tinkoff Insurance is currently offering personal accident insurance, property, travel and car insurance - KASKO and OSAGO. Tinkoff Insurance is rated as "A" (a high rate of reliability) by Expert-RA rating agency.

02. Maintain leadership in customer service

High-quality customer service has been a key driver of Tinkoff Bank's rapid growth. Tinkoff Bank invests to maintain and improve key components, such as our simple application processes, convenient and 24/7 access to accounts, the reach of our "smart courier" service, free loan repayments and straightforward complaints resolution process. Through the launch of a new financial supermarket portal Tinkoff Bank is now able to serve not only its existing customers but also non-clients when they are allowed to make transactions without full identification within the legislatively approved limit of 15,000 Roubles. This is a strategic step for Tinkoff Bank to increase its exposure throughout the financial market.

03. Support business expansion using advanced IT systems

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

The Group's in-house IT team develops a significant part of the software used by Tinkoff 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 2016 Tinkoff Bank announced its IT expertise expansion through a number of IT development centers in big cities across Russia. The hubs will help to source software developers locally across the whole country, rapidly build up capacities to match our growing ambitions, leverage time zones to intensify production cycle, and reduce time to market for new products. The hub's staff will focus both on products for Tinkoff.ru, and on R&D beyond the Group's core business.

04. High liquidity and well-balanced funding base

The Group has established a robust liquidity risk management framework that ensures it maintains sufficient liquidity, including a significant cushion of liquid assets. Tinkoff 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.

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

The technology and experience acquired by Tinkoff Bank in building its high-tech online customer acquisition and service platform has helped it to expand its transactional and payment products such as current accounts, SME solutions, online acquiring, and mobile mono-applications. We intend to support the growth of these products that constitute an important channel for acquiring new customers and for cross-selling other products, particularly credit cards. These transactional and payment products are also being offered to existing customers of Tinkoff Bank, helping to boost retention rates.

Tinkoff E-commerce products

Since the end of 2013 Tinkoff has focused on the high growth e-commerce market. Our existing electronic online and mobile platforms together with attractive growth opportunities in this sector give us significant advantages on the market. Since December 2013 TCS Group has released a number of mobile mono applications (traffic fines payments, card-to-card transfers, MoneyTalk, GoAbroad, Tinkoff SME) (and there are plans for more to follow) and established a network of partners available to provide loans to internet shoppers.

A wide range of insurance products, including car insurance, is also available online for customers. We have launched upgrades to our internet and mobile bank with additional features in 2016 and these initiatives have already been recognised and received awards from international leaders in this sector.

06. Effectively manage credit risk using sophisticated data analysis and modelling

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

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

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

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

08. Develop the high-growth concept of the financial supermarket, a platform offering a choice of the consumer lending, insurance and transactional and payment services of Tinkoff Bank as well as non-Tinkoff branded products

Credit card lending will remain Tinkoff Bank's core business. We intend to continue to extend the range of our 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 co-brand and payroll programmes, insurance, and mono applications. Tinkoff Bank will also continue to develop 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.

In addition, Tinkoff Bank introduced a new concept of the financial space where it will act as a full-cycle broker offering a variety of partners' products in addition to its own branded products. This will increase convenience for both existing and new customers by providing them with a one-stop financial shop, help in the retention of the customer base and increase Tinkoff Bank's revenue per customer.

Brokerage Platform

- New product introduced in 2016
- Represents Tinkoff Bank's investment into the rapid growth of Russian e-commerce
- Allows customers to purchase Tinkoff partner products offered through the high-tech and well-known Tinkoff.ru platform at the push of a button
- Full-cycle "door-to-door" service provided by the Tinkoff smart courier team

Products launched through the Brokerage Platform

- Mortgages
- Retail securities trading
- Travel

...and other products coming soon

- Non-Tinkoff insurance
- Car loans
- Cash loans

What makes us different?

Tinkoff Bank is the Online Financial Supermarket in the Cloud providing high-utility day-to-day retail financial services in Russia.

Point of destination for daily banking

Tinkoff Bank is a top-2 credit card lender in Russia. In addition to our market-leading credit card offering, Tinkoff Bank has developed a successful online retail deposits programme, retail and car and other 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 partners' products and services through its full-cycle brokerage platform so now we offer to Russian consumers mortgage programmes, retail securities trading, and expected soon travel services, car loans and more.

Over 6.9mn credit cards issued since inception

>6.9mn

Over RUB176bn of customer credit card transactions in 2016

>RUB176bn

#2 player in the Russian credit card market with 10.3% market share[1]

10.3%

1 As of 31 December 2016 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 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 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.

And we rolled out in December 2016 a face recognition platform, VisionLabs LUNA, to score potential clients. The VisionLabs LUNA face recognition system detects the face on an image and generates its digital template – to be used primarily for client verification.

Received over 1,000,000 applications per month on average during 2016

>1.0mn

Over 2mn inbound calls / approximately 10mn outbound calls per month on average

10.0mn

Most Efficient Retail Internet Bank 2016 and Best Mobile Bank App[1]

1 According to Markswebb Rand & Report.

What makes us different?

TCS group is transforming the Russian financial services market and driving a differentiated customer proposition operating through wholly-owned Tinkoff Bank and Tinkoff Insurance.

Powerful distribution

Tinkoff Bank offers remote access customer service through its award-winning Internet banking as well as through mobile banking and high-volume call centres. Our use of direct marketing channels has transformed the way customers are acquired in Russia. Distribution channels, which include online (the Internet, mobile services and telesales), direct mail and direct sales agents, allow Tinkoff Bank to attract new customers anywhere in the country. Supporting the branchless platform is a "smart courier" network covering around 1,000 cities and towns in Russia which allows next day delivery. In addition, Tinkoff Bank's online origination process makes extensive use of online data and behavioural profiles, and gives it clear advantages over competitors in terms of underwriting.

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

Almost 1,500 smart couriers and sales agents covering around 1,000 cities and towns

1,500

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 sustainable growth and good returns even in a market downturn. The strong trend to adoption of online and mobile consumer technology in Russia, together with the low penetration and growth potential in the country's retail financial services, represent a tremendous opportunity for Tinkoff Bank to continue its success.

50% net loan portfolio CAGR in 2007–2016

50%

ROAE 2016

42.5%

Almost 39x increase in equity since 2007

39x

2016 is the best year that Tinkoff has ever had, without doubt: and there have been many, many highlights in the ten years since Tinkoff issued its first credit card in 2007

Oliver Hughes
Chief Executive Officer

Chief Executive's strategic review

Dear Investor,

Last Spring, though it does not seem so long ago, I wrote in my strategic review that in the second half of 2015 we moved back to 'business as usual' in an improving operating environment, more stable business conditions in Russia, allowing us to look forward with greater confidence. Except of course as readers of this my fourth strategic review may appreciate, business as usual covers a broad spectrum when looking at Tinkoff's activities in the Russian banking market. Every year brings its fair share of challenges, of the unexpected, and 2017 is unlikely to be different, a point I will return to later.

The cautiously optimistic steps we initiated back then, a long term TV advertising campaign designed to promote existing and new products, to establish Tinkoff.ru as a brand and as a destination site, stepping up our hiring programme bringing in new skills and experience at all levels, taking on new premises for our HQ to list just a few, were exactly the steps to catapult us to new levels.

2016 is the best year that Tinkoff has ever had, without doubt: and there have been many, many highlights in the ten years since Tinkoff issued its first credit card in 2007.

We won the prestigious 'Bank of the year' award from Banki.ru for 2016 and our credit ratings were recently upgraded by Fitch and Moody's.

So to set the scene, I would like at this point to develop my characterization of 2016 for you and to do this I have five main themes which I will expand on in turn.

These are:

1. Credit fundamentals,
2. Growth machine,
3. Payments business,
4. Brand awareness, and
5. Diversification of business lines.

These five main 'big picture' themes are the major drivers of our remarkable financial results in 2016 and I feel confident they will propel us on into 2017 and beyond.

1. Credit fundamentals:

2016 saw overall macro-stabilisation and the medium-term effects of the 2014-2015 crisis washed out of Tinkoff's credit card and deposit portfolios. On the asset quality side, our cost-of-risk decreased dramatically from 15.3% in 2015 to 7.6% in 2016. And on the funding side, our cost-of-funding decreased from 13.4% in 2015 to 10.7% in 2016. As a result ROAE was 42.5% for the year. The overall economic situation in Russia continues to improve, if gradually, and we are operating in a market that is much less competitive than before the crisis.

2. Growth machine:

The unsecured consumer lending market in Russia is largely flat, with some loan categories still shrinking in 2016 and into 2017. The competitive environment has been and still remains slow with many retail banks struggling to find the right distribution model and customer value proposition in a market that has changed radically over the last three years.

Tinkoff by contrast has brand, capital, funding, talent and a business model that works. We took a conscious decision in 2014/15 to retain our growth machine intact, to be prepared for the next growth phase whenever it might come. We were therefore able to resume strong growth, starting from Autumn 2015. We grew our net loan book by 25.4% in 2016, bringing in a million new, good quality customers and driving top-line growth. Our market share at the end of 2016 stood at 10.3% of total non-delinquent credit card receivables in Russia.

3. Payments business:

As those who have been following the Tinkoff story will be aware, we have been trying to make a foray into the payments and transaction business for a few years and have experimented with several approaches. This area of our business is now coming together and we have become one of the major players in payments through our current account product 'Tinkoff Black'. We now have over 1.8mn debit cards issued and 2016 saw a staggering 100% growth in our transaction volumes. We are now Number Two after Sberbank in terms of all e-com transactions in Russia and in the top handful of Mastercard players by purchase volume. We lead the way in new tech payment services such as ApplePay and SamsungPay. We have become the provider of choice for young, mobile professionals. Tinkoff Black has become our locomotive product for growth as we build out the Tinkoff.ru ecosystem.

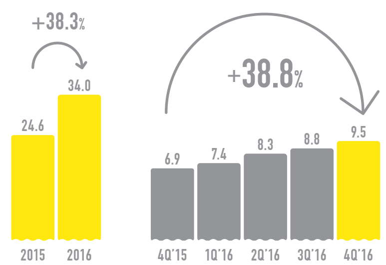
By the end of 2016 Tinkoff Bank had issued over 6.9mn credit cards

6.9mn

ROAE is 42.5% and total equity climbed to RUB29.5bn

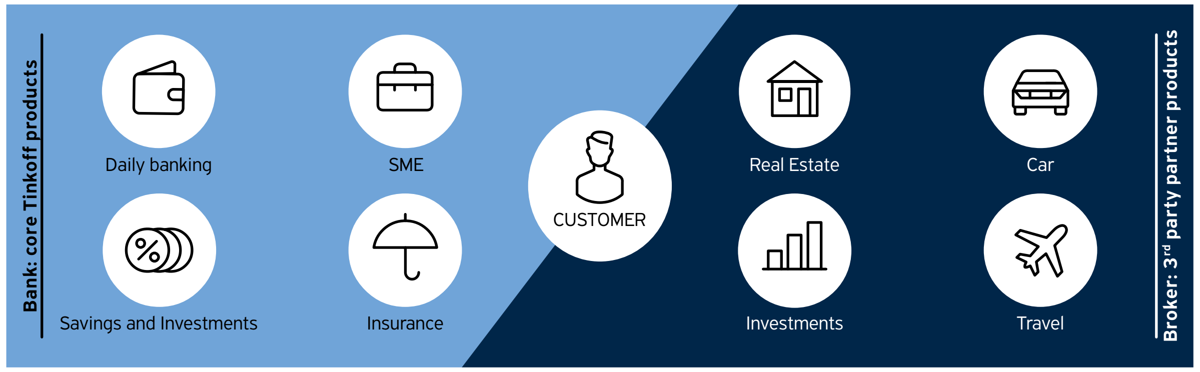
42.5%

Net interest income RUBbn



Chief Executive's strategic review continued

Diversification of fee income



4. Brand awareness:

We have been investing heavily in our brand over the last year-and-a-half primarily through a high-GRP, federal TV advertising campaign, often featuring our inspirational founder and controlling shareholder Oleg Tinkov. This investment into promoting the Tinkoff.ru platform as a destination for consumers' financial needs will continue. We are now in third place ahead of Alfa but behind Sberbank and VTB by brand interest growth. This drives our new customer acquisition in all categories as well as positioning Tinkoff as a leading financial services provider amongst broad sections of the population. Our Net Promoter Score for Tinkoff Black of 55 is one of the highest in the financial sector.

5. Diversification of business lines:

We have been investing into building new business lines to diversify our sources of revenue and to increase the share of non-cyclical income. By the end of the FY2019, our target is to have 30% of Net Income from non-credit business lines. The 2016 results show a clear trend that I believe makes this achievable - in 2016, 13% of our total revenue was from non-credit products, up from 8% in 2015. The biggest new business lines are 'Tinkoff Business' (for SME), 'Tinkoff Black' (individual current accounts) and Tinkoff.ru (our broker platform). Tinkoff Business is already visible in our top line and we are confident it will break-even in the second half of 2017. Tinkoff Black is now a break-even business line before acquisition cost, but we plan to continue to grow the customer base actively into 2017. Tinkoff Mortgage (through Tinkoff.ru) is being ramped up and targeting break-even by the end of this year. These are all real positives. In addition, we have other business lines which are exceeding expectations: loyalty and cobrands are making a noticeable contribution to our bottom line. We have launched some high profile programmes including Ulmart and AllAirlines debit with others in the pipeline. We also launched Tinkoff investments in conjunction with BCS Broker in November 2016 and this product has taken off with every fourth new brokerage account in Russia being opened through our mobile app since last December.

Everything then is going in the right direction. So where do I see things heading through 2017 and beyond?

Already this year, and fresh as I write, the CBR has introduced new risk weights for certain categories of higher yielding loans from 1 March 2017. We have already adopted a series of steps to largely respond to these changes but in truth we see opportunities too. We believe that this regulatory measure will disproportionately impact our capital-strapped competitors, who work predominantly in POS lending and cash loans, thereby raising the barriers to their re-entry into the market. With our high ROAEs and attendant strong capital generation capacity, we at Tinkoff feel we are very well placed to navigate this situation with a minimal impact on capital and longer-term earnings.

I appreciate I may have said it before, but our traditional strengths - strong capital and liquidity positions, innovative technologies, tight control of risk, speed and sureness of reaction to change and a focused, a talented and totally professional management team working within a unique business model, coupled with the increasing benefits we see from the five main drivers I described before - really do put us in an enviable position as we move on through the year.

To close, it is my great pleasure to record my continuing thanks to all those whose contributions make these results possible: our CUSTOMERS, our founder Oleg Tinkov, the core team of Tinkoff Group management, our stakeholders, investors, business partners, employees and others who I hope will forgive me for not naming them. Thank you.

Tinkoff Bank issued over 1.8mn debit cards at YE2016

>1.8mn

#2 credit card lender in Russia, at YE2016, with a market share of

10.3%

Oliver Hughes
Chief Executive Officer

Our recent awards

- Best digital bank in Central and Eastern Europe

Euromoney

- Bank of the Year

Banki.ru

- Best Consumer Digital Bank in Russia
- Best Website Design in Central and Eastern Europe

Global Finance

- Best Mobile Bank App for iOS and Android
- Best Mobile Bank App for Small and Medium Enterprises for Android

Markswebb Rank & report

- Best Mobile Bank App in Russia for iOS

Deloitte

- 1st place in the category "Most Innovative Bank of Russia"

Bank Review Magazine

As I mentioned in my 2015 financial review looking ahead to 2016, I felt some good decisions made early in the 2014/15 crisis had set the Group up well

Ilya Pisemsky
Chief Financial Officer

Financial review

Dear Investors,

In 2016 the Group posted the strongest set of results in its history. These results have cemented Tinkoff Group's place as the second largest player in the Russian credit card market with a market share of 10.3% at the close of 2016.

This is my fourth review for our Annual Report and it is a pleasure to share with you my observations. As I mentioned in my 2015 financial review looking ahead to 2016, I felt some good decisions made early in the 2014/15 crisis had set the Group up well.

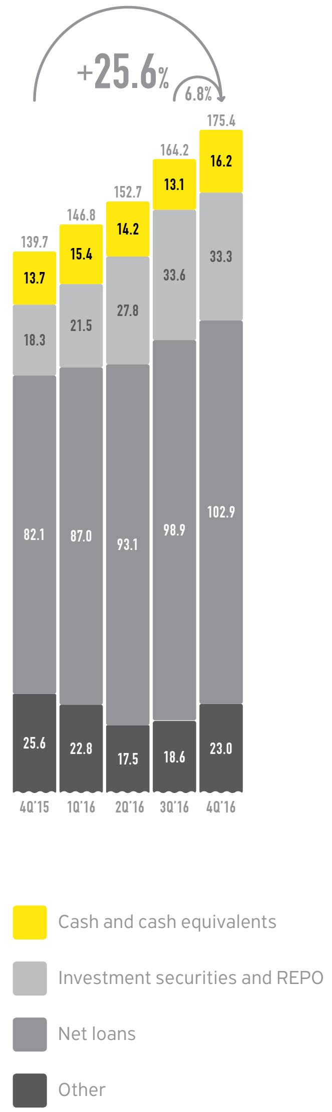
Before moving on to the financial highlights, there are a number of key business highlights for 2016 I would like to mention. My choice of the many-some are mentioned elsewhere in this report- would be these:

- in July 2016, Tinkoff Bank joined the Russian blockchain consortium;
- in Autumn 2016, Tinkoff Bank was among the first in Russia to launch Apple Pay and Samsung Pay;
- in November 2016, Fitch upgraded Tinkoff Bank's rating to BB-/Stable (and more recently Moody's upgraded Tinkoff Bank's rating to B1/Stable); and
- in November 2016, Tinkoff Bank became the first Russian bank to service customers via Viber.

And there are many others in the pipeline; the Group will be rolling these out into 2017 and beyond.

Let us move then to a closer look at some of the financial developments over FY2016, starting with the balance sheet.

Assets growth RUBmn



Balance sheet

In 2016 the Group continued to maintain a healthy balance sheet- the Group's total assets increased by 25.6% and finished the year at RUB175.4bn.

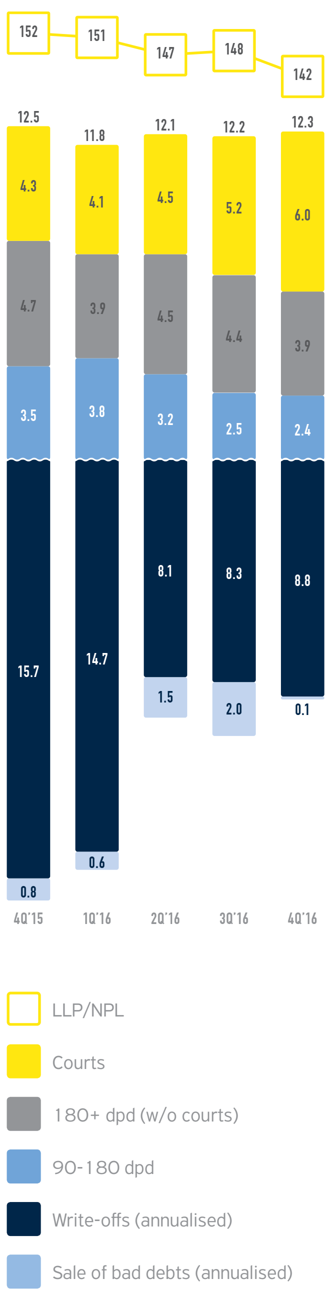
Our net retail loan book increased from RUB82.1bn at the previous year end to RUB102.9bn at 31 December 2016, up 25.4% over the year and stood at 59% of total assets by year-end 2016.

Cash and cash equivalents grew byRUB3bn reflecting the inflow to retail customer accounts in December and at year end together with treasury portfolio stood at RUB49.5 bn, up 54.8% over the year. Our treasury portfolio remained at over RUB33bn consisting primarily of highly-liquid CBRF-repoable bonds.

The Group's gross retail loan book expanded to RUB120.4bn, up 19.1% for the full year. This growth is the result of organic customer acquisition which gave us 290,000 new customers who activated their credit card in the fourth quarter and 1mn new active customers for the year. Our net loan portfolio increased to RUB102.9bn (YE2015, RUB82.1bn), up 25.4% for the year. The quality of our portfolio also improved from quarter to quarter with the NPL ratio dropping to 10.2% at the end of the year (YE2015, 12.4%) and, more importantly, loans 90 to 180 days overdue went down to as low as 2% of the gross portfolio. Our loan loss provision coverage stayed at 1.4x non-performing loans.

Financial review
continued

Conservative credit risk policy, % of gross loan portfolio



As to the Group's funding structure, customer accounts grew by 12.6% quarter-on-quarter and by YE2016 had increased by 39.4% to RUB124.6bn (YE2015 89.3bn) demonstrating strong performance, despite the fact that the Group gradually reduced deposit rates in line with market trends.

The Group's wholesale funding consists of two bond issues: a RUB3bn bond and a USD200mn subordinated Eurobond maturing in 2Q 2018. In the future I expect to see funding from legal entities coming mostly from the Group's SME programme. As at year-end 2016, funding from legal entities amounted to almost RUB6bn.

Shareholder's equity increased by 4.9% in the fourth quarter to RUB29.5bn, up from RUB22.9bn at year end 2015, an increase of 28.6%. On 1st January 2017 our N1.0 ratio stood at 11.1% and N1.2 ratio at 8.6%.

Profit and loss statement

Gross interest income grew in 2016 by 27.3% to RUB47.8bn. This growth corresponded to the growth in the loan book and securities portfolio. Gross interest yield increased to over 40% by YE2016 due to lower cost of risk (YE2015, 37.9%).

Interest expense has stayed flat in absolute terms for the last five quarters at RUB3.3bn and the cost of borrowing reduced to 9.7% in the fourth quarter of FY2016 from 10.5% in Q32016. It is expected to move down further in 2017 as the Group's current rates on deposits, current accounts for retail and SME customers are significantly lower.

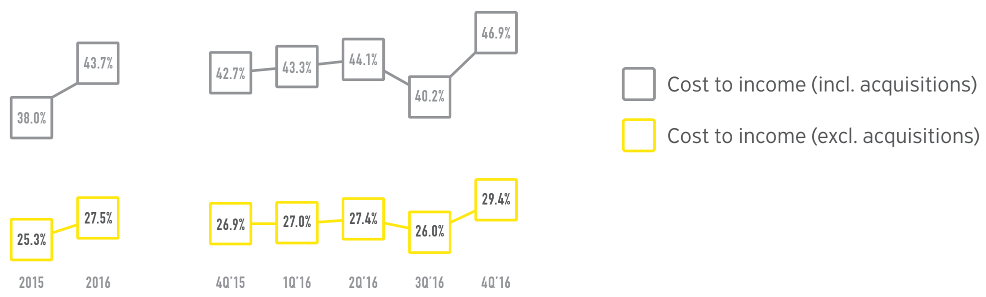
Net interest income grew by almost 39% year-on-year to RUB9.5bn in the fourth quarter. At year end 2016 net interest margin stood at 26.2% and, due to lower cost of risk, the Group's risk-adjusted net interest margin increased to 19.7%.

The Group's annualised cost of risk decreased in FY2016, to below 8% compared to just over 15% for 2015. The decrease in cost of risk is due to improved macro, customer deleveraging and the inflow of new better vintages into the portfolio. About 10% of gross loans in annualised terms were sold or written-off during the year as they became 360 days past due.

The Group's fee and commission income amounted to RUB8.4bn for the year 2016 (FY2015, RUB4.8bn). We observed a 76% increase in fee and commission income compared with the previous year. Tinkoff insurance also contributed about RUB1.3bn in premiums earned in 2016.

Our current accounts business is evolving at a pace as we acquire more and more customers. As at the end of 2016 the Group had 1.8mn current account customers with almost RUB47bn of balances. The continuing growth of customer numbers and balances allowed the Group to build-up fee income which amounted to almost RUB600mn in the fourth quarter and RUB1.8bn over FY2016.

Operating efficiency[1]



Our SME business is developing rapidly. As of the end of FY2016 the Group had 50, 000 customers, with new SME accounts opening at an average monthly rate of 10,000, with RUB4.9bn in balances on current accounts. In the absence of a credit component in the SME business, all the cash is profitably deployed into treasury operations. The Group earned RUB109mn in fees in the fourth quarter alone (RUB150mn for FY2016) in addition to treasury income. We also expect the SME business to be well positioned to break-even in H1 2017.

The Group continues to develop its mortgage broker platform. By Q4 2016 the Group had achieved a material pick up in mortgage loans issued. As at the end of 2016, the Group had seven partner-banks and in 2016 originated nearly RUB3bn of mortgage loans through the Tinkoff.ru financial platform.

The Group launched a new service, Tinkoff Investments, in partnership with BCS Broker. We rolled it out in October and by December every fourth brokerage account on the market was opened with our service.

On operating expenses, the Group's OPEX increased in the fourth quarter due to salary indexation in November, an annual bonus and due to the resumption of intensive advertising activity. For 2016 as a whole, the Group's operating expenses remained elevated due to investment in the Tinkoff.ru financial platform. The Group's cost-to-income ratio ended the year at 43.7% (FY2015, 38%).

Overall, as a result of four consecutive quarters of record net income, total profit for 2016 exceeded RUB11.0bn with an annualised ROAE of 42.5%. ROAA was 7.1% for the year. These are impressive figures.

Looking ahead, with the robustness and flexibility of our tried and tested business model, our conservative underwriting approach and rigorous risk management processes, I am confident that the Group is well placed to build on the successes of 2016, to take advantage of whatever opportunities present themselves in the near term.

Ilya Pisemsky
Chief Financial Officer

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

Risk review

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

The Group is subject to a number of Principal Risks which might adversely impact its performance.

All of the Group's assets and customers are located in or have businesses related to Russia. Consequently the Group is affected by the state of the Russian economy which is itself to a significant degree dependent on exports of key commodities such as oil, gas, iron ore and other raw materials, on imports of material amounts of consumer and other goods and on access to international sources of financing. During recent years the Russian economy has been significantly and negatively impacted by a combination of macroeconomic and geopolitical factors such as a significant decline in the price of oil, ongoing political tension in the region, economic sanctions imposed against Russian individuals and companies, economic restrictions imposed by Russia on other countries, capital outflows as well as depreciation of the Rouble and a decrease in Russia's international reserves. In addition emerging markets such as Russia are subject to greater risks than more mature markets, including significant political, economic and legal risks. This over-arching risk environment could impact one or more of the Principal Risks.

The principal activity of the Group is banking operations and so it is within this area that the Principal Risks occur. Management considers that those Principal Risks are:

Liquidity Risk:

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

Credit Risk:

The 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 continuing economic uncertainties in Russia together with ongoing shifts in distribution channel mix and demographic characteristics of the Group's customers could result in the future deterioration of quality or profitability of the Group's loan portfolio.

Market Risk:

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

Interest Rate Risk:

The Group's is exposed to risk from fluctuating interest rates.

Operational Risk:

The 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, cyber attack, technical failures, settlement errors, natural disasters, legal risks, including consumer protection or banking legislation or their interpretation by courts and regulators, and misuse of the Group's property.

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

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

The 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 within the Group.

Liquidity Risk

Liquidity risk is the risk that the 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.

The 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. 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 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 the liquidity risk. For these purposes, the CFO regularly receives extensive information about the liquidity profile of the financial assets and liabilities.

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

Liquidity ratios are checked 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.

Credit Risk

The 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 the Group's banking operation.

The 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. The Group uses automated systems to evaluate an applicant's creditworthiness (scoring). The system is regularly modified to incorporate past experience and new data acquired on an iterative basis.

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

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

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

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

Card Fraud Prevention

The 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 combating unsanctioned card use is the sending of SMS messages to customers' mobile phones during the card lifecycle. Call centres are also an important source of potential card fraud alerts.

Provisioning Policy

Provisioning policy falls under the responsibility of the Management Board.

The loan portfolio is regularly reviewed 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 the Group's balance sheet.

In addition, the Group has established its own collection business.

Risk review
continued

Market Risk

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

Foreign Currency Exchange Risk

The 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.

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. The Group manages the positions through hedging, matching or controlled mismatching.

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

Interest Rate Risk

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

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

Trading Risk

The Group invests excess liquidity in bonds. Trading risk arises from unfavourable changes in the market prices of bonds purchased. To manage this risk, the Group uses a variety of tools including minimum rating levels, maturity limits and limits to investments in the instruments of specific issuers. In addition, the majority of bonds are subject to repurchase agreements with the Central Bank of Russia.

Operational Risk

The Group is exposed to operational risk which is the risk of losses resulting from inadequate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, cyber attack, technical failures, settlement errors, natural disasters, legal risks, including consumer protection or banking legislation or their interpretation by courts and regulators, and misuse of the Group's property.

The Group has established robust internal control systems intended to comply with Basel guidelines and CBR 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. The Group insures against certain operational risks.

The Group has not experienced any material operational failures in recent years. To minimise the risk of such failures, the Group'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.

Risk Management Structure

The risk management organisation is divided between Policy Making Bodies and Policy Implementation Bodies.

Policy Making Bodies

Policy Making Bodies are responsible for establishing risk management policies and procedures, including the establishment of limits.

These are the Board of Directors, the Management Board, the Finance Committee, the Credit Committee and the Business Development Committee.

Policy Implementation Bodies

Policy Implementation Bodies exist to implement the policies and procedures established by the Policy Making Bodies. These include monitoring and controlling risks and limits.

The Policy Implementation Bodies consist of the Finance Department, the Risk Management Department, the Collections Department and the Internal Control Service.

The Group has implemented an online analytical processing management reporting system based on a common SAS data warehouse that is updated on a daily basis. The set of daily reports includes 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 CBR requirements, capital adequacy and liquidity reports, operational liquidity forecast reports and information on intra-day cash flows.

Anti-Money Laundering and Terrorist Financing Procedures

Russia introduced its Anti-Money Laundering Law in February 2002. Subsequently, the CBR introduced a number of anti-money laundering regulations specifically for the banking sector.

The Group has adopted internal regulations on anti-money laundering that are based on, and are in full compliance with, the Russian anti-money laundering regulations, related instructions of the CBR and international standards. The Group has created a specialised unit and appointed an authorised officer who coordinates activities aimed at preventing money laundering and terrorism financing. Employees of the Group have to take mandatory training on the Group's policies and procedures both as part of their initial training and on an ongoing basis.

Mandatory internal control checks are conducted by the Internal Control Service. External control is provided by the CBR and other regulators and, within an annual audit, by a statutory auditor.

Employees and corporate social responsibility

TCS Group strives to attract the very best professionals to create groundbreaking financial services for our clients

The Tinkoff Bank HQ in Moscow

Employees and CSR

Overview

In 2016, Tinkoff Group celebrated its 10th anniversary in a year that delivered the Group's best ever performance, both in terms of financial results and business expansion.

The Group's strategic priorities are to diversify its operations, develop new lines of business, and grow its non-credit revenue. Today, Tinkoff is more than just a bank. It is a full-fledged financial platform that anyone can access to open a deposit, invest in securities in just one click, book a travel package, take out a mortgage loan, buy an insurance policy, or open a bank account for a small or medium-sized business.

These achievements became possible only thanks to the dedicated efforts of our talented team that keeps growing along with our new business lines.

The rapid growth of our business requires more and more human resource. Throughout 2016, we were hiring the best talent in the market to support our new lines of business. As a result, at the end of 2016, headcount stood at 11,605 (including Call-centre >5,000 employees, smart-courier 1,500 employees, etc.), up 40% versus 8,315 at the end of 2015. Our team remains very young, with the average age currently standing at 26. HR-wise, Tinkoff looks more like an IT company than a bank: we have around 1000 people in the head office, of whom around 700 are developers, a small part of the overall team of developers within the Group. We have long had more mobile developers in the Bank than web developers.

The Tinkoff Bank free gym for employees

Tinkoff development hubs

In Q4 2016, we announced a large-scale project to launch eight development hubs across Russia in 2017–2018. We expect them to help us ramp up our capabilities by tapping in to major regional centres.

The development hubs are slated for opening in Saint Petersburg (opened December 2016), Nizhny Novgorod, Yekaterinburg, Novosibirsk, Rostov-on-Don, Saratov, Vladivostok, and Kazan. Going forward, similar hubs might appear in other large Russian cities. The hubs' staff will focus both on products for Tinkoff.ru and on R&D beyond but connected with the Company's core business.

The hubs will help:

- source software developers locally across the whole country,
- rapidly build up capabilities to match our growing needs,
- leverage time zones to intensify the production cycle,
- reduce time to market for new products.

Human resources – core principles

We follow to an unconventional recruitment approach. Lack of work experience in banking or finance does not put applicants at a disadvantage. On the contrary, a lack of such experience is usually a plus.

We hire people who are willing to change the financial services landscape, and no experience in this segment means the applicant does not have any preconceptions about conventional ways of doing things or how things work.

We prefer people with an analytical mind, those who are confortable with large amounts of data and figures and complex tasks. They would be graduates of technical departments at Russia's top universities, and we inject the Tinkoff DNA into them and keep on fostering them within the Tinkoff culture.

The Group's human resources policy is focused on the following core principles:

- bringing together numerically minded people with analytical backgrounds;
- flat structure with no bureaucracy and minimum hierarchy;
- creating an intellectually challenging work environment;
- creating an effective and fast learning environment;
- fostering a culture of generating ideas and assuming responsibility;
- embracing open dialogue, cooperation and creativity;
- demonstrating efficiency with minimum bureaucracy;
- promoting team spirit and an entrepreneurial culture;
- empowering employees and delegating responsibilities;
- creating an environment when employees can experiment, make mistakes and make the right conclusions;
- promoting 'test and learn' approach.

We are strong proponents of the 'test and learn' approach. It means we test a multitude of concepts, putting into practice only the most successful of them. If a model shows good results in early tests, we keep developing; if it does not, we either drop the idea or put it off until later. We foster an environment where our employees are not afraid of mistakes or failures, and so we can support ongoing experimentation in search of the most successful models.

Tinkoff promotes a corporate culture of experimentation and open communication. We encourage our employees to innovate. To us, experimentation and innovation are not merely buzzwords. Each team member looks at problems from different angles and tests a range of possible solutions to find the best solutions.

Employees and corporate social responsibility continued

At Tinkoff, we have a flat organizational culture. We practice delegation of decision making to the levels deep below the management team and we actively promote discussion and idea generation and exchange.

We believe in creating an environment where highly talented people are empowered. Empowerment is an important ingredient in the success of our organization. It's also about the workplace environment – having an open leadership style where information can move freely – where ideas are constantly channelled up, down and sideways around the company. We don't have 'a rule by committee' approach. We utilize all types of forums to promote continual dialogue – using email, various online chat rooms, flash meetings, as well as formalized meeting structures. Anyone can talk to anyone and transparency is promoted.

Recruitment and training

We aim to attract the best professionals in the market through a sophisticated recruitment process, as well as employing a sophisticated set of tools for motivation and retention.

We recruit new employees through advertising and job websites, student forums, social media and other online channels. IT specialists and other core personnel are hired through a highly selective head hunting process targeting top IT graduates and experienced professionals from various backgrounds. We also target the best students from top universities, including winners of mathematics, physics, and coding competitions.

We offer career development and training for all levels.

Remuneration, motivation, and promotion

The Group offers a clear far-reaching career path for its employees, unique work environment and fair and an transparent compensation.

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

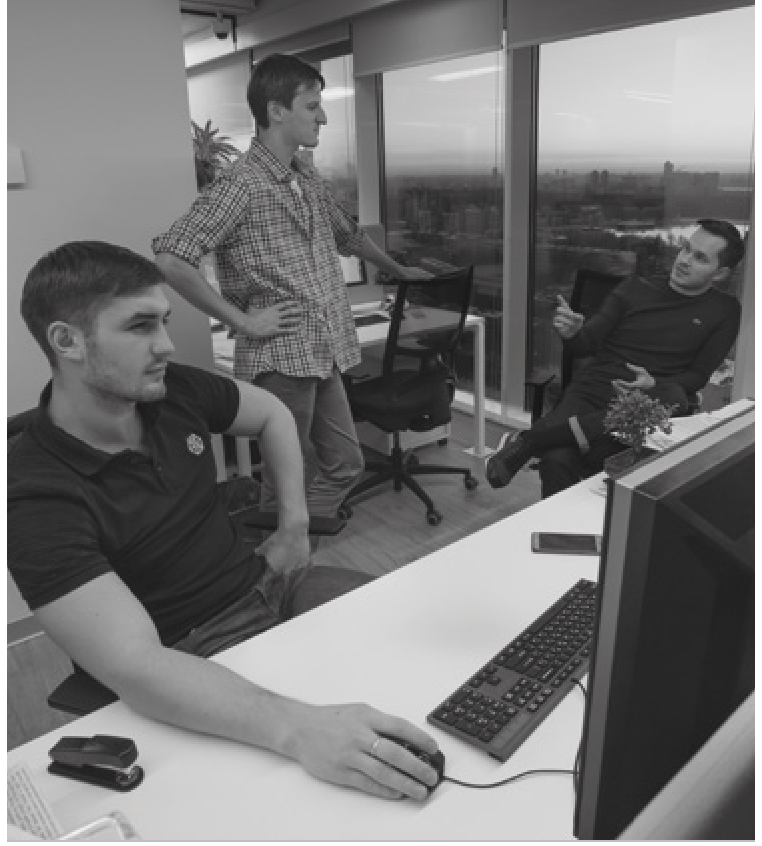
The Group offers above market-average compensation with an attractive variable component; salary increases and bonuses are based on annual performance reviews; incentives are linked to KPI achievement and to the overall financial performance of the business.

Prior to its IPO in 2013, the Group set up share based long term incentive plans as retention and motivational tools for key and senior managers.

In March 2016, the Group announced a consolidated long-term management incentive and retention plan, covering around 50 key, senior and middle managers. In February 2017, the Group announced the expansion of the plan. The number of participants would increase to over 80. Total size of the MLTIP pool amounts to 5.6% of the Group's current share capital.

The plan is designed to align more closely managers' interests with those of shareholders to grow the Group's value. The plan is awarded over four years, materially subject to the fulfilment of annual KPIs, with each such annual award vesting linearly over the subsequent three years. The Group believes that participation in its share capital is an effective motivation and retention tool. The new management incentive and retention plan now embraces more managers, for two main reasons: firstly, internal promotions as some employees were promoted to key managerial positions, and secondly, as part of its expansion and transformation into a financial marketplace, the Group has hired a significant number of new managers to develop and manage new business lines.

Tinkoff team celebrating the 10 year anniversary in Venice in November 2016



Tinkoff's new office space

Working environment, health and safety

TCS Group is a fintech company which embraces innovation, cutting-edge technologies, empowerment and creativity, and is committed to creating a working environment where our best-in-class professionals can comfortably work on their ideas for the benefit of our customers.

We provide a safe and healthy environment to our employees in full compliance with the employment and labour laws of Russia. The Group offers regular annual medical examinations, vaccinations, voluntary medical insurance, free membership of our own fitness gym at Tinkoff Bank's HQ and other preventive health care measures. We promote a healthy lifestyle among our employees and regularly organize sports competitions, including indoor football, volleyball, basketball, alpine skiing and chess.

Diversity and inclusion

Our fully online business model based on a high-tech branchless platform gives us additional recruiting flexibility which means there are no barriers for differently abled people to join our company. This helps us widen and diversify the Group's employee base and hire people purely on their merits and skills.

In 2016, we continued to develop our Home Call Centre, which gives employment opportunities to a number of groups unable to work in standard office jobs: people with different abilities, residents of remote regions with limited access to transport and those who can only work part-time (such as mothers on maternity leave or carers). Our Home Call Centre allows people to work anytime, anywhere, and the hours and workload are flexible. Future employees are trained online, with all the necessary tools cloud-based. As at the end of 2016, our Home Call Centre employed almost 4,000 people across the country, which makes it one of the largest cloud-based call centres in Europe.

The majority of the Group's employees are engaged in customer service (Call Centre, telemarketing and telesales, smart courier services, underwriting, collections, Home Call Centre, etc.).

CSR

We believe in making a difference for the society where we operate and for its sustainable development. We encourage both our employees and clients to contribute to the quality of life of vulnerable groups in Russia.

The Group supports the Galchonok Foundation which helps children with organic lesions of the central nervous system. In 2016, for a second consecutive year, Tinkoff Bank sponsored 'Galafest', a charity event, which was organized by the Galchonok Foundation for raising funds and increasing awareness.

We also strive to increase awareness about different charity foundations amongst our customers who can donate easily using our online financial services: internet bank or mobile app.

TCS Group and its employees provide not only financial support but hands-on assistance for a number of charities, including care homes and orphanages, as well as facilities for homeless people and individuals in need of critical medical help. Over the past year, we held a number of charity campaigns targeting underfunded care homes and orphanages located in underdeveloped regions of Russia. Our employees raised funds which were spent on renovating facilities, buying food, supplies, medicine and toys for vulnerable groups.

The view from the top floor of Tinkoff's new HQ in Moscow

Board of Directors

The Directors convened ahead of a board meeting in November 2016 at the offices of the Company in Limassol. Left to right, Martin Cocker, Maria Trimithiotou, Philippe Delpal, Alexios Ioannides, Constantinos Economides (Chairman) and Jacques Der Megreditchian.

Constantinos Economides (41)

Chairman of the Board of Directors

Constantinos Economides has been a director of TCS Group Holding PLC since November 2008 and Chairman since June 2015.

Mr. Economides is also the Managing Director of Royal Pine & Associates Ltd since January 2016. He was previously the Managing Director of Orangefield Cyprus from October 2006 to December 2015. Prior to 2006, he worked with Deloitte Ltd in Cyprus from 2003 to 2006 and Ernst & Young in the United Kingdom from 1999 to 2002.

Mr. Economides is a Fellow Member of the Institute of Chartered Accountants in England & Wales (ICAEW) and holds an MSc in Management Sciences from Warwick Business School, United Kingdom. In addition, he is a Licensed Insolvency Practitioner of the Institute of Certified Public Accountants of Cyprus (ICPAC) since October 2015.

Jacques Der Megreditchian (57)

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

Jacques Der Megreditchian has been a non-executive director since October 2013. Mr. Der Megreditchian 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.

Philippe Delpal (43)

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

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

Mr. Delpal is an Operational Partner for Financial Services in Baring Vostok Capital Partners, one of the largest private equity businesses in Russia. He is also currently serving as a non-executive director of Orient Express Bank, First Collection Bureau, 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.

Martin Cocker (57)

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

Martin Cocker has been a non-executive director since October 2013.

Mr. Cocker serves also on the boards of Etalon Group, Northumberland Tyne and Wear National Health Service Foundation Trust and Beverley Building Society. 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.

Alexios Ioannides (40)

Member of the Board of Directors

Alexios Ioannides has been a director of TCS Group Holding PLC since November 2008. Mr. Ioannides previously worked for Deloitte from 2001 to 2008 where he trained and qualified as a Chartered Accountant in 2004. Mr. Ioannides is also the director of AXEPT Limited since 2008 and a member of the Board of Directors of The Copperlink Partners Limited since 2015.

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

Maria Trimithiotou (38)

Member of the Board of Directors

Maria (Mary) Trimithiotou has been a director since May 2012.

Mrs. Trimithiotou previously worked for Deloitte Ltd holding the position of audit manager from October 2001 to February 2009 and, subsequently, moved to Orangefield Fidelico Ltd where she held the position of Director from 2012 until 2015. Currently, Mrs. Trimithiotou is a member of the Board of Directors of Royal Pine & Associates Ltd.

Mrs. Trimithiotou is a Fellow Chartered Certified Accountant and a Member of the Association of Chartered Certified Accountants, as well as Member of the Institute of Certified Public Accountants of Cyprus (ICPAC). Mrs. Trimithiotou is also a Licensed Insolvency Practitioner since October 2015.

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

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.

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

A copy of an English translation of Association of the Company can be found on the website.

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 current six strong Board of directors is comprised of three executive directors including the chairman, and three non-executive directors two of whom are independent. There was no change in the composition of the Board in 2016. The board of directors currently contains no Directors B. The longest serving director Mr Constantinos Economides took over the role of Chairman of the Board of directors in June 2015. The names of the people who served on the Board during 2016 are listed at Board of directors. The Group has established two Committees of the Board. Specific responsibilities have been delegated to those committees as described below.

The Board is required to undertake a formal and rigorous review annually of its own performance, that of its committees and of its individual directors. That review was carried out in-house in the second half of 2016 looking at overall performance from the time of the IPO in October 2013 but focused mainly on the second half of 2015 and first half of 2016. All directors completed detailed questionnaires on the Board's performance. Analysis of the resultant feedback did not show up any deficiencies in the performance of the Board, its committees or individual directors of a nature that required changes to be made.

Number of directors

Unless and until otherwise determined by the Company in general meeting, the number of directors shall be no less than four, of which two must be non-executive, and shall not exceed seven, so long as Class B Shares are in issue. Thereafter there shall be no maximum number of directors.

The Articles of Association of the Company provide for the retirement by rotation of certain directors at each Annual General Meeting. In 2016 the two directors who retired by rotation were Mr Philippe Delpal and Mr Martin Cocker. Both were duly reappointed by vote of the shareholders.

Director's powers

The business of the Company is managed by the directors, who are empowered to exercise all such powers of the Company as are not, by the Cyprus Companies Law or by the Articles of Association, required to be exercised by the shareholders in general meeting, subject nevertheless to any provisions of the Articles of Association, of the Companies Law and of any directions given by the general meeting by ordinary resolution; but no alteration of the Articles of Association and no direction made by the Company in general meeting shall invalidate any prior act of the directors which would have been valid that alteration or direction not been made or given.

Proceedings of the Board of Directors

The quorum necessary for the transaction of the business of the directors shall be at least four directors.

Questions arising at any meeting of the board of directors shall be decided by a majority of votes. In the case of equality of votes, the chairman shall have a second or casting vote. A director may, and the secretary on the requisition of a director shall, at any time, summon a meeting of the directors. A resolution in writing signed or approved by letter, telex, facsimile or telegram by all directors or their alternates or in relation to a committee by all its directors, shall be as valid and effectual as if it had been passed at a meeting of the board of directors or (as the case may be) at a committee meeting duly convened and held. Any such resolution in writing signed may consist of several documents each signed by one or more of the persons described.

Any notice shall include an agenda identifying in reasonable detail the matters to be discussed at the meeting together with copies of any relevant documents.

The directors may delegate any of their powers to a committee or committees consisting of one or more members of their body as they think fit; any committee so formed shall, in the exercise of the powers so delegated to it, comply with the rules which may have been imposed on it by the directors, in respect of its powers, composition, proceedings, quorum or any other matter.

Committees of the Board of directors

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

Committees-current composition

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

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

The current terms of reference of both Committees are available on the Company's website. A short summary of both is set out below.

Dear Stakeholders

2016 proved another exciting year in the life of the Company, a year when the groundwork done, the decisions taken, the investments made, the talent hired, in the most testing environment of 2014-15 in anticipation of better market conditions paid off handsomely. Detailed commentary on the operating and financial results is included in the CEO's strategic review and the CFO's financial review but in summary the Group delivered a stellar set of results for FY2016 -I would like to express my thanks to our founder and controlling shareholder Oleg Tinkov for his vision and offer my congratulations to him and the Tinkoff management team for their achievement.

In parallel the work of the Board of Directors which I am delighted to chair continues. We have robust corporate governance structures in place together with a deep knowledge and appreciation of the Group's DNA within the group of Directors. As our own Board policies require, we conduct every year a rigorous annual appraisal of the performance and effectiveness of the Board, its committees and individual directors which in 2016 found us in good shape. But we are not complacent: outside the formal process we are always looking to assimilate good practices that come to our attention where these can fit or be adapted for our model.

Closing my statement, I would like to thank each and every one within the Group, on stage or behind the scenes, who together worked countless hours and brought about these amazing results of which we are all extremely proud. I remain confident that 2017 will bring new challenges and successes and I am happy merely to be part of this.

Constantinos Economides
Chairman of the Board of Directors

Corporate governance
continued

Role of the Audit Committee

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

Under its terms of reference the Audit Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Audit Committee met this obligation in two main ways, through members participating in the main Board review described above in the second half of 2016 and by arranging a complementary committee review on a rolling basis driven by the audit cycle March to March. After consideration of the Audit Committee's own review, no further changes to those adopted in the preceding year were proposed to the committee's terms of reference. During the second half of 2016 the Audit Committee determined to set a more structured framework around the extensive work it had been doing between its quarterly meetings to review the financial statements by adding at least two additional meetings to its annual schedule, at least one of which would be held at the Bank's head office in Moscow, to consider specific non-financial statement related areas within its terms of reference such as risk management issues including internal audit procedures, and the financial and reputational dimensions of cyber security measures put in place by the Group.

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

Role of the Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing among other things the framework of remuneration of the executive directors, senior management and its overall cost and the Group's remuneration policies. The objective is to ensure that the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are in a fair and responsible manner rewarded for their individual contributions to the success of the Group. The Remuneration Committee's Terms of Reference include reviewing the design and determining targets for any performance related pay schemes and reviewing the design of all share incentive plans for approval by the Board. The Remuneration Committee is required to meet at least twice a year but in practice meets far more often. The Remuneration Committee continued work in 2016 and into 2017 on its review of the first year of operation of the Group's new (launch was in March 2016) equity based incentive and retention plan for key, senior and middle management (MLTIP) and in considering additional awards for this and subsequent years.

Under its terms of reference the Remuneration Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Remuneration Committee met this obligation through members participating in the main Board review (described above) under which detailed questionnaires were completed by all directors assessing the operation of the Board and both committees. Although the review from the previous year had resulted in certain minor changes to the Remuneration Committee's terms of reference to clarify certain procedural matters and to align them more closely with how the committee operated in practice, this time no further changes were felt required in 2016/17. The Committee continues to meet as required to assess its own performance but did not identify a need to schedule additional regular meetings.

Appointment, rotation and removal of directors

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

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

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

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

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

The office of director shall be vacated if the director:

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

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

Share capital

As at 31 March 2017, the Company's issued share capital is US$7,305,553 divided in to 90,494,146 Class A Shares, each of nominal value of US$0.04 per share and fully paid, and 92,144, 679 Class B Shares, each of nominal value of US$0.04 per share and fully paid.

All of the Class B shares are held directly or indirectly by Mr Oleg Tinkov, the controlling shareholder. Holding all Class B Shares equates to a 50.45% economic interest in the Company and a voting interest of over 91%.

Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or any of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

Certain rights of pre-emption are conferred, by the Cyprus Companies Law and the Articles of Association of the Company, on existing shareholders for issue of new shares to the Company in cash. Please refer to the section below on pre-emption rights for further information.

Articles of Association

In this section Cyprus Companies Law means the Companies Law, Cap. 113 of Cyprus and any successor statute or as the same may from time to time be amended.

The Company's current Articles of Association were adopted on 21 October 2013. The following is a brief summary of certain material provisions of the Articles of Association.

Rights of shareholders

Except for the additional voting rights attached to Class B Shares, the right to requisition a general meeting of the shareholders and the right to appoint a Director B, none of the shareholders of the Company has any rights different from any other holder of shares of the Company. A summary of the rights attached to the shares of the Company is set out below.

Meeting of shareholders

The Company is required to hold an annual general meeting each year on such date and at such place as the directors may determine provided that not more than 15 months should elapse between annual general meetings.

The board of directors or any director may convene general meetings. The board of directors will also convene:

(a) extraordinary general meetings of the Company on the requisition of:

(i) a shareholder or shareholders together, holding or representing in aggregate, shares (being shares of either of the Class A Shares and Class B Shares) which constitute or represent at least five per cent. of the total number of votes carried or conferred by the Class A Shares and Class B Shares; or

(ii) a Class B shareholder;

(b) a separate meeting of the Class A shareholders on the requisition of a Class A shareholder or Class A shareholders together, holding or representing Class A Shares which in aggregate constitute or represent at least five per cent. in nominal capital paid up on the Class A Shares; and

(c) a separate meeting of the Class B shareholders on the requisition of any Class B shareholder,

and any shareholder or shareholders as aforesaid may add items to the agenda of a meeting which they are entitled to attend.

An annual general meeting and a meeting called at which a special resolution will be proposed shall be called by at least twenty-one days' prior written notice. All other general meetings may be convened by the board by issuing at least 14 days' prior written notice. General meetings of the Company may be called by shorter notice and shall be deemed to have been duly called if it is so agreed:

- in the case of a meeting called as the annual general meeting, by all the shareholders entitled to attend and vote; and
- in the case of any other meeting, by a majority in number of the shareholders having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving the right to attend and vote at the meeting.

Notice to persons

All shareholders are entitled to attend the general meeting or be represented by a proxy authorised in writing. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands, every member present (if a natural person) in person or by proxy or, (if a corporation) is present by a representative not himself being a member, shall have one vote for each Class A Share of which he is a holder and shall have 10 votes for each Class B Share of which he is a holder, and on a poll, every member shall have one vote for each Class A Share of

Corporate governance
continued

which he is a holder and shall have 10 votes for each Class B Share for which he is a holder.

The quorum for a general meeting will consist of such number of shareholders holding in aggregate more than 50 per cent. of the issued capital. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the same day in the following week, at the same time and place or to such other day and at such other time and place as the chairman of the general meeting may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the shareholders present shall be a quorum.

The above quorum does not apply to every separate meeting of the shareholders of any class, in that any shareholder (present in person or by proxy) holding or representing shares of the class which in aggregate constitute or represent at least one-third in nominal capital paid up on the shares of the class, shall constitute a quorum and a meeting.

A resolution in writing which has been signed by or on behalf of shareholders conferring in aggregate at least 75 per cent. of the votes exercisable on such resolution at general meeting of the Company is valid and effectual as if the resolution were sanctioned by the general meeting, provided that a notice of the intention to propose the resolution together with a copy of the resolution, are given to all the shareholders conferring the right to vote on the resolution, at least 30 days prior to the date of the resolution. Such a resolution in writing may consist of several documents in the like form each signed by, or on behalf of, one or more shareholders.

Pre-emption rights

Under the Cyprus Companies Law, each existing shareholder has a right of pre-emption to subscribe for any new shares to be issued by the Company in cash, in proportion to the aggregate number of such shares of the shareholder. There are no pre-emption rights with respect to shares issued for non-cash consideration.

Specifically, all new shares and/or other securities giving rights to purchase shares in the Company, or which are convertible into shares in the Company that are to be issued for cash, shall be offered to the existing shareholders on a pro-rata basis to the participation of each shareholder in the capital of the Company, on a specific date fixed by the directors. Any such offer shall be made upon written notice to all the shareholders specifying the number of the shares and/or other securities giving rights to purchase shares in the Company, or which are convertible into shares in the Company, which the shareholder is entitled to acquire and the time periods (which shall not be less than 14 days from the date of notification of the offer (or)/from the date of the dispatch of the written notice), within which the offer, if not accepted, shall be deemed to have been rejected. If, until the expiry of the said time period, no notification is received from the person to whom the offer is addressed or to whom the rights have been assigned that such person accepts all or part of the offered shares or other securities giving rights to purchase shares in the Company, or which are convertible into shares of the Company, the directors may dispose of them in any manner that they deem fit.

These pre-emption rights may be disapplied by a resolution of the general meeting which is passed by a specified majority, being a majority in favour of over one half of all the votes cast if the attendance represents not less than half the issued share capital and a majority in favour of not less than two-thirds of the votes cast in all other cases ("Special Majority Resolution"). In connection with such a waiver, the directors have an obligation to present to the relevant general meeting a written report which explains the reasons for the proposed disapplication of the pre-emption rights and justifies the proposed issue price of the shares.

Voting rights

Subject to any special rights or restrictions as to voting attached to shares, every holder of shares who is present (if a natural person) in person or by proxy or, (if a corporation) is present by a representative, shall have one vote for each Class A Share of which he is a holder and shall have 10 votes for each Class B Share of which he is a holder.

The Class A Shares carry the right to one vote per Class A Share and confer on the Class A shareholders the right:

- on a Hands Vote, to one vote per Class A shareholder; and
- on a Poll Vote, to one vote per Class A Share held by each Class A shareholder,

but no Class A Share carries or confers any right to vote, on a resolution or proposed resolution for the removal from office of a Director B.

"Director B" means a director appointed or deemed to have been appointed by Class B shareholders in accordance with the Articles of Association.

The Class B Shares carry the right to 10 votes per Class B Share and confer on the Class B shareholders the right:

(a) on a Hands Vote, to 10 votes per Class B shareholder; and

(b) on a Poll Vote, to 10 votes per Class B Share held by each Class B shareholder.

Every resolution put to the vote of a general meeting shall be decided on a Hands Vote unless a Poll Vote is demanded in accordance with the Articles of Association.

No shareholder shall be entitled to vote (either in person or by proxy) at any general meeting unless all calls or other sums presently owed by him in respect of those shares have been paid or the Board of Directors otherwise determine.

Conversion rights

Class A Shares are generally not convertible into Class B Shares.

Each Class B Share confers on its holder the right to convert each Class B Share into one Class A Share at any time at the absolute discretion of a relevant Class B shareholder by serving a written notice to the Company setting out the number of Class B Shares the relevant holder is willing to convert. The conversion referred to above shall take place automatically at the expiration of one Business Day from the date that the relevant notice is received by the Company. Once Class B Shares are converted into Class A Shares, the Class A Shares that result from such conversion shall rank pari passu in all respects with the existing Class A Shares in issue.

Without prejudice to the rights of the holders of Class B Shares for the conversion of their shares into Class A Shares, Class B Shares shall be automatically converted into Class A Shares, on a one-to-one basis, in the following circumstances:

(a) in the event that any Class B Share has been transferred to, or is held by, a person other than a Qualified Person (defined below) or otherwise who has ceased to be a Qualified Person, and such person (the "Disqualified Holder") does not become or is not re-instated as, a Qualified Person within 45 days of the service on the Disqualified Holder of a notice from the Company to that effect (the "Conversion Event"), each Class B Share held by the Disqualified Holder shall, with effect of the Conversion Event, automatically be re-classified and re-designated as a "Class A Share" ranking pari passu in all respects and for all purposes with all and each of the pre-existing (outstanding) Class A Shares:

provided that:

(i) If a Class B shareholder has no knowledge that such holder has become a Disqualified Holder and it is unreasonable to expect the Disqualified Holder to have such knowledge, such shareholder shall be deemed not to have become a Disqualified Holder or otherwise ceased to be a Qualified Person, unless or until such shareholder shall be made aware of this by notice in writing from the Company.

(ii) The Company may at any time require any Class B shareholder to furnish the Company with any information, supported (if the Company so requires) by statutory declaration which the Company may consider necessary for the purpose of determining whether or not such shareholder is a Qualified Person.

(b) Notwithstanding Paragraph (a), in the event that the Class B Shares constitute or represent in aggregate less than 10 per cent. in nominal capital paid up only on the Class A Shares and Class B Shares (the "Total Conversion Event"), each existing (issued) Class B Share shall, with effect of the Total Conversion Event, automatically be re-classified and re-designated as a "Class A Share" ranking pari passu in all respects and for all purposes with all and each of the pre-existing (outstanding) Class A Shares.

(Qualified Person, for the purpose of these paragraphs means a Class B shareholder or a person connected with such Class B shareholder or a person, or persons jointly, as the trustee or trustees of any trust or settlement (whether or not conferring the trustees discretionary powers) for the benefit of such Class B shareholder or a relative, or relatives, of such Class B shareholder.)

Dividend and distribution rights

The Class A Shares and Class B Shares have the right to an equal share in any dividend or other distribution paid by the Company, and any dividend or other distribution may only be declared and paid by the Company to the holders of the Class A Shares and Class B Shares together.

Variation of rights

The special rights carried or conferred by the shares of any class, may, without prejudice to the rights of the shareholders under section 70 of the Cyprus Companies Law, be varied or abrogated with the consent:

(a) in writing of the sole shareholder of, or the shareholders holding in aggregate at least two thirds in nominal capital value of, the Shares of that class; or

(b) of the general meeting of the shareholders of the Shares of that class with the sanction of a majority resolution, being a resolution sanctioned:

(i) by a majority of over one-half of the votes cast by the shareholders present in person or by proxy and entitled to vote, in the case where all the shareholders present in person or by proxy and entitled to vote, hold or represent in aggregate not less than 50 per cent. in nominal capital value of the entire issued share capital of the Company; or

(ii) by a majority of not less than two-thirds of the votes cast by the shareholders present in person or by proxy and entitled to vote in all other cases,

at a general meeting of which not less than 14 days' notice specifying the intention to propose the resolution as a "majority resolution" has been given.

Shareholders voting against the variation of that class who between them hold or represent not less than 15 per cent. of the issued shares of that class may apply to the Courts of Cyprus to have the variation set-aside.

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 Mr 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 capitalization; (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.

Management team

Oliver Hughes (46)

Chief Executive Officer, Chairman of the Management Board of Tinkoff Bank

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 (41)

Chief Financial Officer, Deputy Chairman of the Management Board of Tinkoff Bank

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.

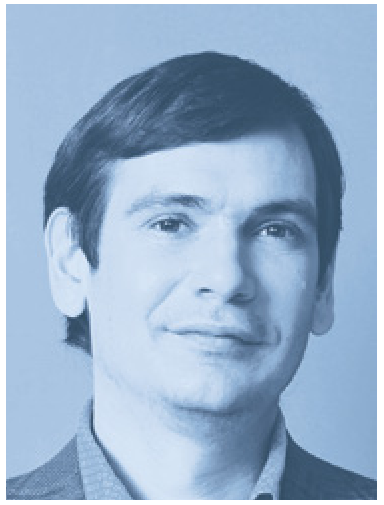
He holds a degree in finance and credit from the Finance Academy under the Government of the Russian Federation, Russia and an MBA from the F.W. Olin Business School at Babson College, USA.

Sergei Pirogov (46)

Head of Corporate Finance, Member of the Board of Directors of Tinkoff Bank

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 Russia and CIS 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).



Artem Yamanov (35)

Business Development Director

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.

Stanislav Bliznyuk (36)

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

Stanislav Bliznyuk has been Deputy Chairman of the Management Board since June 2012 and Chief Operating 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.

Management team
continued

Anatoly Makeshin (44)

Head of Payment Systems, Member of the Management Board of Tinkoff Bank

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.

Viacheslav Tsyganov (41)

Chief Information Officer

Viacheslav Tsyganov has been Chief Information Officer at Tinkoff Bank since February 2009. Mr. Tysganov 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.

Evgeny Ivashkevich (46)

Chief Risk Officer, Deputy Chairman of the Management Board of Tinkoff Bank

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.

George Chesakov (44)

Vice President of New Channel Development

George Chesakov has served as VP New Channel Development since rejoining Tinkoff Bank in February 2016. Mr. Chesakov first joined Tinkoff Bank in 2006 as one of the founding members of the management team serving as COO and Chairman of the Management Board until 2011. From 2013 to 2015 he served as President of OTP Bank (Russia) and in 2012 to 2013 co-founded Revo Technology.

He holds a Master of Arts degree in Computer Science from Princeton University and Diploma with Honors in Mathematics from Moscow State University.

Natalia Izyumova (54)

Member of the Management Board, Chief Accountant, Tinkoff Bank

Member of the Finance Committee and Credit Committee

Natalia Izyumova has been a member of the Management Board since February 2011, Member of the Finance Committee and Credit Committee of Tinkoff Bank since April 2011 and Chief Accountant of Tinkoff Bank since February 2011. Mrs. Izyumova was previously a member of the bank management Board, chief accountant and a member of the finance and credit committees of CSC Bank Sovetsky from September 2009 to January 2011 and chief financial officer, deputy chairman of the management committee and a member of the finance and credit committees at Bank Dvizheniye from September 2007 to September 2009.

Mrs. Izyumova holds a degree in economics from the Lomonosov Moscow State University, Russia and PhD in economics from the Research Institute of Economy, Russia.

TCS Group Holding PLC

31 December 2016

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

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Board of Directors and Other Officers

Board of Directors

Constantinos Economides, Chairman
Alexios Ioannides
Mary Trimithiotou
Philippe Delpal
Jacques Der Megreditchian
Martin Cocker

All served throughout the year ended 2016 and through to the date of these consolidated financial statements.

The Company's Articles of Association include regulations for the retirement by rotation of Directors at each annual general meeting. These regulations will operate in 2017 on the basis of the composition of the Board at the relevant date.

Company Secretary
Caelion Secretarial Limited

25 Spyrou Araouzou
Berengaria 25, 4th floor
Limassol, Cyprus

Registered office

25 Spyrou Araouzou
Berengaria 25, 5th floor
Limassol, Cyprus

Consolidated Management Report

1 The Board of Directors presents its report together with the audited consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2016.

Principal activities and nature of operations of the Group

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

3 The Bank specialises in 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 specialises in providing non-life insurance coverage such as accident, property, travelers', financial risks and auto insurance. The founder and controlling shareholder of the Company is Oleg Tinkov.

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

4 The Bank operates a flexible business model. Its virtual network enables it to increase business or slow down customer acquisition depending on the availability of funding and market conditions. The Bank's primary customer acquisition channels are Internet and Mobile, but it also uses Direct Sales Agents (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.

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

6 In terms of financial performance the net profit of the Group for the year ended 31 December 2016 was RR 11,011 million (2015: RR 1,851 million). Net interest income increased by 38.3% to RR 34,026 million (2015: RR 24,597 million). On 31 December 2016 the total assets of the Group were RR 175,371 million (2015: RR 139,652 million) and the net assets were RR 29,518 million (2015: RR 22,946 million). Gross loans and advances to customers increased by 19.1% to RR 120,435 million (2015: RR 101,081 million) and customer accounts increased by 39.4% to RR 124,556 million (2015: RR 89,343 million). The 90 days plus overdue loans ratio reduced to 10.2% (2015: 12.4%) and the net loans and advances to customers increased by 25.4% to RR 102,912 million (2015: RR 82,067 million). The cost of risk on the gross portfolio fell to 7.6% (2015: 15.3%).

7 The Group believes in making a difference for the society where it operates and for its sustainable development, encouraging both employees and clients to contribute to the quality of life of vulnerable groups in Russia.

Principal risks and uncertainties

8 The Group conducts its activities in Russia through its subsidiaries; the Group's business and financial results are impacted by the increased uncertainties and volatility of the Russian economic environment that have been evident throughout recent years but more stable in 2016.

9 Financial risks, including credit risk, market risk and liquidity risk as well as other risks and uncertainties, which affect the Group and how these are managed, are presented in Notes 2, 31, 32 and 33 of the consolidated financial statements.

Future developments

10 Subject to the ongoing uncertainty of the Russian economy the Board of Directors does not plan any significant changes or developments in the operations of the Group in the near future.

Results

11 The Group's results for the year are set out on page F-17 of the consolidated financial statements. Information on distribution of profits is presented in Note 29.

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

12 Important events for the Group that have occurred after the end of the financial year are presented in Note 38.

Share capital

13 There were no changes in issued share capital in 2016.

Treasury shares

14 During the three months ended 31 March 2016 the Group repurchased 5,659,853 GDRs at market prices for RR 1,246 million (Note 20) for the purposes of the long-term incentive programme for Management of the Group .

Board of Directors

15 The members of the Board of Directors as of 31 December 2016 and at the date of this report are presented above in the Report of the Board of Directors.

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

Branches

17 The Company did not operate through any branches during the period.

Independent auditors

18 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

Corporate Governance

- **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 rights of shareholders include the right to vote on the appointment and removal of Directors and to amend the Articles of Association.
  TCS Group Holding PLC has two classes, class B shares which carry or confer enhanced voting rights (10 votes per class B share) as opposed to class A (one vote per class A share); a detailed description of the Articles of Association, including the rights of shareholders, and the Terms and Conditions of the GDRs can be found in the Company's October 2013 Prospectus on the website at www.tinkoff.ru/eng.

- **The Board of Directors**

  The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The six strong Board of directors is comprised of three executive directors including the chairman, and three non-executive directors two of whom are independent. The Group has established two Committees of the Board. Specific responsibilities have been delegated to those committees.

  The Articles of Association of the Company provide for the retirement by rotation of certain directors at each Annual General Meeting. In 2016 the two directors who retired by rotation were Mr Philippe Delpal and Mr Martin Cocker. Both were duly reappointed by vote of the shareholders.

- **Committees of the Board of directors**

  The Group in 2013 established two Committees of the Board of directors: the Audit Committee and the Remuneration Committee. The Board reserves the right to amend their terms of reference and arranges a periodic review of each Committee's role and activities.

Consolidated Management Report Continued

- **Committee composition**

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

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

- **Audit Committee**

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

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

- **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.

- **Significant direct/indirect holdings**

For the significant direct and indirect shareholdings held, please refer to Note 1 of the financial statements.

- **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 Mr 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.

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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 capitalization; (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.

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

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

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

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

The role of the Audit Committee is set out above.

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

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

By Order of the Board

Constantinos Economides
Chairman of the Board
Limassol

13 March 2017

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Independent auditor's report

To the Members of TCS Group Holding PLC

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (together with the Company hereinafter "the Group") give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated 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.

What we have audited

We have audited the consolidated financial statements which comprise:

- the consolidated statement of financial position as at December 31, 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers Ltd, City House, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus
P O Box 53034, CY-3300 Limassol, Cyprus
T: +357 25 - 555 000, F:+357 - 25 555 001, www.pwc.com.cy

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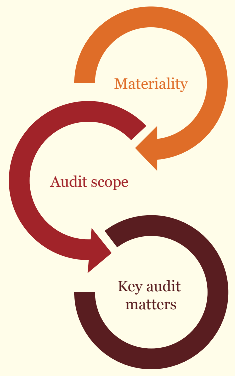
Our audit approach

Overview



Overall group materiality: RR 745 million.

- We planned and conducted our audit to cover the two most significant business components of the Group being Retail banking and Insurance operations for which we performed an audit of their complete financial information. In addition, we performed audits of specific areas at group level.
- Our audit scope addressed approximately 99% of the Group's revenues, 99% of the Group's profit before tax and 99% of the Group's total assets.

- Impairment of Loans and advances to customers;
- Recognition of Interest income on Loans and advances to customers.

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

Materiality

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

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

Overall group materiality	RR 745 million
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and it is a generally accepted benchmark. We chose 5%, which in our experience is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee that we would report to them individual misstatements identified during our audit above RR 75 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our audit scope

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the management structure of the Group, the accounting processes, controls and the industry in which the Group operates.

The Group is structured into two significant business components being Retail banking and Insurance operations both of which operate solely in the Russian Federation. The Retail banking business component comprises a number of business reporting units being JSC Tinkoff Bank, LLC "Microfinance organization "T-Finans" and LLC Feniks. The Insurance operations business unit comprises one business reporting unit being JSC Tinkoff Insurance. Full scope audit procedures were performed in respect of the two significant business components.

Other Group business reporting units, such as TCS Group Holding PLC, TCS Finance Ltd, Goward Group Ltd, LLC TCS, Tinkoff Software DC and Tinkoff Long-Term Incentive Plan Employee Benefit Trust, are not considered to be significant business components for audit purposes. Where necessary, additional procedures were carried out across these less significant components at the financial statement item level in order to achieve the desired level of audit evidence. The consolidated financial statements are a consolidation of all of the above business reporting units.

Our audit covered approximately 99 % of Group's revenue, 99% of the Group's profit before tax and 99% of the Group's total assets.

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

Overall, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our audit opinion on the consolidated financial statements.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Impairment of Loans and advances to customers	
We focused on this area because the management makes complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of such impairment. The basis of the provision for loans and advances to customers impairment is described in the significant accounting policies. An assessment of provision for loans and advances to customers impairment is performed collectively, with the key assumption being the probability of an account falling into arrears and subsequently defaulting. Statistical models are used for assessment of probability of default. Models related to certain types of restructured loans are more complex due to subjectivity inherent in estimating the recoverability of such loan balances. Note 3 Significant Accounting Policies, Note 4 Critical Accounting Estimates and Judgments in Applying Accounting Policies and Note 9 Loans and Advances to Customers included in the consolidated financial statements provide detailed information on the provision for impairment of loans and advances to customers.	We assessed and tested on a sample basis the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over allocation of cash received from customers to respective loans and advances to customers, identification of the overdue loans and the data transfer from source systems to impairment models. In addition, we tested on a sample basis the correctness of loan classification by their type of loan portfolio and performed testing on a sample basis on the statistical models used to calculate impairment. This testing varied by portfolio, but typically included testing of the coding used in the impairment models, re-performance of the calculation, testing the extraction of data used in the models including the 'bucketing' into overdue bands. With regard to models of certain types of restructured loans we back tested the outputs of these models to the ultimate recoverability on such loans to consider the appropriateness of the assumptions in the model. We also assessed the consistency of provisioning models applied by management with the prior period. We tested a sample of post model accounting adjustments where applicable, including considering the basis for the adjustment, the logic applied, the source data used and the key assumptions adopted.

Key audit matter	How our audit addressed the Key audit matter
Recognition of interest income on Loans and advances to customers We focused on this area mainly because the calculation of interest income uses, in addition to relevant nominal interest rates, a number of different fees and costs, incorporates significant assumptions around loan expected lives (driven by estimations of loan repayment profiles) and, in the case of acquired loans, additional variables such as the estimated fair value at the date of purchase and the estimated recoverable amount. As the Group has about 10 years history of lending, the Group has a significant amount of information from which to assess trends in prepayment, redemption and product transfers, resulting in lower subjectivity to these assumptions, as detailed patterns of past customer behaviour are available to enable an estimate of future customer behaviour and performance. The Group has acquired some loan portfolios from third parties in the last couple of years but it does not have the same level of information from which to assess trends in prepayment and redemption of such acquired loans which results in a higher degree of subjectivity to the assumptions in respect of acquired loans expected lives. In addition to the above, there is a need to ensure the appropriateness, consistency and accuracy of the effective interest rate calculations across all types of loans in respect of the various fees received and costs that are included in the interest income calculation as part of the effective interest rate. Note 3 Significant Accounting Policies, Note 21 Net Margin and Note 31 Financial and Insurance Risk Management included in the consolidated financial statements provide detailed information on the interest income and effective interest rates of loans and advances to customers.	Our audit procedures in relation to effective interest rates of loans originated by the Group included the testing of key controls in relation to the nominal interest income, fee income and costs incurred, all of which contribute to interest income. These controls included those over calculation and accrual of nominal interest income and fee income parts of interest income and the data transfer from the source system to the accounting system. We analysed the appropriateness and consistency of methodology and application across each of the loan portfolios and assessed the reasonableness of the models' key assumptions, including the fee income and costs components of the effective interest income rate and expected lives of the loans by considering historic information. We also assessed the mathematical accuracy of the models through re-performance of the model calculations, which were tested substantively. Our testing of effective interest rates of acquired loan portfolios included the procedures detailed above, and further procedures to identify any significant deviations from the original forecast cash flows. We also considered whether any 'catch up' adjustments were required on portfolios where actual cash flow experience has differed significantly from that originally predicted. For those loan books where catch up adjustments were recorded, we assessed the appropriateness of the payment assumptions used in the future forecast cash flow calculations, by comparing them to payment rates previously experienced. In addition, we performed substantive analytical procedures to assess the reasonableness of the interest income recognised by the Group.

Other information

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

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

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

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

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

The Board of Directors is responsible for the preparation of 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.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these 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 Consolidated Management Report, whose preparation is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap.113, and the information given therein is consistent with the consolidated financial statements.
- In our opinion and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the consolidated Management Report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the Consolidated Management Report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

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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 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

A Loizou

Anna Loizou
Certified Public Accountant and Registered Auditor
For and on behalf of
PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 13 March 2017

Consolidated Statement of Financial Position

In millions of RR	Note	31December 2016	31December 2015
ASSETS			
Cash and cash equivalents	7	16,197	13,689
Mandatory cash balances with the CBRF		1,218	675
Securities at Fair Value through Profit or Loss	8	164	-
Due from other banks		347	726
Loans and advances to customers	9	102,912	82,067
Financial derivatives	34	2,718	11,345
Investment securities available for sale	10	33,286	15,936
Repurchase receivables		-	2,344
Current income tax assets	28	702	743
Guarantee deposits with payment systems	11	2,924	3,377
Tangible fixed assets	12	4,656	2,052
Intangible assets	12	1,820	1,419
Other financial assets	13	7,179	3,499
Other non-financial assets	13	1,248	1,780
TOTAL ASSETS		**175,371**	**139,652**
LIABILITIES			
Due to banks	14	489	6,392
Customer accounts	15	124,556	89,343
Debt securities in issue	16	2,986	1,905
Financial derivatives	34	-	8
Current income tax liabilities		24	36
Deferred income tax liabilities	28	785	1,784
Subordinated debt	17	11,514	14,609
Insurance provisions	18	767	515
Other financial liabilities	19	3,112	1,296
Other non-financial liabilities	19	1,620	818
TOTAL LIABILITIES		**145,853**	**116,706**
EQUITY			
Share capital	20	188	188
Share premium	20	8,623	8,623
Treasury shares	20	(1,473)	(328)
Share-based payment reserve	37	704	614
Retained earnings		20,885	13,716
Revaluation reserve		591	133
TOTAL EQUITY		**29,518**	**22,946**
TOTAL LIABILITIES AND EQUITY		**175,371**	**139,652**

Approved for issue and signed on behalf of the Board of Directors on 13 March 2017.

Constantinos Economides
Director

Mary Trimithiotou
Director

The notes set out on pages F-20 to F-67 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In millions of RR	Note	2016	2015
Interest income	21	47,824	37,562
Interest expense	21	(13,348)	(12,707)
Expenses on deposits insurance		(450)	(258)
Net margin		**34,026**	**24,597**
Provision for loan impairment	9	(8,386)	(14,695)
Net margin after provision for loan impairment		**25,640**	**9,902**
Customer acquisition expense	22	(6,661)	(3,662)
Net gains/(losses) from operations with foreign currencies	23	239	(236)
Gain from sale of impaired loans	9	48	28
Insurance premiums earned		1,348	1,170
Insurance claims incurred	24	(490)	(411)
Fee and commission income	25	8,401	4,775
Fee and commission expense	25	(3,512)	(1,961)
Administrative and other operating expenses	26	(11,321)	(7,281)
Net gains from investment securities available for sale		214	33
Other operating income	27	658	209
Profit before tax		**14,564**	**2,566**
Income tax	28	(3,553)	(715)
Profit for the year		**11,011**	**1,851**
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Investment securities available for sale and Repurchase receivables			
- Net gains arising during the year, net of tax		629	384
- Net gains reclassified to profit or loss upon disposal or impairment, net of tax		(171)	(26)
Other comprehensive income for the year, net of tax		**458**	**358**
Total comprehensive income for the year		**11,469**	**2,209**
Earnings per share for profit attributable to the owners of the Company, basic (expressed in RR per share)	20	**63.10**	**10.38**
Earnings per share for profit attributable to the owners of the Company, diluted (expressed in RR per share)	20	**61.54**	**10.36**

The notes set out on pages F-20 to F-67 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

In millions of RR	Note	Share capital	Share premium	Share-based payment reserve	Treasury shares	Revaluation reserve	Retained earnings	Total
Balance at 1 January 2015		**188**	**8,623**	**587**	**(5)**	**(225)**	**11,800**	**20,968**
Profit for the year		-	-	-	-	-	1,851	1,851
Other comprehensive income:								
Revaluation of investment securities available for sale and Repurchase receivables		-	-	-	-	358	-	358
Total comprehensive income for 2015		**-**	**-**	**-**	**-**	**358**	**1,851**	**2,209**
GDRs buy-back	20	-	-	-	(324)	-	-	(324)
Share-based payment reserve	20,37	-	-	93	-	-	-	93
Shares sold under ESOP	20	-	-	(66)	1	-	65	-
Total transactions with owners		**-**	**-**	**27**	**(323)**	**-**	**65**	**231**
Balance at 31 December 2015		**188**	**8,623**	**614**	**(328)**	**133**	**13,716**	**22,946**
Profit for the year		-	-	-	-	-	11,011	11,011
Other comprehensive income:								
Investment securities available for sale and Repurchase receivables		-	-	-	-	458	-	458
Total comprehensive income for 2016		**-**	**-**	**-**	**-**	**458**	**11,011**	**11,469**
GDRs buy-back	20	-	-	-	(1,246)	-	-	(1,246)
Share-based payment reserve	20,37	-	-	90	101	-	664	855
Dividends	29	-	-	-	-	-	(4,506)	(4,506)
Total transactions with owners		**-**	**-**	**90**	**(1,145)**	**-**	**(3,842)**	**(4,897)**
Balance at 31 December 2016		**188**	**8,623**	**704**	**(1,473)**	**591**	**20,885**	**29,518**

The notes set out on pages F-20 to F-67 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In millions of RR	Note	2016	2015
Cash flows from operating activities			
Interest received		46,964	35,059
Interest paid		(13,275)	(13,065)
Expenses on deposits insurance paid		(392)	(222)
Customers acquisition expenses paid		(4,237)	(2,625)
Cash received from trading in foreign currencies and operations with financial derivatives		6,713	2,511
Cash received from insurance operations		1,075	1,302
Cash received from sale of impaired loans	9	68	37
Fees and commissions paid		(3,546)	(1,847)
Fees and commissions received		8,169	4,775
Other operating income received		515	262
Administrative and other operating expenses paid		(5,346)	(3,170)
Income tax paid		(4,639)	(69)
Cash flows from operating activities before changes in operating assets and liabilities		**32,069**	**22,948**
Changes in operating assets and liabilities			
Net (increase)/decrease in CBRF mandatory reserves		(542)	11
Net decrease/(increase) in due from banks		285	(701)
Net increase in loans and advances to customers		(27,668)	(20,640)
Net (increase)/decrease in guarantee deposits with payment systems		(109)	373
Net increase in other financial assets		(4,031)	(1,385)
Net increase in other non-financial assets		(164)	(1,010)
Net decrease in due to banks		(5,683)	(4,414)
Net increase in customer accounts		32,114	38,887
Net increase/(decrease) in other financial liabilities		2,017	(577)
Net cash from operating activities		**28,288**	**33,492**
Cash flows used in investing activities			
Acquisition of tangible fixed assets		(3,022)	(1,726)
Acquisition of intangible assets		(633)	(348)
Acquisition of investments available for sale	10	(62,804)	(13,860)
Proceeds from sale and redemption of investments available for sale	10	46,827	3,047
Net cash used in investing activities		**(19,632)**	**(12,887)**
Cash flows from financing activities			
Proceeds from debt securities in issue		3,000	1,857
Repayment of debt securities in issue		(1,885)	(19,977)
Repayment of subordinated debt		(742)	-
GDR's buy-back		(1,246)	(324)
Dividends paid	29	(4,227)	-
Net cash used in financing activities		**(5,100)**	**(18,444)**
Effect of exchange rate changes on cash and cash equivalents		(1,048)	828
Net increase in cash and cash equivalents		**2,508**	**2,989**
Cash and cash equivalents at the beginning of the year	7	**13,689**	**10,700**
Cash and cash equivalents at the end of the year	7	**16,197**	**13,689**

The notes set out on pages F-20 to F-67 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2016

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 2016 for TCS Group Holding PLC (the "Company") and its subsidiaries (together referred to as the "Group"), and in accordance with the requirements of the Cyprus Companies Law, Cap.113.

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

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

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

At 31 December 2016 and 2015 the share capital of the Group is comprised of "class A" shares and "class B" shares. A "class A" share is an ordinary share with a nominal value of USD 0.04 per share and carrying one vote. A "class B" share is an ordinary share with a nominal value of USD 0.04 per share and carrying 10 votes. As at 31 December 2016 and 2015 the number of "class A" shares is 90,494,146 and "class B" shares is 92,144,679.

On 25 October 2013 the Group completed an initial public offering of its "Class A" ordinary shares in the form of global depository receipts (GDRs) listed on the London Stock Exchange plc.

As at 31 December 2016 and 2015 the entities holding either Class A or Class B shares of the Company were:

	Class of shares	31 December 2016	31 December 2015	Country of Incorporation
Tadek Holding & Finance S.A.	Class B	50.45%	50.45%	British Virgin Islands
Guaranty Nominees Limited (JP Morgan Chase Bank NA)	Class A	41.45%	42.52%	United Kingdom
Rousse Nominees Limited	Class A	2.88%	2.88%	Guernsey
Vostok Emerging Finance Ltd	Class A	3.49%	3.49%	Bermuda
Altruco Trustees Limited	Class A	1.73%	0.66%	Cyprus
Tasos Invest & Finance Inc.	Class B	0.00%	0.00%	British Virgin Islands
Vizer Limited	Class B	0.00%	0.00%	British Virgin Islands
Maitland Commercial Inc.	Class B	0.00%	0.00%	British Virgin Islands
Norman Legal S.A.	Class B	0.00%	0.00%	British Virgin Islands
Total		**100.00%**	**100.00%**	

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

The shareholding of Altruco Trustees Limited represents shares held under the share-based payment plan (ESOP) only (Note 37).

As at 31 December 2016 and 2015 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 2016 and 2015 the ultimate controlling party of the Company is Mr. Oleg Tinkov. Mr. Oleg Tinkov controls 91.1% of the aggregated voting rights attaching to the Class A and B shares.

The Group owns 100% of shares and has 100% of voting rights of each of these subsidiaries as at 31 December 2016 and 2015 except for TCS Finance Ltd and Tinkoff Long-Term Incentive Plan Employee Benefit Trust ("EBT") (see below).

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

JSC Tinkoff Insurance (the "Insurance Company") provides insurance services.

LLC "Microfinance company "T-Finans" provides micro-finance services to clients of the Group.

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

Notes to the Consolidated Financial Statements Continued

31 December 2016

1 Introduction Continued

LLC TCS provides printing and distribution services to the Group.

Goward Group Ltd is an investment holding company which manages part of the Group's assets.

LLC Feniks is a debt collection agency.

Tinkoff Software DC provides software development services to the Group.

EBT is a special purpose trust which has been specifically created for the long-term incentive programme for Management of the Group (MLTIP).

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

The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law № 177-FZ "Deposits of individuals insurance in the Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1,4 million per individual in case of the withdrawal of a license of a bank or a CBRF-imposed moratorium on payments.

Registered address and place of business. The Company's registered address is 25 Spyrou Araouzou 25, Berengaria 25, 5th floor, Limassol, Cyprus. The Bank's registered address is 1-st Volokolamsky proezd, 10, building 1, 123060, Moscow, Russian Federation. The Group's principal place of business is the Russian Federation.

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

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to global oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 33). During 2016 the Russian economy continued to be impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Refer to Note 4 for assumptions on critical accounting estimates.

3 Significant Accounting Policies

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by revaluation of derivatives, investment securities available for sale, securities at fair value through profit or loss, and repurchase receivables carried at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. 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.

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 which management considers to be the most representative of fair value for quoted financial assets and liabilities is the weighted average price during the business day. A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at fair value on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are 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.

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

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

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3 Significant Accounting Policies Continued

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the 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.

Financial assets at Fair Value Through Profit or Loss. Financial assets at fair value through profit or loss (FVTPL) have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The Group classifies securities into assets designated at FVTPL. Management of the Group designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel.

Initial recognition of financial instruments. Derivatives and other financial instruments at FVTPL 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 observable data from active 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 and forward contracts 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.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

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

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows. Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. 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 consolidated Statement of Profit or Loss and other comprehensive income in the period when sale occurred.

Repayments of written-off loans. Recovery of amounts previously written off as uncollectible are credited directly to the provisions line in profit or loss for the period.

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.

Notes to the Consolidated Financial Statements Continued

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

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

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

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

At each reporting date management assesses whether there is any indication of impairment of intangible assets with an indefinite useful life. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Intangible assets 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 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.

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3 Significant Accounting Policies Continued

Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, where the 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. Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

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

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

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Company until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity. The value of GDRs transferred out of treasury shares for the purposes of the long-term incentive programme for management of the Group are determined based on the weighted average cost.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the Note "Events after the End of the Reporting Period". The 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.

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

Non-life insurance (short-term insurance). The below items from the consolidated statement of financial position of the Group are accounted within Other financial assets and Other financial liabilities lines, the below items from the consolidated statement of profit or loss and other comprehensive income of these consolidated financial statements are accounted within Income from insurance operations and Insurance claims incurred lines.

- ***Premiums written.*** Premiums (hereafter – "premiums" or "insurance premiums") under insurance contracts are recorded as written upon inception of a contract and are earned on a pro-rata basis over the term of the related contract coverage. Reduction of premium written in subsequent periods (under amendments to the signed original contacts, for example) is accounted by debiting of premiums written in current period.
- ***Claims.*** Claims are charged to the consolidated statement of profit or loss and other comprehensive income as compensation is paid to policyholders (beneficiaries) or third parties. Claims also include claims handling expenses related to experts', valuers', surveyors' and average agents' fees.
- ***Unexpired risk provision.*** Unexpired risk provision ("URP") is recorded when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. To estimate the unexpired risk provision the Group uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the reporting date. For the purposes of final presentation of consolidated financial statements unexpired risk provision is written off against deferred acquisition costs.
- ***Liability adequacy testing.*** As at each reporting date the adequacy of the insurance reserves is tested. Testing of insurance reserves for non-life insurance is performed to ensure adequacy of contract liabilities. In performing these tests, current estimates of future contractual cash flows, claims handling and administration expenses are used. As a result of liability adequacy testing for non-life insurance, the Group sets up its URP.
- ***Claims handling expenses.*** Claims handling expenses are recognised in profit or loss for the period as incurred and include direct expenses related to negotiations and subsequent claims handling, as well as indirect expenses, including expenses of claims handling department and administrative expenses directly related to activities of this department.
- ***Reinsurance.*** The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to the policyholders under insurance contract. Amounts due from reinsurers are measured consistently with the amounts associated with the direct insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets arising from outward reinsurance contracts include reinsurers share in paid claims, including claims handling expenses. Liabilities under outward reinsurance operations are obligations of the Group for payment of premiums to reinsurers. Reinsurance assets include premiums ceded to the Group under inward reinsurance contracts. The Group's liabilities under inward reinsurance contracts are obligations to compensate the Group's share in paid claims, including claims handling expenses to reinsurers.

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

- ***Subrogation income.*** The Group has a right to pursue third parties responsible for loss for payment of some or all costs related to the claims settlement process of the Group (subrogation). Reimbursements are recognised as income only if the Group is confident in receipt of these amounts from these third parties. Under inward reinsurance contracts, amounts of reimbursement due to the Group as a result of settlement of reinsurer's subrogation claims are treated as the Group's income as at the date of acceptance of the invoice received from the reinsurer and including calculation of the Group's share in the subrogation claim.
- ***Deferred acquisition costs.*** Deferred acquisition costs ("DAC") are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include remuneration to agents for concluding agreements with corporate clients and individuals and brokerage fees for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortised over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

Notes to the Consolidated Financial Statements Continued

31 December 2016

3 Significant Accounting Policies Continued

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

Insurance provisions

- ***Provision for unearned premiums.*** Provision for unearned premiums (UEPR) represents the proportion of premiums written that relate to the unexpired term of policies in force as at the reporting date, calculated on a time apportionment basis. UEPR is recognised within liabilities on a gross basis.
- ***Loss provisions.*** Loss provisions represent the accumulation of estimates for ultimate losses and include outstanding claims provision ("OCP") and provision for losses incurred but not yet reported ("IBNR"). Loss provisions are recognised within liabilities on a gross basis. Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the reporting date.
- The estimation is made on the basis of information received by the Group during settlement of the insured event, including information received after the reporting date. IBNR is determined by the Group by line of business using actuarial methods, and includes assumptions based on prior years' claims and claims handling experience. IBNR is calculated for each occurrence period as the difference between the projected maximum amount of future payments resulting from the events that occurred during the period and the amount of future payments resulting from the event already reported but not settled at the reporting date within the same period.
- The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss and other comprehensive income as they arise. Loss provisions are estimated on an undiscounted basis due to relatively quick pattern of claims notification and payment.

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 2016 the rate of exchange used for translating foreign currency balances was USD 1 = RR 60.6569 (2015: USD 1 = RR 72.8827), and the average rate of exchange was USD 1 = RR 67.0508 (2015: USD 1 = RR 60.7913).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

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

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

Segment reporting. 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.

Changes in presentation. The management of the Group made a decision to present consolidated financial information for the year ended 2016 in millions of Russian Roubles (RR). The corresponding figures have been adjusted accordingly. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The effect of reclassifications for presentation purposes was as follows on amounts in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015:

Expenses on deposit insurance were reallocated from administrative expenses to a separate line within consolidated statement of profit or loss and other comprehensive income:

In millions of RR	As originally presented	Reclassification	As reclassified
Expenses on deposits insurance	-	(258)	(258)
Administrative and other operating expenses	(7,539)	258	(7,281)

Expenses on deposit insurance were reallocated from administrative expenses to a separate line within consolidated statement of cash flows:

In millions of RR	As originally presented	Reclassification	As reclassified
Expenses on deposits insurance paid	-	(222)	(222)
Administrative and other operating expenses paid	(3,392)	222	(3,170)

The management of the Group made a detailed review of the components that make up interest income and identified two types of commissions (insurance fee and sms fee) which now have more characteristics of being service fees than being part of the effective interest income of the loans. The management considers that the reclassification of these commissions to Fee and commission income will result in a more reliable and relevant presentation of the financial information and is more consistent with the market practice of many other banks. The reclassification does not result in any change to the amount of income recognised in respect of these fees in any one period. The management also reviewed its approach to the classification of foreign currency exchange transactions fee, which represents a commission for foreign exchange transactions of the Group's clients. They concluded it was appropriate to reclassify this from Gains from operations with foreign currencies to Fee and commission income.

The accounting policy for the repayments of written-off loans was changed during the year ended 31 December 2016.

The effect of reclassifications was as follows on amounts in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015:

In millions of RR	As originally presented	Reclassification	As reclassified
Interest income	40,773	(3,211)	37,562
Net gains/(losses) from operations with foreign currencies	170	(406)	(236)
Fee and commission income	1,371	3,404	4,775
Provision for loan impairment	(14,908)	213	(14,695)

Notes to the Consolidated Financial Statements Continued

31 December 2016

3 Significant Accounting Policies Continued

The effect of reclassifications was as follows on amounts in the consolidated statement of cash flows for the year ended 31 December 2015:

In millions of RR	As originally presented	Reclassification	As reclassified
Interest received	38,057	(2,998)	35,059
Cash received from trading in foreign currencies	2,917	(406)	2,511
Fee and commissions received	1,371	3,404	4,775

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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 instalment. 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 estimating 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 the 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 are given the most weight in calculating the provision for impairment. This allows the Group to apply most recent data to estimate losses on loans to individuals as the latest trends are accounted for, and to decrease the default probabilities volatility. The loan loss provision includes adjustment for the expected future recovery of impaired loans based on conservative sampling of historical data.

As at 31 December 2016 the positive effect of the above adjustment on provision for loan impairment is approximately RR 492 millions (2015: RR 256 million). To the extent that the incurred losses as at 31 December 2016 resulting from future cash flows vary by 1.0% (2015: 1.0%) from the calculated estimate, the profit would be approximately RR 1,204 million (2015: RR 1,011 million) higher or lower.

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 33.

5 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group:

- 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).
- 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).
- Agriculture: Bearer plants Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued on 18 December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued on 18 December 2014 and effective for annual periods on or after 1 January 2016).
- Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (issued on 21 November 2013 and effective for annual periods beginning on or after 1 February 2015).
- Annual Improvements to IFRSs 2012 (issued on 12 December 2013 and effective for annual periods beginning on or after 1 February 2015).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended 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.
- 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.

The Group is working on implementing the standard and the adoption of IFRS 9 is expected to have a significant impact on equity upon implementation that currently cannot be reliably estimated. The implementation of this standard has no impact on statutory regulatory capital requirements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). 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.

Notes to the Consolidated Financial Statements Continued

31 December 2016

6 New Accounting Pronouncements Continued

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Disclosure Initiative Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach). The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued.

In addition, the amended Standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—IAS 39.

The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.

Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28). The improvements impact three standards. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.The Group is currently assessing the impact of these new standards on its financial statements.

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

- 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 a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In millions of RR	31 December 2016	31 December 2015
Cash on hand	26	35
Cash balances with the CBRF (other than mandatory reserve deposits)	6,178	5,315
Placements with other banks and organizations with original maturities of less than three months, including:		
- AA- to AA+ rated	986	1,179
- A- to A+ rated	-	1
- BBB- rated	8,164	6,807
- BB- to BB+ rated	328	49
- B- to B+ rated	2	66
Unrated	513	237
Total Cash and Cash Equivalents	**16,197**	**13,689**

The Group evaluates the quality of cash and cash equivalents and all other assets with rated organizations in the consolidated statement of financial position 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 well-established Russian organizations with no credit rating set by Fitch international ratings, Standard & Poor's or Moody's ratings. There is no history of default of these organizations.

Placements with other banks and organizations with original maturities of less than three months include placements under reverse sale and repurchase agreements in the amount of RR 6,187 million as at 31 December 2016 (31 December 2015: RR 5,733 million).

Cash and cash equivalents are neither impaired nor past due. Refer to Note 35 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 are disclosed in Note 31.

8 Securities at fair value through profit or loss

In millions of RR	31 December 2016	31 December 2015
Corporate bonds	164	-
Total securities at fair value through profit or loss	**164**	**-**

Analysis by credit quality of debt securities outstanding at 31 December 2016 is as follows:

In millions of RR	Corporate bonds	Total
Neither past due nor impaired		
A- rated	61	61
BB- to BB+ rated	103	103
Total neither past due nor impaired securities at fair value through profit or loss	**164**	**164**

Interest rate, maturity and geographical risk concentration analyses of securities at fair value through profit or loss are disclosed in Note 31.

Notes to the Consolidated Financial Statements Continued

31 December 2016

9 Loans and Advances to Customers

In millions of RR	31 December 2016	31 December 2015
Loans to individuals:		
Credit card loans	110,440	90,382
Instalment loans	6,554	8,283
Cash loans	2,160	1,724
POS loans	1,281	692
Total loans and advances to customers before impairment	**120,435**	**101,081**
Less: Provision for loan impairment	(17,523)	(19,014)
Total loans and advances to customers	**102,912**	**82,067**

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 ("instalment loans").

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

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

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 2016	31 December 2015
Credit card limits		
Up to 20 RR thousand	454,610	441,854
20-40 RR thousand	351,823	334,214
40-60 RR thousand	291,083	240,459
60-80 RR thousand	273,350	200,194
80-100 RR thousand	210,229	171,692
100-120 RR thousand	185,614	144,918
120-140 RR thousand	311,466	266,349
More than 140 RR thousand	137,260	71,613
Total cards	**2,215,435**	**1,871,293**

Table above includes credit cards less than 180 days overdue.

Movements in the provision for loan impairment for the year ended 31 December 2016 are as follows:

In millions of RR	As at 31 December 2015	Sales of impaired loans	Amounts written-off during the period	Provision for impairment during the period	As at 31 December 2016
Loans to individuals:					
Credit card loans	14,487	(950)	(7,328)	7,349	13,558
Instalment loans	4,093	(80)	(2,181)	1,586	3,418
Cash loans	272	(3)	(158)	318	429
POS loans	162	(4)	(134)	94	118
Total provision for loan impairment	**19,014**	**(1,037)**	**(9,801)**	**9,347**	**17,523**

The provision for impairment during the year ended 31 December 2016 presented in the table above differs from the amount presented in the profit or loss for the year due to RR 961 million, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the period.

Movements in the provision for loan impairment for the year ended 31 December 2015 are as follows:

In millions of RR	As at 31 December 2014	Sales of impaired loans	Amounts written-off during the period	Provision for impairment during the period	As at 31 December 2015
Loans to individuals:					
Credit card loans	15,609	(371)	(12,080)	11,329	14,487
Instalment loans	3,134	(59)	(2,166)	3,184	4,093
Cash loans	458	-	(420)	234	272
POS loans	127	-	(126)	161	162
Total provision for loan impairment	**19,328**	**(430)**	**(14,792)**	**14,908**	**19,014**

The provision for impairment the year ended 31 December 2015 presented in the table above differs from the amount presented in the profit or loss for the period due to RR 213 million, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the period.

In 2016 the Group sold impaired loans to third parties (external debt collection agencies) with a gross amount of RR 1,057 million (2015: RR 439 million), and provision for impairment of RR 1,037 million (2015: RR 430 million). 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 48 million (2015: RR 28 million).

Analysis of loans by credit quality is as follows:

	31 December 2016				31 December 2015			
In millions of RR	**Credit card loans**	**Instalment loans**	**Cash loans**	**POS loans**	**Credit card loans**	**Instalment loans**	**Cash loans**	**POS loans**
Neither past due nor impaired:								
- *new*	3,370	-	1,144	191	2,166	-	348	130
Loans collectively assessed for impairment (gross):	-	-	-	-				
- *non-overdue*	91,519	4,423	794	963	72,610	5,460	1,097	392
- *less than 30 days overdue*	2,517	453	27	23	2,347	626	42	16
- *30 to 90 days overdue*	2,255	373	25	22	2,622	681	40	21
- *90 to 180 days overdue*	1,901	395	30	25	2,796	583	50	24
- *180 to 360 days overdue*	2,367	868	84	52	3,516	933	147	109
over 360 days overdue	469	42	56	5	-	-	-	-
- *loans in courts*	6,042	-	-	-	4,325	-	-	-
Less: Provision for loan impairment	(13,558)	(3,418)	(429)	(118)	(14,487)	(4,093)	(272)	(162)
Total loans	**96,882**	**3,136**	**1,731**	**1,163**	**75,895**	**4,190**	**1,452**	**530**

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

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

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 35 for the estimated fair value of loans and advances to customers.

Interest rate, maturity and geographical risk concentration analyses of loans and advances to customers are disclosed in Note 31. Information on related party balances is disclosed in Note 37.

Notes to the Consolidated Financial Statements Continued

31 December 2016

10 Investment Securities Available for Sale

In millions of RR	31 December 2016	31 December 2015
Corporate bonds	31,333	15,624
Russian government bonds	1,953	312
Total investment securities available for sale	**33,286**	**15,936**

Analysis by credit quality of debt securities outstanding at 31 December 2016 is as follows:

In millions of RR	Corporate bonds	Russian government bonds	Total
Neither past due nor impaired			
BBB- to A- rated	14,210	1,483	15,693
BB- to BB+ rated	16,607	470	17,077
B- to B+ rated	516	-	516
Total neither past due nor impaired investment securities available for sale	**31,333**	**1,953**	**33,286**

Analysis by credit quality of debt securities outstanding at 31 December 2015 is as follows:

In millions of RR	Corporate bonds	Russian government bonds	Total
Neither past due nor impaired			
BBB rated	7,481	54	7,535
BB- to BB+ rated	7,687	258	7,946
B- to B+ rated	455	-	455
Total neither past due nor impaired investment securities available for sale	**15,623**	**312**	**15,936**

The movements in investment securities available for sale for the period ended 31 December 2016 are as follows:

In millions of RR	2016
Carrying amount at 1 January	15,936
Purchases	62,644
Redemption of investment securities available for sale	(38,335)
Disposal of investment securities available for sale	(8,492)
Interest income accrued on investment securities available for sale (Note 21)	2,379
Interest received	(2,074)
Receipt under Sale and Repurchase agreements	2,344
Pledged under Sale and Repurchase agreements	-
Foreign exchange loss on investment securities available for sale in foreign currency	(1,902)
Revaluation through other comprehensive income	786
Carrying amount at 31 December	**33,286**

The movements in investment securities available for sale for the period ended 31 December 2015 are as follows:

In millions of RR	2015
Carrying amount at 1 January	217
Purchases	13,860
Redemption of investment securities available for sale	(2,309)
Disposal of investment securities available for sale	(738)
Interest income accrued on investment securities available for sale and repurchase agreements (Note 21)	1,007
Interest received	(880)
Receipt under Sale and Repurchase agreements	5,492
Pledged under Sale and Repurchase agreements	(1,877)
Foreign exchange gain on investment securities available for sale in currency	702
Revaluation through other comprehensive income	462
Carrying amount at 31 December	**15,936**

Interest rate, maturity and geographical risk concentration analyses of investment securities available for sale are disclosed in Note 31.

11 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 2016 and 2015) as a guarantee deposit in favour of MasterCard and Visa. The amount of deposit is calculated as a percentage of monthly credit card transactions turnovers.

12 Tangible Fixed and Intangible Assets

In millions of RR	Building	Equipment	Leasehold im-prove-ments	Vehicles	Total tangible fixed assets	Intangible assets
Cost						
At 31 December 2014	**-**	**800**	**543**	**41**	**1,384**	**1,707**
Additions	1,564	174	-	-	1,738	477
Disposals	-	(76)	-	(2)	(78)	-
At 31 December 2015	**1,564**	**898**	**543**	**39**	**3,044**	**2,184**
Additions	2,452	397	7	-	2,856	664
Disposals	-	(10)	(92)	-	(102)	-
At 31 December 2016	**4,016**	**1,285**	**458**	**39**	**5,798**	**2,848**
Depreciation and amortisation						
At 31 December 2014	**-**	**(522)**	**(307)**	**(11)**	**(840)**	**(582)**
Charge for the period (Note 26)	-	(147)	(74)	(8)	(229)	(183)
Disposals	-	75	-	2	77	-
At 31 December 2015	**-**	**(594)**	**(381)**	**(17)**	**(992)**	**(765)**
Charge for the period (Note 26)	(10)	(157)	(79)	(6)	(252)	(263)
Disposals	-	10	92	-	102	-
At 31 December 2016	**(10)**	**(741)**	**(368)**	**(23)**	**(1,142)**	**(1,028)**
Net book value						
At 31 December 2015	**1,564**	**304**	**162**	**22**	**2,052**	**1,419**
At 31 December 2016	**4,006**	**544**	**90**	**16**	**4,656**	**1,820**

Intangible assets acquired during the years ended 31 December 2016 and 2015 mainly represent accounting software, retail banking software, insurance software, licenses and development of software. Intangible assets also include the license for insurance operations.

During 2016 the Group acquired an office building for its own use for RR 1,932 million (VAT included). The building was put into use in September 2016.

Notes to the Consolidated Financial Statements Continued

31 December 2016

13 Other Financial and Non-financial Assets

In millions of RR	31 December 2016	31 December 2015
Other Financial Assets		
Settlement of operations with plastic cards	6,679	3,355
Trade and other receivables	350	127
Other	150	17
Total Other Financial Assets	**7,179**	**3,499**
Other Non-Financial Assets		
Prepaid expenses	1,112	1,701
Other	136	79
Total Other Non-Financial Assets	**1,248**	**1,780**

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

Prepaid expenses consist of prepayments for TV advertising, postal services and office rent.

Other financial assets are not impaired and not past due. Refer to Note 35 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 31.

14 Due to Banks

In millions of RR	31 December 2016	31 December 2015
Due to other banks	489	251
Short-term loan from CBRF	-	4,014
Sale and repurchase agreements with CBRF	-	2,127
Total due to banks	**489**	**6,392**

On 14 October 2015 the Group raised two loans from CBRF in the total amount of RR 2,000 million with contractual interest rate of 12.75%. The loans were fully repaid on 12 January 2016.

On 5 November 2015 the Group raised two loans from CBRF in the total amount of RR 2,000 million with contractual interest rate of 12.75%. The loans were fully repaid on 3 February 2016.

Refer to Note 35 for the disclosure of the fair value of amounts due to banks.

15 Customer Accounts

In millions of RR	31 December 2016	31 December 2015
Legal entities		
- Current/settlement accounts of corporate entities	5,441	518
- Term deposits of corporate entities	368	375
Individuals		
- Current/settlement accounts of individuals	46,729	24,506
- Term deposits of individuals	72,018	63,944
Total Customer Accounts	**124,556**	**89,343**

Refer to Note 35 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 31. Information on related party balances is disclosed in Note 37.

16 Debt Securities in Issue

In millions of RR	Date of maturity	31 December 2016	31 December 2015
RR denominated bonds issued in June 2016	24 June 2021	2,986	-
Euro-Commercial Paper issued in December 2015	20 June 2016	-	1,877
RR denominated bonds issued in May 2013	24 May 2016	-	28
Total Debt Securities in Issue		**2,986**	**1,905**

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

On 2 December 2015 the Group issued RR denominated Euro-Commercial Paper (ECP) with a nominal value of RR 2,000 million with a discount of 7.2% maturing on 20 June 2016. On 20 June 2016 the Group redeemed all outstanding bonds of this issue at maturity.

On 28 May 2013 the Group issued RR denominated bonds with a nominal value of RR 3,000 million at 10.25% coupon rate maturing on 24 May 2016. On 24 May 2016 the Group redeemed all outstanding bonds of this issue at maturity.

All bonds issued by the Group are traded on OJSC Moscow Exchange. Refer to Note 35 for the disclosure of the fair value of debt securities in issue. Interest rate analyses of debt securities in issue are disclosed in Note 31.

17 Subordinated Debt

As at 31 December 2016 the carrying value of the subordinated debt was RR 11,514 million (31 December 2015: RR 14,609 million). On 6 December 2012 and 18 February 2013 respectively the Group issued USD denominated subordinated bonds with a nominal value of USD 125 million with zero premium and USD 75 million at a premium of 7.0% respectively, at 14.0% coupon rate (applicable to both tranches) maturing on 6 June 2018. The 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 31. Refer to Note 35 for the disclosure of fair value of subordinated debt.

18 Insurance Provisions

In millions of RR	31 December 2016	31 December 2015
Insurance Provisions		
Provision for unearned premiums	300	168
Loss provisions	467	347
Total Insurance Provisions	**767**	**515**

Movements in provision for unearned premiums for the year ended 31 December 2016 and 2015 are as follows:

	2016			2015		
In millions of RR	Gross provision	Reinsurer's share of provision	Provision net of reinsurance	Gross provision	Reinsurer's share of provision	Provision net of reinsurance
Provision for unearned premiums as at 1 January	**169**	**-**	**169**	**63**	**-**	**63**
Change in provision, gross	131	-	131	105	-	105
Change in reinsurers' share of provision	-	-	-	-	-	-
Provision for unearned premiums as at 31 December	**300**	**-**	**300**	**168**	**-**	**168**

Notes to the Consolidated Financial Statements Continued

31 December 2016

18 Insurance Provisions Continued

Movements in loss provisions for the year ended 31 December 2016 and 2015 are as follows:

In millions of RR	OCP and IBNR	URP	Provision for claims handling expenses	Total loss provisions
Loss provisions as at 1 January 2015	**178**	**3**	**4**	**185**
Change in provision	107	71	30	208
Netting with deferred acquisition costs	-	(46)	-	(46)
Loss provisions as at 31 December 2015	**285**	**28**	**34**	**347**
Change in provision	83	72	25	180
Netting with deferred acquisition costs	-	(60)	-	(60)
Loss provisions as at 31 December 2016	**368**	**40**	**59**	**467**

19 Other Financial and Non-financial Liabilities

In millions of RR	31 December 2016	31 December 2015
Other Financial Liabilities		
Settlement of operations with plastic cards	2,031	622
Trade payables	1,052	638
Other	29	36
Total Other Financial Liabilities	**3,112**	**1,296**
Other Non-financial Liabilities		
Accrued administrative expenses	682	381
Taxes payable other than income tax	646	406
Other	292	31
Total Other Non-financial Liabilities	**1,620**	**818**

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

Accrued administrative expenses are mainly represented by accrued staff costs.

Interest rate, maturity and geographical risk concentration analyses of other financial liabilities are disclosed in Note 31. Refer to Note 35 for disclosure of fair value of other financial liabilities.

20 Share Capital

In millions of RR except for the number of shares	Number of authorised shares	Number of outstanding shares	Ordinary shares	Share premium	Treasury shares	Total
At 1 January 2015	**190,479,500**	**182,638,825**	**188**	**8,623**	**(5)**	**8,806**
GDRs buy-back	-	-	-	-	(324)	(324)
Shares sold under ESOP	-	-	-	-	1	1
At 31 December 2015	**190,479,500**	**182,638,825**	**188**	**8,623**	**(328)**	**8,483**
GDRs buy-back	-	-	-	-	(1,246)	(1,246)
GDRs and shares transferred under MLTIP and ESOP	-	-	-	-	101	101
At 31 December 2016	**190,479,500**	**182,638,825**	**188**	**8,623**	**(1,473)**	**7,338**

During the year ended 31 December 2016 the Group repurchased 5,659,853 GDRs at amount of RR 1,246 million at market prices.

As at 31 December 2016 treasury shares represent GDRs of the Group repurchased from the market for the purposes of MLTIP.

As at 31 December 2015 treasury shares represent GDRs of the Group repurchased from the market for the purposes of MLTIP and shares issued for the purposes of ESOP. Refer to Note 37.

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, Equity LTIP and repurchased under MLTIP. Refer to Note 37.

Earnings per share are calculated as follows:

In millions of RR	2016	2015
Profit for the year attributable to ordinary shareholders	11,011	1,851
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation (thousands)	174,508	178,175
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation (thousands)	178,937	178,584
Basic earnings per ordinary share (expressed in RR per share)	**63.10**	**10.38**
Diluted earnings per ordinary share (expressed in RR per share)	**61.54**	**10.36**

Information on dividends is disclosed in Note 29.

Notes to the Consolidated Financial Statements Continued

31 December 2016

21 Net margin

In millions of RR	2016	2015
Interest income		
Loans and advances to customers, including:		
Credit card loans	42,853	34,491
Instalment loans	896	922
POS loans	516	331
Cash loans	561	612
Interest income accrued on investment securities available for sale and repurchase receivables	2,379	1,090
Placements with other banks	577	116
Other interest income	42	-
Total Interest Income	**47,824**	**37,562**
Interest expense		
Customer accounts	10,606	9,204
Subordinated debt	1,952	1,744
Due to banks	487	488
RR denominated bonds	180	228
Euro-Commercial Paper	123	22
Eurobonds	-	1,021
Total Interest Expense	**13,348**	**12,707**
Expenses on deposit insurance	450	258
Net margin	**34,026**	**24,597**

22 Customer Acquisition Expense

In millions of RR	2016	2015
Marketing and advertising	3,607	1,828
Staff costs	2,631	1,584
Credit bureaux	269	175
Telecommunication expenses	144	68
Other acquisition	10	7
Total customer acquisition expenses	**6,661**	**3,662**

Customer acquisition expenses represent expenses paid by the Group on services related to origination of card customers. 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 state pension fund in the amount of RR 565 million (2015: RR_322 million).

23 Net Gains from Operations with Foreign Currencies

In millions of RR	2016	2015
Net gains less losses from derivative revaluation	2,145	1,918
Foreign exchange translation losses less gains	(2,347)	(1,881)
Net gains/(losses) from trading in foreign currencies	441	(273)
Net gains/(losses) from operations with foreign currencies	**239**	**(236)**

24 Insurance Claims Incurred

In millions of RR	2016	2015
Claims paid	347	237
Change in loss provision	120	162
Claims handling expenses	23	12
Total insurance claims incurred	**490**	**411**

Staff and administrative expense for insurance operations are included in Note 26.

25 Fee and Commission Income and Expense

In millions of RR	2016	2015
Fee and commission income		
Credit protection fee	3,603	2,593
Merchant acquiring commission	1,256	551
SMS fee	898	480
Interchange fee	898	405
Foreign currency exchange transactions fee	483	406
Card to card commission	269	65
Court fees reimbursement	232	-
Cash withdrawal fee	225	109
Legal entities current accounts commission	150	-
Placement fee	112	60
Other fees receivable	275	106
Total fee and commission income	**8,401**	**4,775**

Credit protection fee income represents fee for distributing credit insurance to borrowers of the Group. Sms fee income includes fee for sms notification of borrowers of the Group which amounted to RR 730 million (2015: RR 405 million).

In millions of RR	2016	2015
Fee and commission expense		
Payment systems	3,007	1,314
Service fees	450	398
Banking and other fees	55	56
Court fees reimbursement	-	193
Total fee and commission expense	**3,512**	**1,961**

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

Notes to the Consolidated Financial Statements Continued

31 December 2016

26 Administrative and Other Operating Expenses

In millions of RR	Note	2016	2015
Staff costs		7,511	4,705
Taxes other than income tax		1,221	722
Operating lease expense for premises and equipment		541	481
Information services		411	255
Communication services		320	242
Amortization of intangible assets	12	263	183
Depreciation of fixed assets	12	252	229
Professional services		154	134
Stationery		139	81
Security expenses		129	78
Other administrative expenses		380	171
Total administrative and other operating expenses		**11,321**	**7,281**

The expenses stated above include fees of RR 6.5 millions (2015: RR 6.5 millions) for audit services, RR 4.3 million (2015: RR 1 million) for tax consultancy services. During 2016 no expenses were incurred for other non-audit assurance services (2015: RR 0.5 million).

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

In millions of RR	2016	2015
Statutory social contribution to the pension fund	1,076	817
Share-based remuneration	855	93

The average number of employees employed by the Group during the reporting period was 10,217 (2015: 6,604).

27 Other Operating Income

In millions of RR	2016	2015
Income from marketing services	503	93
Subrogation fee	47	29
Insurance agency fees	4	7
Other operating income	104	80
Total other operating income	**658**	**209**

28 Income Taxes

Income tax expense comprises the following:

In millions of RR	2016	2015
Current tax	(4,666)	(61)
Deferred tax	1,113	(654)
Income tax expense for the year	**(3,553)**	**(715)**

The income tax rate applicable to the majority of the Group's income is 20% (2015: 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% (2015: 12.5%).

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

In millions of RR	2016	2015
Profit before tax	**14,564**	**2,566**
Theoretical tax expense at statutory rate of 20% (2015: 20%)	(2,913)	(513)
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	(350)	(200)
- Other including dividend tax	(299)	1
Utilisation of previously unrecognised tax loss carry forwards	49	-
Effects of different tax rates in other countries:		
- Financial result of parent entity at 12.5% (2015: 12.5%)	(40)	(3)
Income tax expenses for the year	**(3,553)**	**(715)**

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% (2015: 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.

In millions of RR	**31 December 2015**	**(Charged)/credited to profit or loss**	**Charged to OCI**	**31 December 2016**
Tax effect of deductible and taxable temporary differences				
Loans and advances to customers	73	245	-	318
Tangible fixed assets	(57)	(189)	-	(246)
Intangible assets	(219)	(134)	-	(353)
Revaluation of investment securities available for sale and repurchase receivables	(34)	8	(114)	(140)
Securities at Fair Value through Profit or Loss	-	(1)	-	(1)
Accrued expenses	229	(3)	-	226
Customer accounts	(85)	46	-	(39)
Debt securities in issue	12	(23)	-	(11)
Financial derivatives	(2,268)	1,724	-	(544)
Insurance provision	(16)	21	-	5
Tax loss carried forward	581	(581)	-	-
Net deferred tax liabilities	**(1,784)**	**1,113**	**(114)**	**(785)**

In millions of RR	**31 December 2014**	**(Charged)/credited to profit or loss**	**Charged to OCI**	**31 December 2015**
Tax effect of deductible and taxable temporary differences				
Loans and advances to customers	148	(75)	-	73
Tangible fixed assets	(51)	(6)	-	(57)
Intangible assets	(165)	(54)	-	(219)
Revaluation of investment securities available for sale and repurchase receivables	56	-	(90)	(34)
Accrued expenses	257	(28)	-	229
Customer accounts	(57)	(28)	-	(85)
Debt securities in issue	5	7	-	12
Financial derivatives	(1,776)	(492)	-	(2,268)
Due to banks	(2)	2	-	-
Insurance provision	(14)	(2)	-	(16)
Tax loss carried forward	559	22	-	581
Net deferred tax liabilities	**(1,040)**	**(654)**	**(90)**	**(1,784)**

Notes to the Consolidated Financial Statements Continued

31 December 2016

29 Dividends

In millions of RR	**2016**
Dividends payable at 1 January	-
Dividends declared during the year	4,506
Dividends paid during the year	(4,227)
Foreign exchange loss on dividends payable	(112)
Dividends payable at 31 December	**167**
Dividends per share declared during the year (in RR)	**24.67**
Dividends per share declared during the year (in USD)	**0.38**
Dividends per share paid during the year (in RR)	**23.15**
Dividends per share paid during the year (in USD)	**0.38**

On 16 May 2016 the Board of Directors declared a dividend of RR 11.04 (USD 0.17) per share/per GDR amounting to RR 2,016 million (USD 31 million) due for payment on 6 June 2016.

On 29 November 2016 the Board of Directors declared a dividend of RR 13.63 (USD 0.21) per share/per GDR amounting to RR 2,490 million (USD 38.5 million) due for payment on 19 December 2016.

In 2016 all dividends were declared and paid in USD. No dividends were declared and paid in 2015.

Dividends payable at 31 December 2016 in the amount of RR 167 million are related to treasury shares acquired under MLTIP and included in other non-financial liabilities.

30 Segment Analysis

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

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

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

- Retail banking – representing customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans, legal entities accounts and brokerage services.
- 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 represents different types of businesses.

Measurement of operating segment profit or loss, assets and liabilities

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

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2016 is set out below:

In millions of RR	**Retail banking**	**Insurance operations**	**Eliminations**	**Total**
Cash and cash equivalents	15,720	960	(483)	16,197
Mandatory cash balances with the CBRF	1,218	-	-	1,218
Securities at Fair Value through Profit or Loss	-	164	-	164
Due from other banks	347	-	-	347
Loans and advances to customers	102,912	-	-	102,912
Financial derivatives	2,718	-	-	2,718
Investment securities available for sale	33,286	-	-	33,286
Current income tax assets	681	21	-	702
Guarantee deposits with payment systems	2,924	-	-	2,924
Tangible fixed assets	4,653	3	-	4,656
Intangible assets	1,510	310	-	1,820
Other financial assets	7,074	180	(75)	7,179
Other non-financial assets	1,019	229	-	1,248
Total reportable segment assets	**174,062**	**1,867**	**(558)**	**175,371**
Due to banks	489	-	-	489
Customer accounts	125,039	-	(483)	124,556
Debt securities in issue	2,986	-	-	2,986
Current income tax liabilities	24	-	-	24
Deferred income tax liabilities	765	20	-	785
Subordinated debt	11,514	-	-	11,514
Insurance provisions	-	767	-	767
Other financial liabilities	3,122	65	(75)	3,112
Other non-financial liabilities	1,596	24	-	1,620
Total reportable segment liabilities	**145,535**	**876**	**(558)**	**145,853**

In millions of RR	**Retail banking**	**Insurance operations**	**Eliminations**	**Total**
2016				
External revenues				
Interest income	47,729	95	-	47,824
Insurance premiums earned	-	1,348	-	1,348
Gain from sale of impaired loans	48	-	-	48
Fee and commission income	8,654	-	(253)	8,401
Net gains from operations with foreign currencies	239	-	-	239
Net gains from investment securities available for sale	214	-	-	214
Other operating income	658	0	-	658
Total revenues	**57,542**	**1,443**	**(253)**	**58,732**

Notes to the Consolidated Financial Statements Continued

31 December 2016

30 Segment Analysis Continued

In millions of RR	Retail banking	Insurance operations	Eliminations	Total
Interest expense	(13,348)	-	-	(13,348)
Expenses on deposit insurance	(450)	-	-	(450)
Provision for loan impairment	(8,386)	-	-	(8,386)
Customer acquisition expense	(6,391)	(523)	253	(6,661)
Insurance claims incurred	-	(490)	-	(490)
Fee and commission expense	(3,512)	-	-	(3,512)
Administrative and other operating expenses	(10,771)	(550)	-	(11,321)
Segment result	**14,684**	**(120)**	**-**	**14,564**

Segment information for the reportable segments for the year ended 31 December 2015 is set out below:

In millions of RR	Retail banking	Insurance operations	Eliminations	Total
Cash and cash equivalents	13,666	386	(363)	13,689
Mandatory cash balances with the CBRF	675	-	-	675
Due from other banks	-	726	-	726
Loans and advances to customers	82,067	-	-	82,067
Financial derivatives	11,345	-	-	11,345
Investment securities available for sale	15,936	-	-	15,936
Repurchase receivables	2,344	-	-	2,344
Current income tax assets	713	30	-	743
Guarantee deposits with payment systems	3,377	-	-	3,377
Tangible fixed assets	2,050	2	-	2,052
Intangible assets	1,090	329	-	1,419
Other financial assets	3,455	66	(22)	3,499
Other non-financial assets	1,664	116	-	1,780
Total reportable segment assets	**138,382**	**1,655**	**(385)**	**139,652**
Due to banks	6,392	-	-	6,392
Customer accounts	89,706	-	(363)	89,343
Debt securities in issue	1,905	-	-	1,905
Current income tax liabilities	36	-	-	36
Deferred income tax liabilities	1,753	31	-	1,784
Subordinated debt	14,609	-	-	14,609
Financial derivatives	8	-	-	8
Insurance provisions	-	515	-	515
Other financial liabilities	1,246	72	(22)	1,296
Other non-financial liabilities	805	13	-	818
Total reportable segment liabilities	**116,460**	**631**	**(385)**	**116,706**

In millions of RR	Retail banking	Insurance operations	Eliminations	Total
2015				
External revenues				
Interest income	37,506	56	-	37,562
Insurance premiums earned	284	1,170	(284)	1,170
Gain from sale of impaired loans	28	-	-	28
Fee and commission income	4,775	-	-	4,775
Net gains from operations with foreign currencies	33	-	-	33
Other operating income	181	31	(3)	209
Total revenues	**42,807**	**1,257**	**(287)**	**43,777**
Interest expense	(12,707)	-	-	(12,707)
Expenses on deposit insurance	(258)	-	-	(258)
Provision for loan impairment	(14,695)	-	-	(14,695)
Customer acquisition expense	(3,394)	(552)	284	(3,662)
Insurance claims incurred	-	(411)	-	(411)
Fee and commission expense	(1,961)	-	-	(1,961)
Net losses from operations with foreign currencies	(236)	-	-	(236)
Administrative and other operating expenses	(6,996)	(288)	3	(7,281)
Segment result	**2,560**	**6**	**-**	**2,566**

Depreciation charges for 2016 included in administrative and other operating expenses in the amount of RR 247 million and RR 1 million (2015: RR 228 million and RR 0.5 million) relate to the Bank and to the Insurance Company, correspondingly. Amortisation for 2016 included in the administrative and other operating expenses in the amount of RR 219 million and RR 44 million (2015: RR 137 million and RR 32 million) relate to the Bank and to the Insurance Company, correspondingly.

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

In millions of RR	2016	2015
Total revenues for reportable segments	58,985	44,064
Intercompany transactions	(253)	(287)
Total consolidated revenues	**58,732**	**43,777**

Total consolidated revenues comprise interest income, income from insurance operations, gain from sale of impaired loans, fee and commission income, net gains from operations with foreign currencies and other operating income.

In millions of RR	2016	2015
Total reportable segment result	14,564	2,566
Profit before tax	**14,564**	**2,566**

In millions of RR	31 December 2016	31 December 2015
Total reportable segment assets	175,929	140,037
Intercompany balances	(558)	(385)
Total consolidated assets	**175,371**	**139,652**

In millions of RR	31 December 2016	31 December 2015
Total reportable segment liabilities	146,411	117,091
Intercompany balances	(558)	(385)
Total consolidated liabilities	**145,853**	**116,706**

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31 Financial and Insurance 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 and Insurance Company. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary 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 33). 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;
- Age 18 to 70 inclusive;
- Availability of a cell-phone;
- Permanent employment;
- Permanent income;
- Permanent or temporary place of residence.

For cash loans, minimum requirements are listed below:

- There should be no overdue loans balance in other banks according to credit bureau information;
- Cash loan volumes range within RR 50 thousand and RR 1,000 thousand.

For POS loans minimum requirements are listed below:

- The requested loan amount should exceed RR 3 thousand;
- The requested loan term is from 3 to 24 months;
- The amount of one POS loan does not exceed RR 100 thousand.

A credit decision process includes:

- the first step includes validation of the application data. The system checks the validity of the data provided (addresses, telephone numbers, age, if the applicant already uses any other products of the Bank).
- 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 eff

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

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

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

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

When a customer experiences serious difficulties with his/her current debt servicing, he/she may be offered loan restructuring. In this case the Bank stops accrual of interest, commissions and fines and the debt amount is restructured according to a fixed instalment payment plan with not more than 36 equal monthly payments. 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 of the Group arise from open positions in (a) currency and (b) interest rate, both of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

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

	At 31 December 2016				At 31 December 2015			
In millions of RR	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
RR	140,219	(113,892)	(2,766)	23,561	109,307	(83,612)	(5,230)	20,465
USD	18,182	(23,081)	5,966	1,067	8,992	(26,506)	16,798	(716)
Euro	5,588	(5,264)	(484)	(160)	4,014	(3,775)	(230)	9
GBP	238	(887)	2	(647)	-	-	-	-
Total	**164,227**	**(143,124)**	**2,718**	**23,821**	**122,313**	**(113,893)**	**11,338**	**19,758**

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31 Financial and Insurance Risk Management Continued

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 31. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities.

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

In millions of RR	At 31 December 2016 Impact on profit or loss	Impact on equity (pre-tax)	At 31 December 2015 Impact on profit or loss	Impact on equity(pre-tax)
USD strengthening by 20% (2015: by 30%)	213	213	(215)	(215)
USD weakening by 20% (2015: by 30%)	(213)	(213)	215	215
Euro strengthening by 20% (2015: by 30%)	(32)	(32)	3	3
Euro weakening by 20% (2015: by 30%)	32	32	(3)	(3)
GBP strengthening by 20% (2015: by 30%)	(129)	(129)	-	-
GBP weakening by 20% (2015: by 30%)	129	129	-	-

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

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

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

In millions of RR	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
31 December 2016						
Total financial assets	44,524	58,434	22,410	23,356	18,221	166,945
Total financial liabilities	(69,581)	(41,240)	(15,969)	(13,348)	(2,986)	(143,124)
Net interest sensitivity gap at 31 December 2016	**(25,057)**	**17,194**	**6,441**	**10,008**	**15,235**	**23,821**
31 December 2015						
Total financial assets	30,433	51,923	22,119	26,232	2,951	133,658
Total financial liabilities	(38,436)	(43,823)	(15,587)	(16,054)	-	(113,900)
Net interest sensitivity gap at 31 December 2015	**(8,003)**	**8,100**	**6,532**	**10,178**	**2,951**	**19,758**

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

At 31 December 2016, if interest rates at that date had been 200 basis points lower (2015: 500 points lower), with all other variables held constant, profit for the year would have been RR 476 million (2015: RR 988 million) higher, mainly as a result of lower interest expense on variable interest liabilities. Other components of equity would have been RR 476 million (2015: RR 395 million) higher, mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.

If interest rates had been 200 basis points higher (2015: 500 points higher), with all other variables held constant, profit would have been RR 476 million (2015: RR 395 million) lower, mainly as a result of higher interest expense on variable interest liabilities. Other components of equity would have been RR 476 million (2015: RR 988 million) lower, mainly as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale.

The Group monitors interest rates for its financial instruments. The table below summarizes interest rates for the years 2016 and 2015 based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

In % p.a.	2016 RR	USD	EURO	GPB	2015 RR	USD	EURO
Assets							
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities at Fair Value through Profit or Loss	11.0	-	-	-	-	-	-
Loans and advances to customers	48.3	-	-	-	47.5	-	-
Due from banks	9.3	-	-	-	11.4	2.5	-
Investment Securities available for sale	12.4	5.0	-	-	13.9	5.6	-
Repurchase receivables	-	-	-	-	8.5	6.4	-
Liabilities							
Due to banks	-	-	-	-	12.6	2.2	-
Customer accounts	10.9	3.4	3.2	3.3	14.5	4.9	5.0
Debt securities in issue	12.2	-	-	-	14.5	-	-
Subordinated debt	-	14.8	-	-	-	14.8	-

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

Other price risk. The Group is exposed to prepayment risk through providing fixed rate loans, which give the borrower the right to repay the loans early. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2015: no material impact).

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2016 is set out below:

In millions of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	15,211	986	-	-	16,197
Mandatory cash balances with the CBRF	1,218	-	-	-	1,218
Securities at Fair Value through Profit or Loss	164	-	-	-	164
Loans and advances to customers	102,912	-	-	-	102,912
Due from other banks	347	-	-	-	347
Financial derivatives	1,353	1,365	-	-	2,718
Investment securities available for sale	33,286	-	-	-	33,286
Guarantee deposits with payment systems	-	2,924	-	-	2,924
Other financial assets	3,682	3,497	-	-	7,179
Total financial assets	**158,173**	**8,772**	**-**	**-**	**166,945**

In millions of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial liabilities					
Due to banks	489	-	-	-	489
Customer accounts	124,095	-	461	-	124,556
Debt securities in issue	-	-	-	2,986	2,986
Subordinated debt	-	-	-	11,514	11,514
Insurance provisions	467	-	-	-	467
Other financial liabilities	2,782	330	-	-	3,112
Total financial liabilities	**127,833**	**330**	**461**	**14,500**	**143,124**
Unused limits on credit card loans (Note 33)	**54,498**	**-**	**-**	**-**	**54,498**

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31 December 2016

31 Financial and Insurance Risk Management Continued

The geographical concentration of the Group's financial assets and liabilities at 31 December 2015 is set out below:

In millions of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	12,502	1,187	-	-	13,689
Mandatory cash balances with the CBRF	675	-	-	-	675
Loans and advances to customers	82,067	-	-	-	82,067
Due from other banks	726	-	-	-	726
Financial derivatives	9,488	1,857	-	-	11,345
Investment securities available for sale	15,936	-	-	-	15,936
Repurchase receivables	2,344	-	-	-	2,344
Guarantee deposits with payment systems	-	3,377	-	-	3,377
Other financial assets	1,439	2,060	-	-	3,499
Total financial assets	**125,177**	**8,481**	**-**	**-**	**133,658**
Financial liabilities					
Due to banks	6,392	-	-	-	6,392
Customer accounts	88,845	-	498	-	89,343
Debt securities in issue	1,877	-	-	28	1,905
Subordinated debt	-	-	-	14,609	14,609
Financial derivatives	8	-	-	-	8
Insurance provisions	347	-	-	-	347
Other financial liabilities	1,203	93	-	-	1,296
Total financial liabilities	**98,672**	**93**	**498**	**14,637**	**113,900**
Unused limits on credit card loans (Note 33)	**39,661**	**-**	**-**	**-**	**39,661**

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

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group did not have any such significant risk concentrations at 31 December 2016 and 2015.

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 2016 and 2015.

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 78% of activated credit cards are actually used, and the utilisation rate for credit cards is about 80%. The

level of quarterly transactions is generally within 30-35% of the gross credit card portfolio while the level of quarterly repayments is generally 40-45% 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 2016 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities						
Due to banks	489	-	-	-	-	489
Customer accounts	66,592	25,034	17,309	16,621	1,864	127,420
Debt securities in issue	29	57	175	175	3,175	3,611
Subordinated debt	-	-	802	802	12,259	13,863
Other financial liabilities	3,112	-	-	-	-	3,112
Financial derivatives	19	17	34	70	3,378	3,518
Unused limits on credit card loans (Note 33)	54,498	-	-	-	-	54,498
Total potential future payments for financial obligations	**124,739**	**25,108**	**18,320**	**17,668**	**20,676**	**206,511**

The maturity analyses of financial liabilities at 31 December 2015 is as follows:

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities						
Due to banks	2,523	2,024	1,889	-	-	6,436
Customer accounts	34,956	21,432	18,706	16,976	1,554	93,624
Debt securities in issue	-	-	2,029	-	-	2,029
Subordinated debt	-	-	1,020	1,020	17,638	19,678
Other financial liabilities	1,296	-	-	-	-	1,296
Financial derivatives	3,649	56	6,145	71	3,517	13,438
Unused limits on credit card loans (Note 33)	50,830	-	-	-	-	50,830
Total potential future payments for financial obligations	**93,254**	**23,512**	**29,789**	**18,067**	**22,709**	**187,331**

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31 Financial and Insurance Risk Management Continued

Financial derivatives receivable and payable are disclosed in the Note 34. 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.

The expected maturity analysis of financial instruments at carrying amounts as monitored by management at 31 December 2016 is presented in the table below.

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Assets						
Cash and cash equivalents	16,086	111	-	-	-	16,197
Mandatory cash balances with the CBRF	561	88	78	123	368	1,218
Securities at Fair Value through Profit or Loss	164	-	-	-	-	164
Due from other banks	244	3	100	-	-	347
Loans and advances to customers	19,697	28,805	25,643	20,726	8,041	102,912
Financial derivatives	5	-	-	-	2,713	2,718
Investment securities available for sale	33,286	-	-	-	-	33,286
Guarantee deposits with payment systems	559	819	729	589	228	2,924
Other financial assets	7,179	-	-	-	-	7,179
Total financial assets	**77,781**	**29,826**	**26,550**	**21,438**	**11,350**	**166,945**
Liabilities						
Due to banks	489	-	-	-	-	489
Customer accounts	57,438	8,957	8,009	12,568	37,584	124,556
Debt securities in issue	-	-	-	-	2,986	2,986
Subordinated debt	-	-	113	-	11,401	11,514
Insurance provisions	64	126	128	107	42	467
Other financial liabilities	3,112	-	-	-	-	3,112
Total financial liabilities	**61,103**	**9,083**	**8,250**	**12,675**	**52,013**	**143,124**
Net liquidity gap at 31 December 2016	**16,678**	**20,743**	**18,300**	**8,763**	**(40,663)**	**23,821**
Cumulative liquidity gap at 31 December 2016	**16,678**	**37,421**	**55,721**	**64,484**	**23,821**	**-**

Provision for unearned premiums in the amount of RR 300 milllion is not included in the insurance provisions stated above. Refer to Note 18.

The expected maturity analysis of financial instruments at carrying amounts as monitored by management based on the revised approach at 31 December 2015 is as follows:

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Assets						
Cash and cash equivalents	13,689	-	-	-	-	13,689
Mandatory cash balances with the CBRF	220	60	64	106	225	675
Due from other banks	207	329	190	-	-	726
Loans and advances to customers	12,272	19,313	19,429	19,303	11,750	82,067
Financial derivatives	-	-	7,722	-	3,623	11,345
Investment securities available for sale	15,936	-	-	-	-	15,936
Repurchase receivables	283	-	2,061	-	-	2,344
Guarantee deposits with payment systems	506	795	799	794	483	3,377
Other financial assets	3,499	-	-	-	-	3,499
Total financial assets	**46,612**	**20,497**	**30,265**	**20,203**	**16,081**	**133,658**
Liabilities						
Due to banks	2,514	2,000	1,878	-	-	6,392
Customer accounts	29,088	7,905	8,522	14,057	29,771	89,343
Debt securities in issue	-	-	1,905	-	-	1,905
Subordinated debt	-	-	136	-	14,473	14,609
Insurance provisions	49	97	71	76	54	347
Financial derivatives	8	-	-	-	-	8
Other financial liabilities	1,296	-	-	-	-	1,296
Total financial liabilities	**32,955**	**10,002**	**12,512**	**14,133**	**44,298**	**113,900**
Net liquidity gap at 31 December 2015	**13,657**	**10,495**	**17,753**	**6,070**	**(28,217)**	**19,758**
Cumulative liquidity gap at 31 December 2015	**13,657**	**24,152**	**41,905**	**47,975**	**19,758**	**-**

Provision for unearned premiums in the amount of RR 168 milllion is not included in the insurance provisions stated above. Refer to Note 18.

All the Investment securities available for sale are classified within demand and less than one month as they are easy repoable in CBR or on the open market securities and can provide immediate liquidity to the Group. All current accounts of individuals are classified within demand and less than one month.

The allocation of deposits of individuals considers the statistics of autoprolongations and top-ups of longer deposits with the funds from shorter deposits after their expiration in case when the customers have more than one active deposit. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

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

Notes to the Consolidated Financial Statements Continued

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32 Management of Capital

The Group's objectives when managing capital are (i) for the Bank to comply with the capital requirements set by the Central Bank of Russian Federation (CBRF), (ii) for the Group to comply with the financial covenants set by the terms of 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 2016 was RR 29,518 million (2015: RR 22,946 million). Compliance with capital adequacy ratios set by the CBRF is monitored daily and submitted to the CBRF monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

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 8%. Based on the report submitted to CBRF the Bank's statutory capital ratio is higher than the prescribed minimum level as of 31 December 2016.

The Group also monitors capital requirements including capital adequacy ratio under the Basel III methodology of the Basel Committee on Banking Supervision: international regulatory standards for more resilient banks and banking systems (hereinafter "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 2016 was RR 30,577 million (2015: RR 28,102 million), the amount of Tier 1 capital as at 31 December 2016 was RR 27,698 million (2015: RR 21,528 million). Total capital adequacy ratio and Tier 1 capital adequacy ratio were 16.34% and 14.81% respectively (2015: 18.25% and 13.98% respectively). The Group and the Bank have complied with all externally imposed capital requirements throughout 2016 and 2015.

The Insurance Company has complied with all capital requirements set by the legislation of the Russian Federation throughout 2016 and 2015.

33 Contingencies and Commitments

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

Tax contingencies. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. 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 arm's length.

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. The Company is a tax resident of Cyprus only and full beneficial owner of the Bank and Insurance Company. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate if the CFC is controlled by a legal entity and a rate of 13% if it is controlled by an individual. As a result, management reassessed the Group's tax positions and recognised current tax expense as well as deferred taxes that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes. Refer to Note 28.

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 2016 no material tax risks were identified (2015: same).

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

In millions of RR	**2016**	**2015**
Not later than 1 year	374	660
Total operating lease commitments	**374**	**660**

Compliance with covenants. The Group is subject to certain covenants related primarily to its subordinated debt. Non-compliance with such covenants may result in negative consequences for the Group. Management believes that the Group was in compliance with all such covenants as at 31 December 2016 and 31 December 2015.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of credit card loans. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. Most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit limits probable to be used and related commitments are as follows:

In millions of RR	**2016**	**2015**
Unused limits on credit card loans	54,498	39,661

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.

Mandatory cash balances with the CBRF of RR 1,218 million (2015: RR 675 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 3.

Notes to the Consolidated Financial Statements Continued

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34 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.

	2016		2015	
In millions of RR	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	6,049	35	20,084	28
- USD payable on settlement (-)	(118)	-	-	(3,314)
- RR payable on settlement (-)	(3,116)	(56)	(8,739)	(36)
- RR receivable on settlement (+)	406	-	-	3,545
- EUR receivable on settlement (+)	-	19	-	8
- EUR payable on settlement (-)	(503)	-	-	(239)
- GBP receivable on settlement (+)	-	2	-	-
Net fair value of foreign exchange forwards and swaps	**2,718**	**-**	**11,345**	**(8)**

Included in financial derivatives held by the Group as at 31 December 2016 is one outstanding swap contract with positive fair value of RR 1,365 million, which includes reference to the default of JSC VTB Bank, JSC Gazprom or the Russian Federation (31 December 2015: RR 1,857 million). There is also one other outstanding swap contract with total positive fair value of RR 1,348 million which include reference to the default of the Bank (31 December 2015: three other outstanding swap contracts with total positive fair value RR 9,488 million).

Where there is a reference in the swap contract to default of the entity or the country the swap contract would be cancelled and all of the rights and obligations are terminated in the event of an actual default of this entity or the country.

35 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 2016				31 December 2015			
In millions of RR	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets AT FAIR VALUE								
Financial derivatives	-	2,718	-	2,718	-	11,345	-	11,345
Investment securities available for sale	33,286	-	-	33,286	15,936	-	-	15,936
Securities at Fair Value through Profit or Loss	164	-	-	164	-	-	-	-
Repurchase receivables	-	-	-	-	2,344	-	-	2,344
Total assets recurring fair value measurements	**33,450**	**2,718**	**-**	**36,168**	**18,280**	**11,345**	**-**	**29,625**

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2016 are as follows:

In millions of RR	**Fair value**	**Valuation technique**	**Inputs used**
Assets AT FAIR VALUE			
Foreign exchange swaps	2,718	Discounted cash flows adjusted for counterparty credit risk.	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**2,718**		

There were no changes in the valuation techniques for level 2 recurring fair value measurements during the year ended 31 December 2016 (2015: none).

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

Notes to the Consolidated Financial Statements Continued

31 December 2016

35 Fair Value of Financial Instruments Continued

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

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

	31 December 2016				31 December 2015			
In millions of RR	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS CARRIED AT AMORTISED COST								
Cash and cash equivalents								
- Cash on hand	26	-	-	26	35	-	-	35
- Cash balances with the CBRF (other than mandatory reserve deposits)	-	6,178	-	6,178	-	5,315	-	5,315
- Placements with other banks with original maturities of less than three months	-	9,993	-	9,993	-	8,339	-	8,339
Mandatory cash balances with the CBRF	-	1,218	-	1,218	-	675	-	675
Due from other banks	-	347	-	347	-	725	-	726
Loans and advances to customers	-	-	102,912	102,912	-	-	82,067	82,067
Guarantee deposits with payment systems	-	-	2,924	2,924	-	-	3,377	3,377
Other financial assets								
Settlement of operations with plastic cards receivable	-	6,679	-	6,679	-	3,355	-	3,355
Trade and other receivables	-	350	-	350	-	127	-	127
Other financial assets	-	150	-	150	-	17	-	17
Total financial assets carried at amortised cost	**26**	**24,568**	**105,836**	**130,777**	**35**	**18,553**	**85,444**	**104,033**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST								
Due to banks	-	489	-	489	-	6,382	-	6,392
Customer accounts								
Legal entities								
-Current/settlement accounts of corporate entities	-	5,441	-	5,441	-	518	-	518
-Term deposits of corporate entities	-	473	-	368	-	375	-	375
Individuals								
-Current/settlement accounts of individuals	-	46,729	-	46,729	-	24,506	-	24,506
-Term deposits of individuals	-	74,904	-	72,018	-	65,919	-	63,944
Debt securities in issue								
RR Bonds issued on domestic market	3,052	-	-	2,986	28	-	-	28
ECP	-	-	-	-	1,894	-	-	1,877
Subordinated debt	13,695	-	-	11,514	15,378	-	-	14,609
Other financial liabilities								
Settlement of operations with plastic cards	-	2,031	-	2,031	-	622	-	622
Trade payables	-	1,052	-	1,052	-	638	-	638
Other financial liabilities	-	29	-	29	-	36	-	36
Total financial liabilities carried at amortised cost	**16,747**	**131,148**	**-**	**142,657**	**17,300**	**98,996**	**-**	**113,545**

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 and Irish Stock Exchange, where the Group's debt securities are listed and traded (2015: OJSC Moscow Exchange MICEX-RTS and Irish Stock Exchange)

Weighted average discount rates used in determining fair value as of 31 December 2016 and 2015 depend on currency:

In % p.a.	2016	2015
Assets		
Cash and cash equivalents	0.0	0.0
Securities at Fair Value through Profit or Loss	11.0	-
Due from other banks	9.3	10.5
Loans and advances to customers	48.3	47.5
Investment securities available for sale	10.3	13.5
Repurchase receivables	-	6.4
Liabilities		
Due to banks	0.0	9.4
Customer accounts	7.7	11.9
Debt securities in issue	10.1	10.6
Subordinated debt	5.2	11.8

36 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 2016:

In millions of RR	Loans and receivables	Held for trading	Assets designated at FVTPL	Availa-ble-for-sale assets	Total
Cash and cash equivalents					
- Cash on hand	26	-	-	-	26
- Cash balances with the CBRF (other than mandatory reserve deposits)	6,178	-	-	-	6,178
- Placements with other banks with original maturities of less than three months	9,993	-	-	-	9,993
Mandatory cash balances with the CBRF	1,218	-	-	-	1,218
Securities at Fair Value through Profit or Loss	-	-	164	-	164
Due from other banks	347	-	-	-	347
Loans and advances to customers	102,912	-	-	-	102,912
Financial derivatives	-	2,718	-	-	2,718
Guarantee deposits with payment systems	2,924	-	-	-	2,924
Investment securities available for sale	-	-	-	33,286	33,286
Repurchase receivables	-	-	-	-	-
Other financial assets					
- Settlement of operations with plastic cards receivable	6,679	-	-	-	6,679
- Trade and other receivables	350	-	-	-	350
- Other financial assets	150	-	-	-	150
TOTAL FINANCIAL ASSETS	**130,777**	**2,718**	**164**	**33,286**	**166,945**

Notes to the Consolidated Financial Statements Continued

31 December 2016

36 Presentation of Financial Instruments by Measurement Category Continued

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2015:

In millions of RR	Loans and receivables	Held for trading	Assets designated at FVTPL	Available-for-sale assets	Total
Cash and cash equivalents					
- Cash on hand	35	-	-	-	35
- Cash balances with the CBRF (other than mandatory reserve deposits)	5,315	-	-	-	5,315
- Placements with other banks with original maturities of less than three months	8,339	-	-	-	8,339
Mandatory cash balances with the CBRF	675	-	-	-	675
Due from other banks	726	-	-	-	726
Loans and advances to customers	82,067	-	-	-	82,067
Financial derivatives	-	11,345	-	-	11,345
Guarantee deposits with payment systems	3,377	-	-	-	3,377
Investment securities available for sale	-	-	-	15,936	15,936
Repurchase receivables	-	-	-	2,344	2,344
Other financial assets					
- Settlement of operations with plastic cards receivable	3,355	-	-	-	3,355
- Trade and other receivables	127	-	-	-	127
- Other financial assets	17	-	-	-	17
TOTAL FINANCIAL ASSETS	**104,033**	**11,345**	**-**	**18,280**	**133,658**

As of 31 December 2016 and 2015 all of the Group's financial liabilities except derivatives were carried at amortised cost.

37 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:

	2016		2015	
In millions of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
ASSETS				
Gross amounts of loans and advances to customers (contractual interest rate: 24.7% (2015: 24%))	20	-	3	-
Other financial assets	-	132	-	-
Other non-financial assets	-	-	-	568
LIABILITIES				
Customer accounts (contractual interest rate: 8.01% p.a. (2015: 8.01% p.a.))	938	459	789	497
Other non-financial liabilities	367	-	41	-
EQUITY				
Share-based payment reserve				
- Employee share option plan	-	-	537	-
- Equity long term incentive plan	-	-	77	-
- Management long-term incentive programme	636	-	-	-

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

Other non-financial assets as at 31 December 2015 represent a prepayment made under the sponsorship contract with the Tinkoff Cycling Team ("Team"), the related expense is included in customer acquisition expense. The Team is owned by the Group's ultimate controlling party. As at 31 December 2016 the sponsorship contract has expired.

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

	2016		2015	
In millions of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
Interest income	3	33	1	-
Interest expense	(65)	(36)	(56)	(132)
Customer acquisition expense	-	(1,236)	-	(1,013)
Unrealised foreign exchange translation losses less gains	-	120	-	(205)

Key management compensation is presented below:

In millions of RR	2016	2015
Short-term benefits:		
- Salaries	467	318
- Short-term bonuses	652	293
Long-term benefits:		
- Management long-term incentive programme	735	-
- Equity long term incentive plan	41	17
- Employee share option plan	-	77
Total	**1,895**	**705**

Management long-term incentive programme. On 31 March 2016 the Group introduced MLTIP as both a long-term incentive and retention tool for the management of the Group. The maximum share capital attributable to the plan was 4.1% of issued share capital at 31 March 2016.

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

The total number of GDRs attributable to the Management according to MLTIP is 7,504 thousand.

The fair value as at recognition date of the equity-settled share-based payments (31 March 2016) is determined on the basis of a market quote.

The delivery dates as of which the GDRs are allowed to be sold by the participants correspond to the vesting dates at 14 April 2016 and each subsequent 31 March each year until 2020.

Employee share option plan. In May 2011 the Group introduced ESOP as a long-term incentive and retention tool for the key management of the Bank. The number of shares in issue for ESOP purposes was 3,383 thousand. The liquidity event when vested shares could be sold by the key management was the earliest of the IPO, change of control or 1 January 2016.

On 1 June 2016 all conditions to the third and final vesting in ESOP were fully satisfied and ESOP has satisfied its delivery commitment. Accumulated share based payment reserve has been transferred to Retained earnings.

Equity long-term incentive plan In January 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 as at the date of the plan introduction. 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. 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.

As at 14 April 2016 after first vesting date of MLTIP, Equity LTIP was cancelled and accelerated expenses have been accrued. Full amount of Share-based payment reserve accumulated has been transferred to Retained earnings.

In 2016 the total remuneration of Directors listed in the Management Report (included in key management personnel compensation above) amounted to RR 18 million (2015: RR 18 million).

38 Events after the End of the Reporting Period

In February 2017 the Group granted shares to new participants in MLTIP and also granted addtional shares to the existing participants which resulted in increase in total shares granted under MLTIP to 5.6% of issued share capital of the Group as at 31 March 2016.

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
Compound Annnual Growth Rate	CAGR	n/a
Compulsory car insurance programme	OSAGO	n/a
Corporate social responsibility	CSR	n/a
Cost of borrowing	n/a	Interest expense/interest bearing liabilities
Cost of risk	n/a	Loan loss provision / Average gross loans
Cost to income ratio	C/I	Operating and acquisition expense / Core revenue
Cost to income ratio (excl. acquisition costs)	n/a	Operating expense / Core revenue
CRM	n/a	Online customer relationship management system
Days past due	dpd	n/a
GIBDD	GIBDD	Law enforcement agency responsible for traffic
Global depositary receipt	GDR	One TCS Group Holding PLC GDR represents an interest in one class A share
Gross portfolio yield	n/a	Core revenue on loans /Average gross loan portfolio
Interest-earning assets	IEA	Gross loans + interbank loans and accounts + securities + interest earning cash equivalents
Interest-earning liabilities	IEL	Deposits + interbank + debt securities + subordinated loans + syndicated loan
International financial reporting standards	IFRS	n/a
IPO	n/a	Initial public offering, in the case of TCSGH plc with listing on the London Stock Exchange in October 2013
KASKO	KASKO	Voluntary car insurance programme
Key performance indicators	KPI	n/a
Loan loss provision	LLP	Allowance for bad loans
N1.0	N1.0	Russian statutory capital adequacy ratio
Net charge-offs	n/a	Loan charge-offs less recoveries
Net interest margin	NIM	Net interest income / Average 1 EA
NFC	NFC	Near Field Communication
Non-performing loans	NPLs	Loans 90+ days overdue
NPV	NPV	Net present value
Return on average assets	ROAA	Net income / Average assets
Return on average equity	ROAE	Net income / Average equity
Risk-adjusted net interest margin	Risk-adjusted NIM	(Net interest income - PL provisions) / Average IEA
Risk-weighted assets	RWA	Assets weighted by risk as per the CBRF methodology
Russian accounting standards	RAS	n/a
SMEs	n/a	Small and medium enterprises
Treasury portfolio	n/a	Investment securities and repos

Investor information

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

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