Riding out the perfect storm

TCS Group Holding PLC
Annual Report

2015

About us

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 Ештлщаа 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 2015 included in this document. A detailed description of the presentation of financial and other information is set out from page 42 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.

Tinkoff.ru

The Financial Supermarket in the "Cloud'
High Utility Day-to-Day Mobile Banking

Insurance

Travel

Personal Property

Car
- kasko
- osago

Personal Accident

Full Cycle Brokerage Platform

Retail Securities Trading

Travel (expected soon)

Car Loans (expected soon)

Mortgages

Day-to-Day Banking

5.5mn credit cards

1mn debit cards

Credit Cards
- Rendezvous
- Tele2
- LaModa
- AliExpress
- eBay
- Svyaznoy Club
- Malina
- Mitsubishi

Debit Cards

Pre-Paid Cards

Deposits

Cash Loans

Point-of-Sale online lending

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

Internet Acquiring

2015 highlights

Proven track record of driving stable growth and profitability.

Growth

- Gross loans up 7.6% since 2014YE
- More than 530,000 new active customers acquired in 2015

Profitability

- FY net income up, at RUB1.85bn
- ROAE of 8.6%

Credit quality

- Focus on credit quality to maintain a robust portfolio
- NPLs (90d+) at 12.4% at 2015YE
- Conservative provisioning policy with provision coverage of 1.4x NPLs at 2015YE

Liquidity and capitalisation

- Cash at 10.0% of total assets and 15.0% of retail deposits and customer accounts at 2015YE
- 31 December 2015 statutory N1.0 ratio at 13%

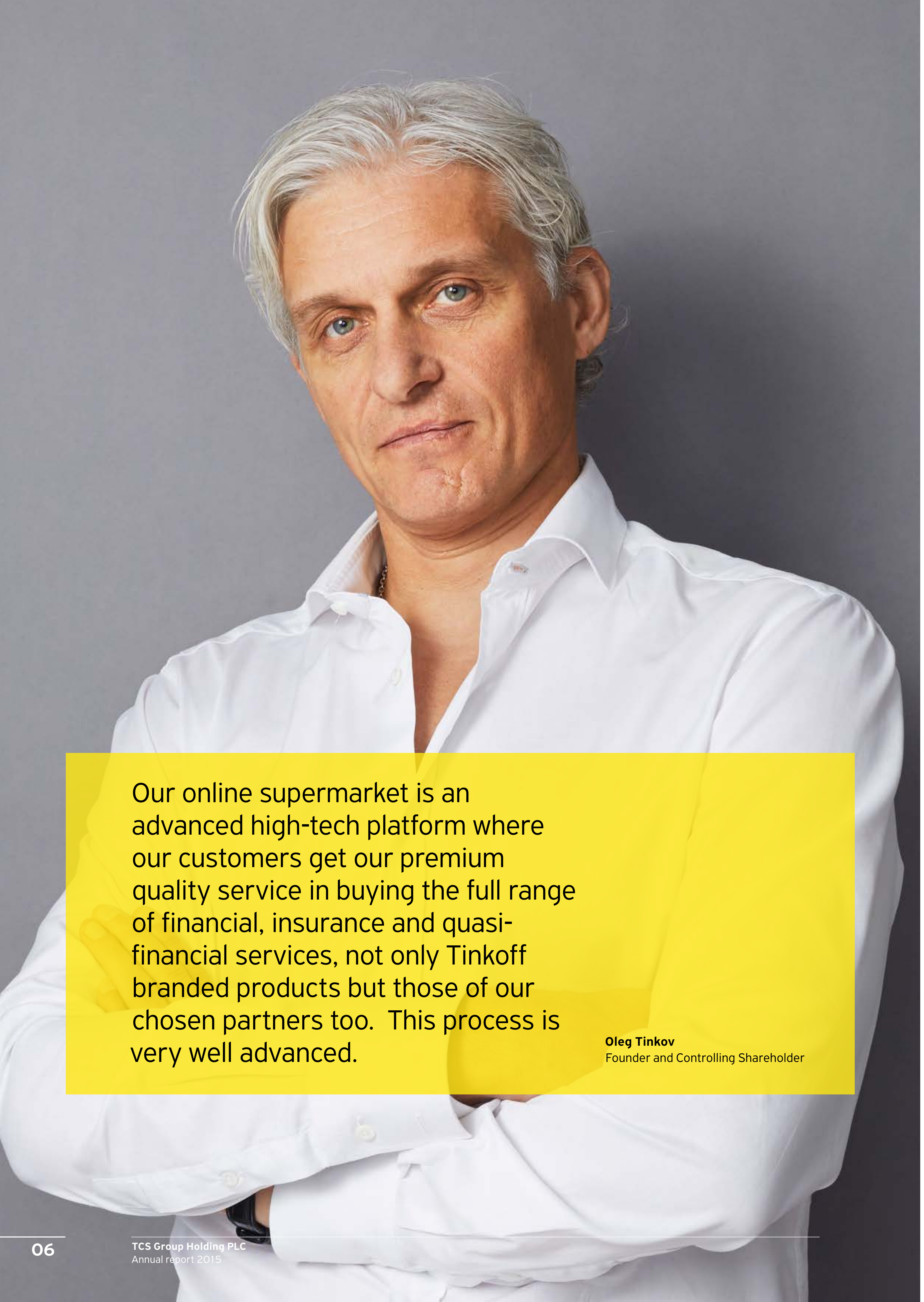
Key events

- Acquisition of parts of Svyaznoy Bank's credit card portfolio
- Launch of internet online Acquiring
- Launch of Mortgage platform
- Launch of MoneyTalk mobile messenger with instant money transfer functionality
- Announcement of Brokerage services based on BCS Broker solution
- New co-brands with Rendezvous, Tele2, LaModa, AliExpress, eBay, Svyaznoy Club, Malina, Mitsubishi

Credit cards issued in 2015 650k	**Total assets** RUB140bn	**Customer accounts** RUB89bn
Net profit RUB1.85bn	**Return on average equity (ROAE) for 2015** 8.6%	**Strong N1.0 capital ratio at the end of 2015 of** 13.0%

Our history

Highlights of TCS Group's innovative development		Net loan portfolio growth (RUBmn)
• Acquisition of part of Svyaznoy Bank's credit card portfolio • Launch of internet online Acquiring • Launch of Mortgage platform • Launch of MoneyTalk mobile messenger with instant money transfer functionality • Announcement of Brokerage services based on BCS Broker solution • New Co-Brands with Rendezvous, Tele2, LaModa, AliExpress, eBay, Svyaznoy Club, Malina, Mitsubishi	2015	82,067
• New brand - TINKOFF BANK • Tinkoff Insurance expanded its product lines • Launch of a series of co-branded cards • Launch of a number of mono mobile applications	2014	74,580
• TCS Group IPO on the London Stock Exchange Main Market • Launch of Tinkoff Insurance • Launch of cash loans	2013	73,962
• Minority stakes sold to Baring Vostok and Horizon • Launch of online POS loan programme	2012	47,784
• Launch of mobile banking • Launch of the mobile and telesales sub-channels of Tinkoff Bank online customer acquisition platform	2011	21,359
• Launch of online acquisition channel for credit cards • Launch of "smart courier" service	2010	9,643
• Launch of the retail deposit programme • First debit card issued	2009	5,254
• Minority stakes sold to Goldman Sachs and Vostok Nafta • Launch of internet bank	2008	4,117
• First credit card issued	2007	1,593
Tinkoff Credit Systems Bank was created by Oleg Tinkov	**2006**	



Our online supermarket is an advanced high-tech platform where our customers get our premium quality service in buying the full range of financial, insurance and quasi-financial services, not only Tinkoff branded products but those of our chosen partners too. This process is very well advanced.

Oleg Tinkov
Founder and Controlling Shareholder

Founder's statement

Dear Stakeholders,

Last year in my statement to stakeholders I made a prediction I felt confident we would make come true, that whatever 2015 might bring, we would continue to deliver. Now it is my good fortune to be writing to you to describe the successful year just past, how I see 2016 shaping up and offer some insights into the future of the business I launched nearly ten years ago.

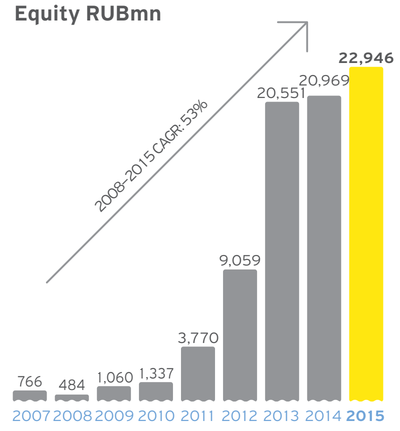
I mentioned last year the perfect storm that was the Group's external environment in 2014, and the fall-out from that is still being felt. 2015 was just as challenging if perhaps a less volatile year than 2014 but over time we have become more accustomed to this new state of affairs, more practised at exploiting changeable market conditions to our advantage, drawing on the experiences gained in previous downturns, making profits, growing the Bank's assets in 2015. Looking back at last year we can see the patterns more clearly now than then and it strikes me how we made the right calls at the right times. In the first few months our absolute priority was liquidity and building up a cash cushion sufficient to meet very significant capital markets and other debt markets hard currency exposures falling due in the second half. With that under control, in the second half we were able to grow the loan book again. Within a very short time it was possible to ramp up the business, admittedly cautiously. That ability to ramp the business up (or down) within a few weeks even is one of the hallmarks of our unique business model, key to our success. And from a position of strength, we were well placed to make a number of loan portfolio purchases on advantageous terms. And it is no secret we could and would have made more, if the portfolios had passed our rigorous quality control criteria and been available at attractive pricing levels.

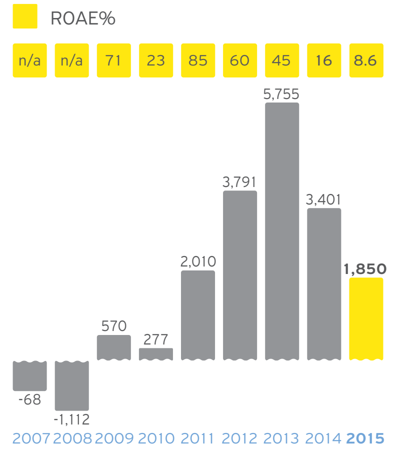
But that business model is only a part of the story: it is allied with a superb management team, the Tinkoff spirit, a unique blend of entrepreneurism, innovation, passion for what we do and drive, and market insight, making the business calls that keep us ahead.

Entrepreneurs are by nature optimists, dreamers even. Where then do we as TCS Group go next, what can our customers and stakeholders expect to see from us in the near future? Many will have heard us refer to our five year strategy to create Russia's first online supermarket, under Tinkoff.ru. What we mean is a brand not simply a bank - our online supermarket is an advanced high-tech platform where our customers get our premium quality service in buying the full range of financial, insurance and quasi-financial services, not only Tinkoff branded products but those of our chosen partners too. This process is very well advanced, with Phase 1 launched in 2015. It will be a huge success I feel, the timing is right. It sets us up in a good place to exploit not only the current market conditions but plays to our strengths-ready to thrive in the context of exciting longer term trends in Fintech, especially mobile. So I remain optimistic.

Last June, at the time of the AGM, I stepped down from Chairmanship of the Board, the additional role I was happy to take on at the time of Listing. But rest assured I remain totally committed to and heavily involved in the business.

At this time I want to record my particular thanks to the management team for their hard work and energy, our Pre IPO minority shareholders for their wise guidance and all other partners and stakeholders who have continued to make such a vital contribution in 2015.





Oleg Tinkov
Former Chairman of the Board of Directors

Founder and Controlling Shareholder

Business model

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.

Operating Flexibility

Tinkoff Bank 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

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

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

Originally the first purpose-built credit card focused lender in Russia, Tinkoff Bank has evolved into a pure online financial supermarket living in the a 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. Tinkoff Bank's funding strategy provides effective diversification in the sources and tenor of funding. The Group maintains strong relationships with market participants to promote effective diversification of funding sources.

Powerful distribution

Tinkoff Bank offers remote access customer service through its award-winning Internet banking as well as through mobile banking and high-volume call centres. Our use of direct marketing channels has revolutionised the way customers are acquired in Russia. Distribution channels, which include online (the Internet, mobile services and telesales), direct mail and direct sales agents, allow Tinkoff Bank to attract new customers right across the country. Supporting the branchless platform is a "smart courier" network which allows next day delivery.

Premium-level service and brand

Tinkoff Bank 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.

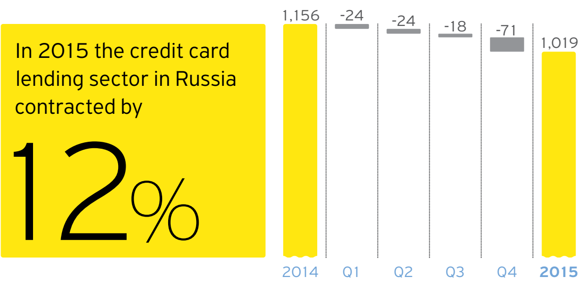
Market context

Credit card lending

The whole of 2015 was devoted to addressing the consequences of the Central Bank rate increase introduced in December 2014. Credit card lending, which had also suffered significant turbulence in 2014 for a number of reasons, faced more problems in 2015 which included an increased cost of funding, reduced liquidity and RUB devaluation. This resulted in a significant underperformance of retail specialists in the market and many suffered heavy losses. As a result, retail lending in Russia contracted by12% in 2015 vs 17% growth in 2014.

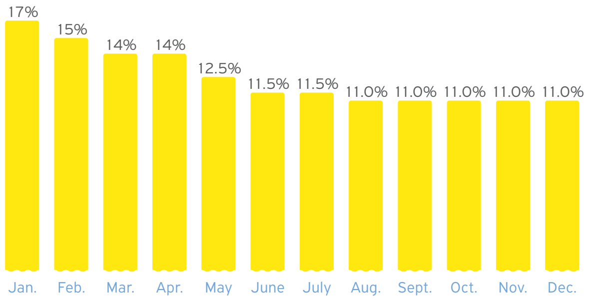
At the same time despite the fact that the sector as a whole suffered ongoing contraction during 2015, just a few participants managed to recover quite quickly and even increase their market share by the year end and Tinkoff Bank is among them. One of the positive factors for the sector worth emphasising was the CBRF's policy focused on lowering the interest rate from 17% in December 2014 to 11% in December 2015. While the macroeconomic situation is still a concern, there are signs of green shoots in the Russian financial services sector. Together with the CBRF's efforts to regulate the market, expectations are this sector will revive strongly as in Russia it is still underdeveloped and underpenetrated relative to the most developed economies, as well as certain emerging high growth economies.

Credit card market in Russia (RUBbn)



Source: CBRF

Central Bank interest rate dynamics (2015)



Source: CBRF

Consumer leverage and loan growth

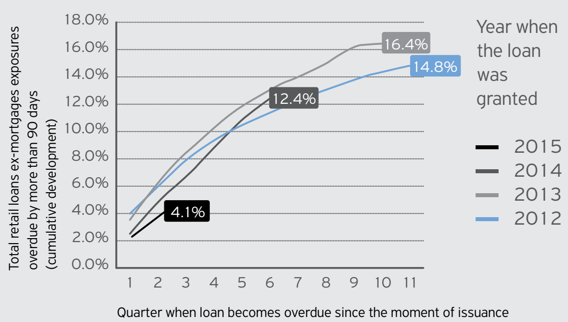
Historically real loan growth has been well-correlated with real wage growth. A number of public researches report a positive turn in 2H16, i.e. a moderate improvement in consumer confidence, which should support consumer lending demand.

Consumer loan quality is gradually stabilizing and can be seen through the evolution of much better loan vintages issued in 2015 compared to the vintages of 2012-14. Coupled with less funding cost pressure resulting from rate cuts by the CBRF, this is likely to increase the willingness of consumer banks to ease underwriting criteria.

Retail loan growth (excl. mortgages) vs. wage growth (real)

Source: CBRF, Goldman Sachs Global investment Research

Vintage curves for retail loans (excl. mortgages)



Source: NBCI

Market position

A leading credit card lender in Russia

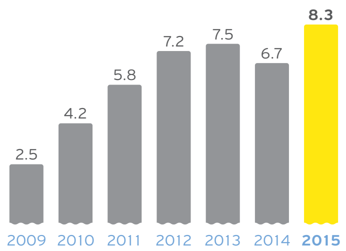
In spite of the significant dislocation in the financial market, continued shrinkage of the financial institutions and overall slowdown in growth across the market, Tinkoff Bank managed to improve its position on the market and became top 2 by the year end with its share of the Russian credit card market at 8.3% (the second largest non-delinquent credit card loan portfolio in Russia), thanks to tighter risk controls implemented in good time.

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 2015 the new upgrade to the mobile bank was introduced now upgraded with new design and interface as well as new functional features.

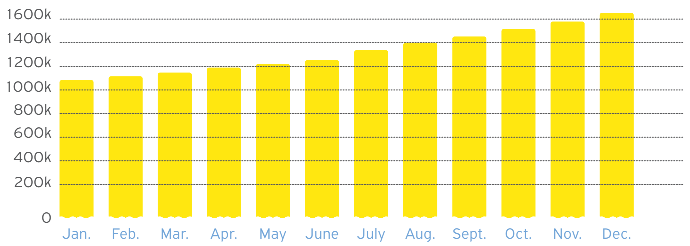
On 30 December 2015 Tinkoff Bank released an NFC feature for Android bank users integrated into the Tinkoff mobile banking App – a touch free wireless payment solution – the very first certified MasterCard solution for mobile devices.

Tinkoff Bank credit card market share (%) (as of 2015YE)

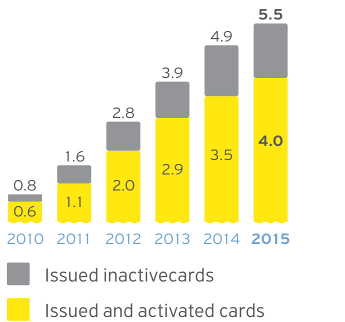


Source: CBRF

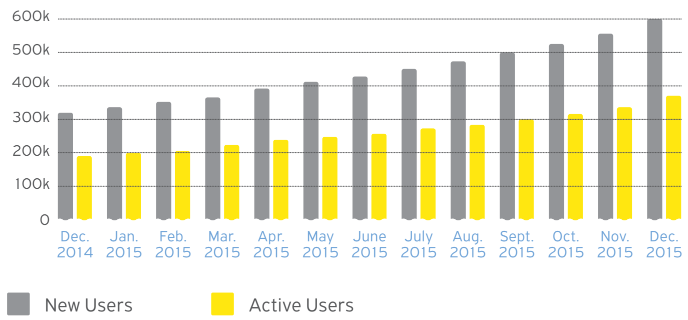
Internet Bank unique visits (2015)



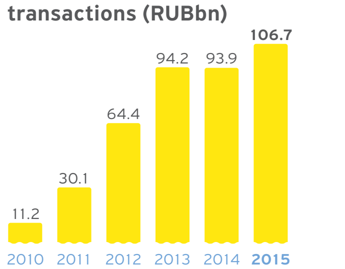
Number of issued Tinkoff Bank credit cards (m)



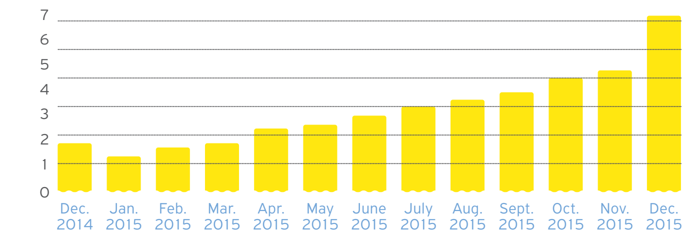
Mobile Bank unique visits



Tinkoff Bank credit card transactions (RUBbn)



Mobile Bank transactions (RUBbn)



Strategy

Tinkoff Bank'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 according 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 range of 15,000 Rubles. This is a strategic step for Tinkoff Bank to increase its exposure throughout the financial market.

03. Support business expansion by using advanced IT systems

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

Tinkoff Bank's in-house IT team develops a significant part of the software used by Tinkoff Bank, including software used in its online customer acquisition and service platform. This enables Tinkoff Bank to regularly roll-out new products and services to customers or new versions with enhancements.

Tinkoff Bank intends to increase its technological advantages over traditional Russian banks. In 2015 Tinkoff Bank released a number of technological upgrades developed in-house: the first mobile bank with NFC function for Android, Moneytalk, internet acquiring, securities trading, BigData soft. Markswebb Rank & Report rated Tinkoff Bank as the Best Mobile Bank App for iOS, Android and Windows Phone.

04. High liquidity and well-balanced funding base

Tinkoff Bank has established a robust liquidity risk management framework that ensures it maintains sufficient liquidity, including a significant cushion of liquid assets. Tinkoff Bank's funding strategy provides effective diversification in the sources and tenor of funding. The Group 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 Bank 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, mobile wallet) (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 2015 and these initiatives have already been recognised and received awards from international leaders in this sector.

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

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

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

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

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

08. 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, 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 lending shop, help in the retention of the customer base and increase Tinkoff Bank's revenue per customer.

Brokerage Platform

- New product introduced in 2015
- 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 www.tinkoff.ru platform at the press of a button
- Full-cycle "door-to-door" service provided by the Tinkoff Bank smart courier team

Products to be launched through the Brokerage Platform

- Mortgages
- Retail securities trading
- Non-Tinkoff insurance
- Cash loans
- ...and other products coming soon

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.

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

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 5.5mn credit cards issued since inception

>5.5mn

Over RUB106bn of customer credit card transactions in 2015

>RUB106bn

#2 player in the Russian credit card market with 8.3% market share[1]

8.3%

1 As of 31 December 2015 based on CBRF data.

High-tech virtual platform

Tinkoff Bank has built an advanced high-tech retail financial services platform that is highly suited for the Russian market and operating environment, particularly in underserved parts of the country. This platform is entirely branchless, with a very low fixed cost base and high degree of operating flexibility. This high-tech platform includes the internet bank, mobile bank and a real-time voice authentication system which creates voice prints during the traditional Q&A verification process for each new caller; these voice prints are later used as a benchmark for verification when the customer next calls.

Received over 500,000 applications per month on average during 2015

>500k

Approximately 2mn inbound calls / 8mn outbound calls per month on average via call centres

8mn

Most Efficient Retail Internet Bank 2015 and Best Mobile Bank App[1]

1 According to Markswebb Rand & Report.

What makes us different?

Powerful distribution

Tinkoff Bank offers remote access customer service through its award-winning Internet banking as well as through mobile banking and high-volume call centres. Our use of direct marketing channels has 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 800 cities and towns in Russia which allows next day delivery. In addition, Tinkoff Bank's online origination process makes extensive use of online data and behavioural profiles, and gives it a clear advantage over competitors in terms of underwriting.

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

Over 1,000 smart couriers and sales agents covering around 800 cities and towns nationwide

800

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.

64% net loan portfolio CAGR in 2007–2015

64%

ROAE 2015

8.6%

Almost 30x increase in equity since 2007

30x

We adapted swiftly to external changes. We were able to turn a number of these to our advantage, anticipating market trends, and leveraging the unique and now well tested Tinkoff business model for a very successful year overall which got more successful as the quarters passed.

Oliver Hughes
Chief Executive Officer

Chief Executive's strategic review

By the end of 2015 Tinkoff Bank had issued over 5.5m credit cards

5.5m

ROAE is 8.6% and total equity climbed to RUB22.9bn

8.6%

Dear Investor,

Last year, in my strategic review, I predicted that 2015 would be another challenging year as we manoeuvred through uncertain economic terrain. I was also confident that the Tinkoff model, team and platform could and would handle the tests thrown at it and adapt quickly to whatever challenges came our way.

In the wake of the collapse of the Rouble in December 2014 and the CBRF actions to stabilise it, 2015 was indeed another challenging year for the Russian economy and for the banking sector in particular. I believe we did more than just handle the tests thrown at us. We adapted swiftly to external changes. We were able to turn a number of these to our advantage, anticipating market trends, and leveraging the unique and now well tested Tinkoff business model for a very successful year overall which got more successful as the quarters passed.

To understand better what happened last year, one way to think of it is as a period in two halves:

1. in the first half, in the aftermath of the upheavals of December 2014 and considering our heavy wholesale debt maturities schedule in 2015, liquidity topped our list of priorities. Despite a turbulent start to the year, we dealt with the currency crisis well and rapidly built up a large liquidity position to meet our forthcoming debt maturities. By May it was "job done" and we were able to make significant early debt redemptions
2. in the second half, we moved back to "business as usual" and resumed careful growth of the loan book. In addition to increasing credit card issuance, the steady inflow of deposits allowed us to complete a series of credit card portfolio purchases from Svyaznoy Bank. These were our first portfolio deals and we now have a platform and the technology to do similar deals in the future. We kept cost-of-risk very much in check thanks to our continuing focus on disciplined collections and portfolio management as well as tighter underwriting policies

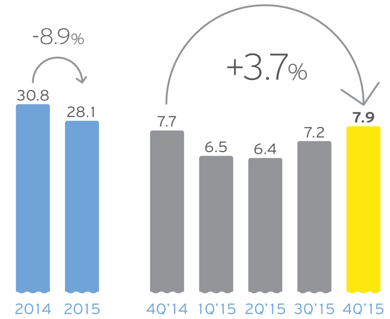
These factors together with a slightly better operating environment in the second half of the year enabled us to show good results in H2. Consequently, in November we were able to increase our Net Income guidance for 2015 from 1bn to 1.5bn Rubles. As things turned out, we managed to exceed the top end of this range achieving a Net Income result of 1.85bn Rubles and significantly improved ROE of 16.7% in Q4 and 8.6% for the year.

Here are the main factors that contributed to our Net Income result:

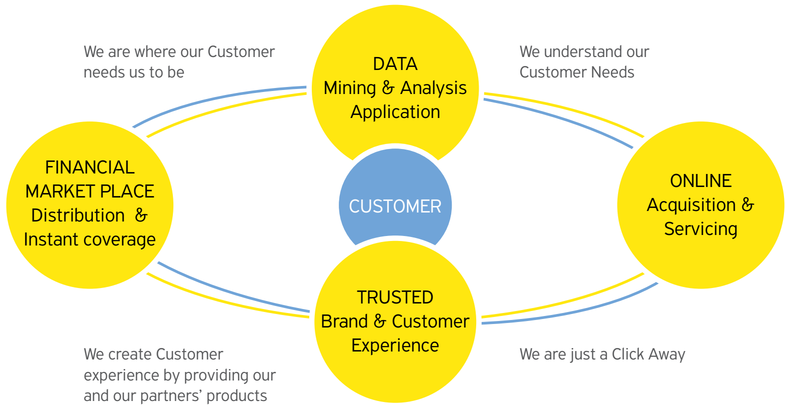
- the gradual ramp up of credit card issuance including non-organic growth gave us over 530 thousand new active customers in 2015 which represents 10% growth in the net loan portfolio year-on-year, and more than 5.5 million credit cards issued since inception
- consumer deleveraging has continued and this together with our conservative underwriting policy resulted in a decline of Cost-of-risk in Q4 to 13.2%. We finished the year with an annual Cost-of-Risk at 15.5% which is 2% lower than in 2014. This is a very positive result taking into account the overall situation in Russia
- cost-of-funds remained elevated for most of 2015 following the dislocation at the end of 2014. However, we turned the corner in 3Q2015 and cost-of-funds started to come down for the first time in twelve months. This process should continue as expensive deposits roll-off our balance sheet
- we are also pleased with the results of our non-credit businesses. The contribution of commissions-based revenue in 2015 increased to 3.1% of total gross revenue and 4.8% of net revenue after provisions versus 1.3% in 2014. Tinkoff Insurance contributed a further 2.7% to the Group's gross revenue. This is an important trend that is becoming more and more evident in our performance, as we deliver on our plan to grow non-credit revenue and fee and commissions income

For TCS Group, 2015 was another eventful year and we continued to develop our business. We launched phase 1 of our new online financial supermarket - Tinkoff.ru - which will become a platform offering customers the full range of financial, insurance and quasi-financial services. Through Tinkoff.ru, we offer Tinkoff-branded products such as credit cards, current accounts, deposits, cash loans, as well as insurance and mobile solutions. And we offer non-Tinkoff products through our full-cycle brokerage model starting with mortgages, and retail securities trading, non-Tinkoff insurance, cash loans and other products coming soon.

Net interest income RUBbn



Focused business model



For small business, we are now offering current accounts, transactional services, salary projects and online merchant acquiring. We have seen good early take-up each of these new initiatives.

To recap, noteworthy events in 2015 were:

- Launch of our online Acquiring programme
- Launch of the non-balance sheet mortgage brokerage platform
- Launch of the MoneyTalk mobile messenger with instant money transfer functionality
- Acquisition of parts of Svyaznoy Bank's performing credit card portfolios
- Appointment of a new CEO of Tinkoff Insurance, Vadim Yurko
- Announcement of Brokerage services based on BCS Broker's solution
- New Co-Brands with Rendezvous, LaModa, AliExpress, eBay, Svyaznoy Club, Malina, Mitsubishi and others
- I mentioned that the second half of 2015 saw a return to more stable business conditions, allowing us to look forward with greater confidence. At the end of last year we started a long-term TV advertising campaign designed to promote existing and new products and to establish Tinkoff.ru as a brand and as a destination site. As well as investing heavily into the brand, we continued our hiring programme as we bring new skills and experience into the Group at all levels. As we hire new talent, so we also need more office space – for this reason the Group took the decision to buy outright three floors of a new business centre called "Vodniy" not far from our current Moscow HQ

Tinkoff Bank issued over 1m debit cards at 2015YE

>1mn

As at 31 December 2015, Tinkoff Bank was top 2 in Russia, with a market share of

8.3%

While 2016 is probably going to be another year of challenges and economic uncertainty, we in Tinkoff feel confident about the Group's position on the market. In terms of business, the Bank has strong capital and liquidity positions, our innovative technologies, unique business model, range of financial services and mobility set us apart from other retail specialists, most of which are still struggling through difficult times. Some will leave the market. We are one of the very few consumer banks that increased its loan portfolio in 2015. Our organic portfolio growth coupled with acquisition of carefully selected Svyaznoy card portfolios put us in second place in Russia in terms of non-delinquent credit card loans with a market share of 8.3% by year end 2015.

As mentioned we have been stepping up credit card issuance since last summer. We have done much to get prepared for the next growth phase in Russia: when this will come is still a question. In the meantime the plan is to build on the growth in the second half of 2015, while retaining a tight control on risk. Volatile markets produce great opportunities too. Non-organic growth opportunities are always of interest to us and we continue to keep an eye out for them. And of course we will continue to research, develop and roll out further innovative products to provide the very best customer service.

Finally it is my pleasure to thank those who make all this possible, our stakeholders, investors, business partners, employees and many other contributors too, but above all the core team of TCS Group, both those of long standing and more recent joiners, which remains absolutely focused on the Group's success, displaying exceptional commitment, loyalty, skill, creativity and professionalism.

Oliver Hughes
Chief Executive Officer

Our recent awards

- Best Mobile Bank in Russia

Deloitte

- Best Online Bank
- Best Deposit and Credit Product Online Offers

Global Finance

- Socially Devoted Brand

Socialbakers

- The most efficient retail internet bank
- Best Mobile Bank App for iOS, Android, Windows Phone

Markswebb Rank & Report

- Best Digital Bank

International Finance Magazine

- Best Mobile Bank in Russia

J'son & Partners Consulting

- 1st place in the category "Best Mobile Bank in Russia"
- 1st place for NICE real-time voice authentication system at the call centre in the category "Best innovation"

Bank Review Magazine

- Best co-branded card
- Best advertising campaign of customer loyalty program

Loyalty Awards Russia

- 1st place in the category "Best Mobile Bank in Russia"

Usabilitylab

Our achievements are the result of the robustness and flexibility of our business model; our long-standing conservative underwriting approach; some good decisions made early in this crisis; and the hard work of the entire team.

Ilya Pisemsky
Chief Financial Officer

Financial review

Dear Investors,

This is my third review for our Annual Report. Each year has presented a different set of challenges, 2015 more than most. I am happy to be reporting on a good set of results.

Despite the highly unfavourable operating environment in 2015, TCS Group has successfully dealt with the aftermath of the December 2014 currency crisis and CBRF interest rate hikes and has built up a large liquidity position. I am proud of the financial results of the Group taking into account the context of banks across the Russian market, where many are struggling to make a profit, and especially against the back-drop of retail specialist banks, most of whom are still making heavy losses. Our achievements are the result of the robustness and flexibility of our business model; our long-standing conservative underwriting approach; some good decisions made early in this crisis; and the hard work of the entire team.

Balance sheet

Total assets grew by 28.3% to RUB139.7bn driven primarily by loan portfolio increase and liquidity accumulation

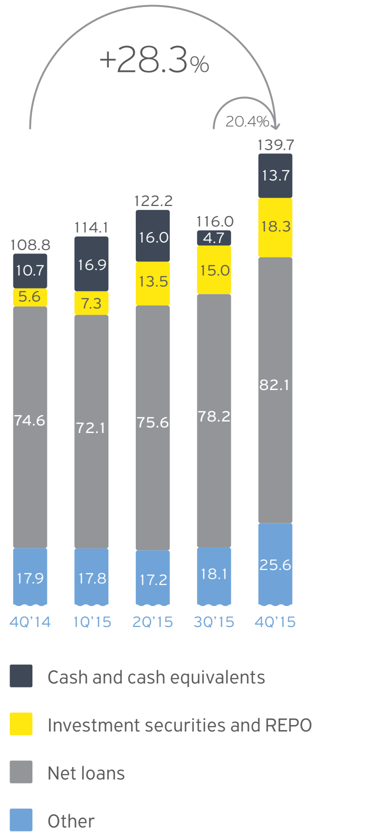
In 2015 the Group's total assets increased by 28.3% to RUB139.7bn. The biggest contribution to quarterly growth came from an increase in liquid assets and at the end of 2015 these reached over 20% of total assets of the Group, of which cash alone represented nearly half. We also hold RUB 18bn in highly-liquid CBRF-repo-able investment securities. In 2015, our securities portfolio growth mirrored the growth in the Tinkoff Black debit card portfolio. Our gross loan portfolio added 7.6% for the year. This growth is a result of organic customer acquisition which resulted in more than 400K new customers for the year, increased credit limits to selected long-standing customers and the acquisition of credit card portfolios from Svyaznoy Bank in the amount of RUB 6.4bn. Our net portfolio increased by 10% in 2015 which we see as a good result in an environment where other retail banks generally decreased their portfolios.

TCS liquidity policy proved to be highly robust with our liquidity cushion at 20% of assets

In spite of a challenging December 2014 and start to 2015, our deposit base proved to be sticky with customer accounts more than doubling during the year increasing their share in liabilities from 50% to 75%. Despite the Group's significant wholesale maturity schedule in 2015, we built up a liquidity cushion of 32bn Rub or over 20% of total assets of the Group, of which cash alone represented nearly 10% of total assets. We continue to deploy some excess cash into highly liquid CBRF repo-able debt securities in order to decrease negative carry on our borrowings. Year-end cash and investment balances represented 21% of the assets and 33% of customer accounts respectively. At 31 December, 2015 cash and treasury portfolio amounted to RUB32bn.

The quality of our portfolio improved during the year with the NPL ratio down to 12.4% from 14.5% as at YE2014. Simultaneously, our loan loss provision coverage increased to 1.5% of non-performing loans. Balance sheet provisioning for impairment of loans decreased to RUB19.0bn compared to RUB19.3bn as at YE2014. The bucket of loans that are 90 to 180 days delinquent reduced to 3.4% at YE2015 from 4.1% as of YE 2014 which is a result of our enhanced collection processes. We continued generally

Assets growth RUBmn



to hold back from selling overdue loans from our portfolio since we judged we would secure a much better recovery rate under our instalment loan repayments program and court enforcement collection strategies.

At 31 December 2015 total liabilities increased to RUB16.7bn as result of customer accounts increasing more than twice over to RUB 89.3bn from RUB43.4bn at YE2014 which accounted for 75% of total liabilities as of 31 December 2015. Hard currency denominated deposits increased insignificantly to RUB14.0bn in fourth quarter vs. RUB11.1bn of Q42014, while the portion of it in RUB denominated deposits decreased from 25% to 16% y-o-y. 83% of the deposit book falls under the protection of the Deposit Insurance Agency.

At 31 December 2015, the book value of the Group's debt securities consisted largely of subordinated debt of RUB6.4bn representing a decrease due to redemption of the $250mm Eurobond in September 2015. There were no debt issuances in 2015 except for a RUB2bn ECP tranche maturing in second quarter 2016.

The Group is well capitalised with its CBRF N1.0 capital adequacy ratio at 13%

The equity of the Group amounting to RUB22.9bn at 31 December 2015 demonstrates the solid capital position of the Group. Our capital base remains very strong, with the statutory CBRF N1.0 total capital ratio at 13% at the end of 2015. The decrease in N1.0 ratio was mainly due to an annual operational risk review conducted in the summer and amortization of subordinated debt.

At the end of 2015 we maintained a Core Tier 1 (or N1.1) capital ratio of 9.3% (and the same for Tier 1, or N1.2, capital ratio), well above the 5% and 6% minimum requirements set by the CBRF, respectively.

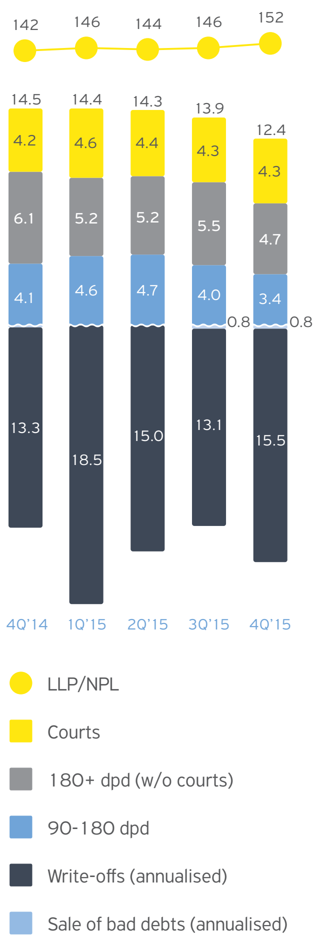
Profit and loss statement

Interest income increased by 4.4% year-on-year to RUB40.8bn

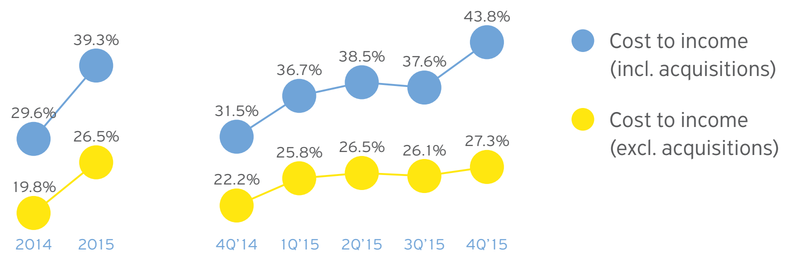
Despite 2015 being a challenging year I believe the Group achieved good results for the year. Gross interest income grew to RUB40.8bn or up by 4.4% compared to 2014. Gross yield decreased year-on-year by almost 2 percentage points to 41.3%, but we can though see an upward trend in the second half of 2015. This trend is due to increased card issuance in the second half of the year and decreasing cost of risk, which allow us to write-off less accrued interest on loans. As a result of high interest expenses throughout 2015, the Group showed a decline in net interest income by almost 9% year-on-year. But as more expensive deposits rolled and continue to roll off the book, net interest income began to recover from the third quarter.

Our net interest margin dropped by 6 percentage points in 2015 but we still generated solid risk-adjusted NIM at 13.4%. We see good potential for further NIM improvement in 2016 as the gross yield continues to be robust and the cost of funding ticks down as the expensive early-2015 deposits roll off the book.

Conservative credit risk policy, % of gross loan portfolio



Operating efficiency[1]



After the Central Bank's key rate hike in December 2014 we saw a rise in the Group's cost of borrowing which peaked in the second quarter of 2015 at 14.1%. Since then it has stepped down to 13.1% in the fourth quarter. That said, the average cost of borrowing for the Group increased to 13.4% from 10.9% in 2015 with interest expense amounting to RUB12.7bn at 31 December 2015.

The Group's cost of risk continued to improve having decreased by 180 basis points in the fourth quarter to 13.2%. For the whole year cost of risk trended down to 15.5%. Loan loss provision amounted to RUB 14.9bn in 2015 compared to RUB15.8bn in 2014. We are still making risk management and collections a priority to help ensure that the cost of risk is even better-managed in future and to mitigate any further deterioration in the Russian consumer lending market.

Our non-credit revenue grew significantly in 2015. The fee and commission income increased 4.5 times as we continued to develop our debit card business and online acquiring. The gross revenue of Tinkoff online insurance company increased by 27% year-on-year. More business initiatives are being rolled out as part of Tinkoff.ru and I expect them to to start contributing to our P/L statement in 2016.

Operating efficiency stabilized throughout 2015

The Group's operating expenses increased in 2015. This was caused by several factors. Firstly, we had a staff salary increase and secondly, we started our TV advertising campaign directed to promote the Bank's products and brand. As a result the cost to income ratio increased to 43.8% in the last quarter. We have planned for the cost to income ratio to stay elevated in 2016 as we continue investing in the diversification of our business, brand and product advertisement, hiring the best talent and spending on customer acquisition and retention.

However, the major negative contributing factor to operating efficiency of the Group in 2015 compared to 2014 is not administrative costs but 4% y-o-y growth in cost of funds. Reduction of the gross yield was neutralised by a simultaneous reduction in cost of risk while administrative costs remained flat for the year and took away 6.2% of portfolio profitability, which stood at 2.5% in 2015 compared to 6.7% the year before.

The Group reported net income of RUB1.85bn

Finally, we managed to show profit of RUB 934mn in the last quarter and RUB 1.85bn for the whole year which gave us an ROE of 8.6% for the year and was back in the high teens in the 4th quarter. We consider this an excellent result compared to the overall market. This result indicates our business potential and proves the robustness of our model in a downturn and puts us in good position going into 2016.

Ilya Pisemsky
Chief Financial Officer

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

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 material risks (Principal Risks) which might adversely impact its performance.

In addition, the Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2014, 2015 and into 2016, the Russian economy was negatively impacted by a decline in oil and gas prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. This over-arching risk environment could impact one or more of the Principal Risks.

The principal activity of the Group is banking operations and so it is mostly 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 already mean that international capital markets are not accessible to the Group. 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.

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

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 deterioration in the economic conditions in Russia has resulted in a significant increase in the Group's provisions for loan impairment and in the proportion of non-performing loans. 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, 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 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.

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 Bank's 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 CBRF 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 CBRF 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 CBRF 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 CBRF and other regulators and, within an annual audit, by a statutory auditor.

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.

Risk review
continued

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

Provisioning Policy

Provisioning policy falls under the responsibility of the Bank's 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.

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 Rubles and relatively long-term borrowings in other currencies. The Group manages the positions through hedging, matching or controlled mismatching.

The CBRF 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 the possibility of 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, all bonds must be eligible for 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, 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 CBRF requirements regarding operational risk. Regular monitoring of activities is intended to detect in a timely manner and correct deficiencies in policies and procedures designed to manage operational risk. 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.

Employees and corporate social responsibility

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

Employees and CSR

Overview

2015 was a milestone year for the Group's business. Firstly, we yet again proved the flexibility of our business model by exceeding net income targets. Secondly, we laid the foundation for a brand new stage in the evolution of our business – Tinkoff.ru financial marketplace. It is only with the involvement, hard work and commitment of our team that we have been able to achieve this.

We employ people with various backgrounds, including retail, online and IT, to create a working environment that takes and moulds the best aspects and practices of other businesses.

Our Group's unorthodox approach to personnel recruitment and training is well known – for us, no banking background can definitely be a positive. TCS Group is less a traditional financial institution and more an IT company with banking and insurance licences. We look for people with analytical, technical and programming skills, those who can approach problems creatively, from a different perspective and think "outside the box". This approach brings a constant flow of new product and service ideas, innovative solutions, and a broader outlook on the services and products, which ensures we constantly improve our customers' experience.

This approach has enabled us to create best-in-class financial products (to great acclaim of both clients and independent industry experts – see "Our recent awards") while breaking new ground in the banking sector (Tinkoff.ru marketplace).

In the second half of 2015, one of the Group's priorities was business growth and diversification: we initiated and launched a number of new successful business lines as part of our transition to the Tinkoff.ru online financial marketplace. These included online merchant acquiring, services for small and medium enterprises and a mortgage platform, with brokerage services scheduled for launch in 2016. Such high rates of business development required more manpower, and in 2015 we were actively recruiting new people. Our headcount increased in 2015 by 35% to 8,315[1], compared to 6,160 in 2014. The average employee age remained unchanged at 26 years.

TCS Group team during a fishing trip to Astrakhan, Russia in summer 2015

Diversity and Inclusion

Our fully online business model based on a high-tech branchless platform gives us additional recruiting flexibility (i.e. we can employ differently abled people). This helps us widen and diversify the Group's employee base and hire people purely on their merits and skills.

In 2015, 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 2015, our Home Call Centre employed 2,052 people across the country.

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.).

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

Human Resources – Core Principles

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

- bringing together people with analytical backgrounds;
- creating an intellectually challenging work environment;
- creating an effective and fast learning environment for all employees;
- fostering a culture of generating ideas and assuming responsibility;
- embracing open dialogue, cooperation and creativity;
- demonstrating efficiency with minimum bureaucracy; and
- promoting team spirit and a unique entrepreneurial culture.

One of the core principles of the management team is a hands-on approach when key managers see first-hand how things work on different organisational levels, looking for what can be improved. For example, a member of the management team might spend a day, or more, as a call centre employee, smart courier, a debt collector or a credit inspector.

Tinkoff Bank office at Olympia Park in Moscow

Employees and corporate social responsibility continued

This improves their understanding of day-to-day business processes and customer service.

We take pride in our unique corporate culture: despite being a big company and ranked the second largest player in the Russian credit card market, our management structure is largely horizontal. We encourage our employees to generate ideas, suggest solutions to various business challenges, implement these solutions and take responsibility for their actions. As such, any employee has a chance to contribute to business development irrespective of their position.

Recruitment and training

We aim to attract the best professionals in the market through a sophisticated recruitment process, as well as employ a 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 transparent compensation.

A clear performance evaluation process and fair compensation are essential.

Free gym facilities for the Group's employees

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 partially 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 new consolidated long-term management incentive and retention plan, covering in total approximately 50 key, senior and middle managers. The new 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.

Working Environment, Health and Safety

TCS Group is a fintech company which embraces innovation, cutting-edge technologies 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. TCS Group offers regular annual medical exams, vaccination, 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, and chess.

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 the summer of 2015, 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. In the summer of 2015, we held a marketing campaign "Tinkoff Quest" during which our customers were competing for a grant. As part of the "Tinkoff Quest", one of the tasks was to make a donation to a charity foundation via mobile or internet bank. As a result, our customers donated over RUB 5.6 mn to various charity organisations over 35 days (c. USD 85,000).

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.

Tinkoff Bank employees celebrate Alberto Contador (Tinkoff cycling team) victory at Giro d'Italia in summer 2015: the winner traditionally wears a "maglia rosa", or a pink jersey

Board of Directors

Dear Stakeholders,

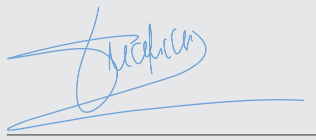
I was delighted to be elected Chairman of the Board of Directors in June 2015. I want to thank my predecessor Oleg Tinkov for his inspired stewardship of the Company as Chairman since IPO, not to mention inspirational roles as founder, controlling shareholder and figurehead over nearly ten years now. Oleg's success and departure from the Board only ramp up the challenge I face. Happily, his hands-on involvement in the business continues.

This is an opportunity for me to emphasize the great contribution all our lines of business made to the success of the Group in 2015, in a most testing environment, and congratulate our management team for this but above all, for maintaining their positivity, drive and momentum.

2015 has also put the Board of Directors to the test. I feel we have consistently struck a fine balance between commercial decision making and rigorously discharging our duty as stewards of our shareholders' investment, a duty which we take very seriously. With the continuity of our Board- nearly thirty years between us- I am confident that we will continue this. The mix of experience and knowledge within the Board is wide and a contributor to the success of the Company. I inherit corporate governance structures in place with firm foundations and will look to build on these as Chairman. So I too am optimistic, excited by the opportunities ahead.

To close my first statement I would like to thank my fellow Board members for their vote of confidence and continuing support in the challenges ahead. And as Chairman now I intend to play my part in keeping us on the

upward trajectory Oleg has mapped out.



Constantinos Economides
Chairman of the Board of Directors

Constantinos Economides

Chairman of the Board of Directors (40)

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 and holds the post of board member in Global Ports Investments PLC. 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

Member of the Board of Directors
Independent Non-Executive Director
Chairman of the Remuneration Committee
Member of the Audit Committee (56)

Jacques Der Megreditchian has been a director since October 2013. Mr. Der Megreditchian has also been Chairman of the Exchange Council of the Moscow Exchange and Chairman of the Board of Russian brokerage house IT Invest, and a member of the board of directors of the Russian National Association of Stock Market Participants since 2006. Mr. Der Megreditchian has almost 30 years of experience in finance from CCF, Societe Generale and Troika Dialog where he held the position of Chief Business Officer.

Mr. Der Megreditchian holds a degree in business administration from the European Business Institute, France and in financial analysis from the French Center for Financial Analysis, France.

Philippe Delpal

Member of the Board of Directors
Non-Executive Director
Member of the Audit Committee
Member of the Remuneration Committee (42)

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

Member of the Board of Directors
Independent Non-Executive Director
Chairman of the Audit Committee
Member of the Remuneration Committee (56)

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

Member of the Board of Directors (39)

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

Member of the Board of Directors (37)

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 was holding 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 company), with each GDR issued under a deposit agreement dated on or about 24th October 2013 with JPMorganChase Bank N.A.as depositary representing one class A share, are listed on London Stock Exchange and the Company is required to comply with its corporate governance regime to the extent it applies to foreign issuers of GDRs. No shares of TCS Group Holding PLC are listed on any exchange. As the class A shares themselves are not listed on the Cyprus Stock Exchange, the Cypriot corporate governance regime, which only relates to companies that are listed on the Cyprus Stock Exchange, does not apply to the Company and accordingly the Company does not monitor its compliance with that regime.

The Board of Directors

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

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The 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 one change in the composition of the Board in 2015 when the founding shareholder Mr. Oleg Tinkov stepped down from the Board, and his role as Chairman, at the time of the AGM on 5 June 2015. Our longest serving director Constantinos Economides took over the role of Chairman of the Board of directors that same day. The names of the others who served on the Board during 2015 are listed at pages 34/35. The Group has established two Committees of the Board. Specific responsibilities have been delegated to those committees.

The Board is required to undertake a formal and rigorous review annually of its own performance, that of its committees and of its individual directors. That review was carried out in-house in the second half of 2015 looking at performance from the time of the IPO in October 2013 but focused mainly on the second half of 2014 and first half of 2015. 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.

The Articles of Association of the Company provide for the retirement by rotation of certain directors at each Annual General Meeting. In 2015 the two directors who retired by rotation were Mr. Philippe Delpal and Mr. Jacques Der Megreditchian. Both were duly reappointed by vote of the shareholders.

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.

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. Details of the non executive and independent non executive directors are set out on pages 34/35.

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 2015 and by arranging a complementary committee review on a rolling basis driven by the audit cycle. As a result of the Audit Committee's own review, certain minor changes were proposed to the committee's terms of reference based on practical experience since formation in October 2013, to clarify certain procedural matters and to align them more closely with how the Committee operated in practice and recommended to the Board. The Board approved these changes in March 2015. During the second half of 2015 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 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.

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 will meet far more often. The Remuneration Committee continued work in 2015 and into 2016 on its review of the Group's new equity based incentive and retention plan for key, senior and middle management in the post IPO environment and the consolidation of the Group's two plans into one (launch was in March 2016).

Under its terms of reference the Remuneration Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Remuneration Committee met this obligation through members participating in the main Board review (described above) under which detailed questionnaires were completed by all directors assessing the operation of the Board and committees. As a result of an earlier review, certain minor changes were proposed to the Remuneration Committee's terms of reference based on practical experience since formation in October 2013, to clarify certain procedural matters and to align them more closely with how the committee operated in practice and recommended to the Board. The Board approved these changes too in March 2015. No further changes were felt required in 2015. The Committee continues to meet as required to assess its own performance but did not identify a need to schedule additional regular meetings.

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 TCS Group 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.

Martin Cocker

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

Philippe Delpal

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

Jacques Der Megreditchian

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

Management team

Oliver Hughes

Chief Executive Officer, Chairman of the Management Board of Tinkoff Bank (45)

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

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

Ilya Pisemsky

Chief Financial Officer, Deputy Chairman of the Management Board of Tinkoff Bank (40)

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

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

Sergei Pirogov

Head of Corporate Finance, Member of the Board of Directors of Tinkoff Bank (45)

Sergei has been Head of Corporate Finance at Tinkoff Bank since January 2010 and a member of Tinkoff Bank's Board of Directors since May 2011. He previously was Director of Corporate Finance at Citigroup.

Sergei graduated from Moscow State Institute for International Relations and holds an MBA from Darden Graduate School of Business, University of Virginia, USA (2000).

Artem Yamanov

Business Development Director (34)

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

Chief Operating Officer, Deputy Chairman of the Management Board of Tinkoff Bank (35)

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.

Evgeny Ivashkevich

Chief Risk Officer, Deputy Chairman of the Management Board of Tinkoff Bank (45)

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.

Management team
continued

Anatoly Makeshin

Head of Payment Systems, Member of the Management Board of Tinkoff Bank (43)

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

Chief Information Officer (40)

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.

Tatiana Kouznetsova

Head of Human Resources (47)

Tatiana Kuznetsova has been a Vice President since August 2013 and the Head of HR of Tinkoff Bank since December 2006. She was previously head of HR of "MODUL Group" from 2001 to 2006 and in the audit-consulting group at the Razvitie Business System in 2006.

Mrs. Kouznetsova holds a masters degree in psychology from the Moscow State University, Russia.

Alexey Telyatnikov

Executive Director, Tinkoff Insurance (51)

Alexey Telyatnikov joined Tinkoff Insurance team in 2015.Mr. Telyatnikov was previously employed with VSK Insurance as Chief Operating Officer from 2012 to 2015.

Mr. Telyatnikov holds a masters degree in physics from Moscow Institute of Physics and Technology, Russia.

Vadim Yurko

Chief Executive Officer, Tinkoff Insurance (40)

Vadim Yurko joined the Group on 1 September 2015 as chief executive officer of Tinkoff Insurance. He was previously Chief Marketing Officer at Ingosstrakh where since 2011 he had responsibility for brand development strategy and online business and services.

Mr. Yurko has a degree in Public and Municipal Administration from the Volgograd Academy of Public Administration and a PhD in Economics from the Russian Presidential Academy of National Economy and Public Administration.

TCS Group Holding PLC

31 December 2015

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 (reappointed in June 2015)
Jacques Der Megreditchian (reappointed in June 2015)
Martin Cocker

All served throughout 2015 and through 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 2016 on the basis of the composition of the Board at the relevant date.

Company Secretary

Altruco Secretarial Limited

2nd Floor Sotiri Tofini 4
Agios Athanasios
4102 Limassol, Cyprus

Registered office

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

Report of the Board of Directors

01 The Board of Directors presents its report together with the audited consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2015.

Principal activities

02 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").

03 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

04 The Bank operates a flexible business model. Its virtual network enables it to increase business or slow customer acquisition down depending on the availability of funding and market conditions. The Bank's primary customer acquisition channel is 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.

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

05 The net profit of the Group for the year ended 31 December 2015 was RR 1,850,182 thousand (2014: RR 3,400,613 thousand). On 31 December 2015 the total assets of the Group were RR 139,651,983 thousand (2014: RR 108,806,274 thousand) and the net assets were RR 22,946,471 thousand (2014: RR 20,969,068 thousand).

Principal risks and uncertainties

06 The Group conducts its activities in Russia through its subsidiaries; the Group's business and financial results during 2015 have been affected by the increased uncertainties and volatility of the Russian economic environment that have been evident throughout 2015.

07 Other risks and uncertainties, which affect the Group, are presented in Notes 2, 31, 32 and 33 of the consolidated financial statements.

Future developments

08 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

09 The Group's results for the year are set out on page F-4 of the consolidated financial statements.

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

10 Any important events for the Group that have occurred after the end of the financial year are presented in Note 39.

Share capital

11 There were no changes in issued share capital in 2015.

Treasury shares

12 During the three months ended 30 June 2015 the Group repurchased 1,843,682 GDRs at market prices for RR 323,808 thousand (Note 20) which are to be allocated to meet projected commitments under a new long term management incentive plan due to be launched in 2016.

Board of Directors

13 The members of the Board of Directors as of 31 December 2015 and at the date of this report are presented on page F-1.

14 Oleg Tinkov resigned on 5 June 2015.

Auditors

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

By Order of the Board

Constantinos Economides
Director
Limassol
1 March 2016

Consolidated Statement of Financial Position

In thousands of RR	Note	31 December 2015	31 December 2014
ASSETS			
Cash and cash equivalents	7	13,689,044	10,699,577
Mandatory cash balances with the CBRF		674,717	685,510
Due from other banks		726,209	-
Loans and advances to customers	8	82,067,018	74,579,998
Financial derivatives	35	11,344,871	8,879,972
Investment securities available for sale	9	15,935,866	216,535
Repurchase receivables	10	2,344,080	5,366,280
Current income tax assets	28	742,722	1,094,088
Guarantee deposits with payment systems	11	3,376,795	2,967,132
Tangible fixed assets	12	2,051,514	541,348
Intangible assets	12	1,418,621	1,125,307
Other financial assets	13	3,499,560	1,890,667
Other non-financial assets	13	1,780,966	759,860
TOTAL ASSETS		**139,651,983**	**108,806,274**
LIABILITIES			
Due to banks	14	6,391,636	10,331,216
Customer accounts	15	89,342,642	43,366,434
Debt securities in issue	16	1,904,857	19,414,780
Financial derivatives	35	7,514	-
Current income tax liabilities		35,784	12,593
Deferred income tax liabilities	28	1,783,657	1,039,795
Subordinated debt	17	14,609,295	11,250,686
Insurance provisions	18	515,460	248,409
Other financial liabilities	19	1,296,224	1,573,861
Other non-financial liabilities	19	818,443	599,432
TOTAL LIABILITIES		**116,705,512**	**87,837,206**
EQUITY			
Share capital	20	188,112	188,112
Share premium	20	8,622,919	8,622,919
Treasury shares	20	(327,718)	(4,474)
Share-based payment reserve	38	614,394	587,200
Retained earnings		13,716,168	11,800,358
Revaluation reserve		132,596	(225,047)
TOTAL EQUITY		**22,946,471**	**20,969,068**
TOTAL LIABILITIES AND EQUITY		**139,651,983**	**108,806,274**

Approved for issue and signed on behalf of the Board of Directors on 1 March 2016.

Constantinos Economides
Director

Mary Trimithiotou
Director

The notes set out on pages 10 to 68 form an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of RR	Note	2015	2014
Interest income	21	40,773,289	39,062,011
Interest expense	21	(12,706,829)	(8,264,026)
Net interest income		**28,066,460**	**30,797,985**
Provision for loan impairment	8	(14,908,053)	(15,839,175)
Net interest income after provision for loan impairment		13,158,407	14,958,810
Customer acquisition expense	22	(3,661,607)	(3,095,285)
Net gains/(losses) from operations with foreign currencies	23	170,136	(1,122,054)
Income from insurance operations		1,170,221	923,363
Insurance claims incurred	24	(411,525)	(210,060)
Gain from sale of impaired loans	8	27,830	28,159
Fee and commission income	25	1,371,233	312,145
Fee and commission expense	25	(1,961,064)	(991,130)
Administrative and other operating expenses	26	(7,539,052)	(6,091,574)
Other operating income	27	240,852	182,311
Profit before tax		**2,565,431**	**4,894,685**
Income tax expense	28	(715,249)	(1,494,072)
Profit for the year		**1,850,182**	**3,400,613**
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Investment securities available for sale and Repurchase receivables			
• Net gains/(losses) arising during the year, net of tax		384,170	(213,995)
• Net gains reclassified to profit or loss upon disposal or impairment, net of tax		(26,527)	(11,052)
Other comprehensive income/(loss) for the year, net of tax		**357,643**	**(225,047)**
Total comprehensive income for the year		**2,207,825**	**3,175,566**
Earnings per share for profit attributable to the owners of the Group, basic (expressed in RR per share)	20	**10.38**	**19.00**
Earnings per share for profit attributable to the owners of the Group, diluted (expressed in RR per share)	20	**10.36**	**18.89**

The notes set out on pages 10 to 68 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of RR	Note	Share capital	Share premium	Share-based payment reserve	Treasury shares	Retained earnings	Revaluation reserve	Total
Balance at 31 December 2013		**186,162**	**8,622,919**	**477,740**	**(2,524)**	**11,266,710**	**-**	**20,551,007**
Profit for the year		-	-	-	-	3,400,613	-	3,400,613
Other comprehensive income:								
Revaluation of investment securities available for sale and transfers to profit or loss upon disposal or impairment		-	-	-	-	-	(225,047)	(225,047)
Total comprehensive income for 2014		-	-	-	-	**3,400,613**	**(225,047)**	**3,175,566**
Share issue	20	1,950	-	-	(1,950)	-	-	-
Share-based payment reserve		-	-	109,460	-	-	-	109,460
Dividends	29	-	-	-	-	(2,866,965)	-	(2,866,965)
Total transactions with owners		**1,950**	-	**109,460**	**(1,950)**	**(2,866,965)**	-	**(2,757,505)**
Balance at 31 December 2014		**188,112**	**8,622,919**	**587,200**	**(4,474)**	**11,800,358**	**(225,047)**	**20,969,068**
Profit for the year		-	-	-	-	1,850,182	-	1,850,182
Other comprehensive income:								
Revaluation of investment securities available for sale and transfers to profit or loss upon disposal or impairment		-	-	-	-	-	357,643	357,643
Total comprehensive income for 2015		-	-	-	-	**1,850,182**	**357,643**	**2,207,825**
GDRs buy-back	20	-	-		(323,808)	-	-	(323,808)
Share-based payment reserve		-	-	93,386	-	-	-	93,386
Shares sold under ESOP	20	-	-	(66,192)	564	65,628	-	-
Total transactions with owners		-	-	**27,194**	**(323,244)**	**65,628**	**-**	**(230,422)**
Balance at 31 December 2015		**188,112**	**8,622,919**	**614,394**	**(327,718)**	**13,716,168**	**132,596**	**22,946,471**

The notes set out on pages 10 to 68 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

In thousands of RR	Note	2015	2014
Cash flows from operating activities			
Interest received		38,056,968	36,394,790
Interest paid		(13,065,014)	(8,449,325)
Customers acquisition expenses paid		(2,625,496)	(1,942,562)
Cash received from operations in foreign currencies		2,916,565	760,543
Income from insurance operations received		1,302,405	984,123
Cash received from sale of impaired loans	8	37,424	86,613
Fees and commissions paid		(1,846,689)	(996,483)
Fees and commissions received		1,371,233	312,145
Other operating income received		261,715	240,485
Administrative and other operating expenses paid		(3,392,331)	(3,116,721)
Income tax paid		(68,691)	(1,323,993)
Cash flows from operating activities before changes in operating assets and liabilities		**22,948,089**	**22,949,615**
Changes in operating assets and liabilities			
Net decrease in CBRF mandatory reserves		10,793	245,536
Net increase in due from banks		(700,883)	-
Net increase in loans and advances to customers		(20,640,456)	(15,106,702)
Net decrease/(increase) in guarantee deposits with payment systems		373,021	(68,499)
Net increase in other financial assets		(1,384,833)	(791,277)
Net increase in other non-financial assets		(1,010,439)	(58,196)
Net (decrease)/increase in due to banks		(4,413,452)	10,329,208
Net increase/(decrease) in customer accounts		38,886,912	(5,657,050)
Net decrease in other financial liabilities		(577,201)	(529,138)
Net increase in other non-financial liabilities		-	4,978
Net cash from/(used in) operating activities		**33,491,551**	**11,318,475**
Cash flows used in investing activities			
Acquisition of tangible fixed assets		(1,726,349)	(126,276)
Acquisition of intangible assets		(346,524)	(567,122)
Acquisition of investments available for sale	9	(13,860,287)	(7,079,917)
Proceeds from disposal and redemption of investment securities available for sale	9	3,046,645	1,245,926
Net cash used in investing activities		**(12,886,515)**	**(6,527,389)**
Cash flows from financing activities			
Proceeds from debt securities in issue		1,856,747	143,149
Repayment of debt securities in issue		(19,976,903)	(13,723,674)
GDRs buy-back		(323,808)	-
Dividends paid	29	-	(3,521,808)
Net cash from financing activities		**(18,443,964)**	**(17,102,333)**
Effect of exchange rate changes on cash and cash equivalents		828,395	4,184,854
Net (decrease)/increase in cash and cash equivalents		**2,989,467**	**(8,126,393)**
Cash and cash equivalents at the beginning of the year	7	**10,699,577**	**18,825,970**
Cash and cash equivalents at the end of the year	7	**13,689,044**	**10,699,577**

The notes set out on pages 10 to 68 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2015

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 2015 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: Altruco Secretarial Limited, 2nd Floor, Sotiri Tofini 4, Agios Athanasios, 4102 Limassol, Cyprus.

At 31 December 2015 and 2014 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 2015 and 2014 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 2015 and 2014 the entities holding either Class A or Class B shares of the Company were:

	Class of shares	31 December 2015	31 December 2014	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	42.52%	43.91%	United Kingdom
Vostok Emerging Finance Ltd	Class A	3.49%	-	Bermuda
Rousse Nominees Limited	Class A	2.88%	2.88%	Guernsey
Altruco Trustees Limited	Class A	0.66%	1.32%	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
Lorimer Ventures Limited	Class A	-	1.44%	Cyprus
Total		**100.00%**	**100.00%**	

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

The shareholding of Altruco Trustees Limited represents shares held under the ESOP (Note 38) only.

As at 31 December 2015 and 2014 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 2015 and 2014 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.

Notes to the Consolidated Financial Statements continued

31 December 2015

1 Introduction continued

The Group owns 100% of shares and has 100% of voting rights of each of these subsidiaries as at 31 December 2015 and 2014 except for TCS Finance Ltd (see below).

JSC "Tinkoff Bank" (the "Bank") provides on-line retail banking services in Russia. The Bank specialises in issuing credit cards. On 2 April 2015 the Bank changed its corporate name from CJSC Tinkoff Credit Systems Bank.

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

LLC "Microfinance organization "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 has neither shares nor 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.

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.

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 has operated under general banking license № 2673 issued by the Central Bank of the Russian Federation ("CBRF") since 8 December 2006. The Insurance Company operates under 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 1,400 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF-imposed moratorium on payments.

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

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

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 33). During 2015 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing 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, increased interest rates and inflation and devaluation of Russian Rouble against nearly all major foreign currencies. This has led to increased economic challenges to Russian population, which has led to significantly higher defaults in the commercial banking sector. During 2015 the CBRF has withdrawn 92 banking licenses and many banks have been "sanated" by large banks through support of the Government and the Deposit Insurance Agency.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. 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.

Management determines loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

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

Notes to the Consolidated Financial Statements continued

31 December 2015

3 Summary of Significant Accounting Policies continued

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 (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 36.

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

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

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

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

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

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.

3 Summary of Significant Accounting Policies continued

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.

Notes to the Consolidated Financial Statements continued

31 December 2015

3 Summary of Significant Accounting Policies continued

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. Subsequent recoveries of amounts previously written off are credited to the impairment loss account in profit or loss for the year.

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

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

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

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.

3 Summary of Significant Accounting Policies continued

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	49
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. 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.

Notes to the Consolidated Financial Statements continued

31 December 2015

3 Summary of Significant Accounting Policies continued

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

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

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

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

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

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

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

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 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.

3 Summary of Significant Accounting Policies continued

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

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

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

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the 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.

Notes to the Consolidated Financial Statements continued

31 December 2015

3 Summary of Significant Accounting Policies continued

- ***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 byline of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

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

- ***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.

3 Summary of Significant Accounting Policies continued

- ***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 2015 the rate of exchange used for translating foreign currency balances was USD 1 = RR 72.8827 (2014: USD 1 = RR 56.2584), and the average rate of exchange was USD 1 = RR 60.7913 (2014: USD 1 = RR 38.3165).

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

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

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

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

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

Cash-settled share-based payment. The expense is recognized gradually over the vesting period and is measured at the fair value of the liability at each end of the reporting period. The fair value of the liability reflects all vesting conditions, except for the requirement of employee to stay in service which is reflected through the amortization schedule. The liability is measured, initially and at the end of each reporting period until settled, at fair value, taking into account the terms and conditions on which the instruments were granted and the extent to which the employees have rendered service to date.

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

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

Notes to the Consolidated Financial Statements continued

31 December 2015

3 Summary of Significant Accounting Policies continued

Changes in presentation. 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 2014:

1) Management decided to show insurance premiums earned and insurance claims incurred separately in the consolidated statement of profit or loss and other comprehensive income.

In thousands of RR	**As originally presented**	**Reclassification**	**As reclassified**
Net income from insurance operations	759,483	(759,483)	-
Insurance premiums earned	-	923,363	923,363
Insurance claims incurred	-	(210,060)	(210,060)
Other operating income	136,131	46,180	182,311

2) Bonus payment to customer acquisition staff was reallocated from administrative expenses to customer acquisition expenses.

In thousands of RR	**As originally presented**	**Reclassification**	**As reclassified**
Administrative and other operating expenses	(6,128,897)	37,323	(6,091,574)
Customer acquisition expense	(3,057,962)	(37,323)	(3,095,285)

The effect of reclassifications for presentation purposes was as follows on amounts in the consolidated statement of cash flows for the year ended 31 December 2014:

In thousands of RR	**As originally presented**	**Reclassification**	**As reclassified**
Net increase in loans and advances to customers	(17,988,220)	2,881,518	(15,106,702)
Net decrease in customer accounts	(2,775,532)	(2,881,518)	(5,657,050)

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

Given the nature of the borrowers and the loans it is the Group's view and experience that there is a very short time lag between a possible loss event that could lead to impairment and the non or under payment of a monthly installment. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies continued

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 2015 the positive effect of the above adjustment on provision for loan impairment is approximately RR 256,372 thousand (2014: RR 315,302 thousand).

To the extent that the incurred losses as at 31 December 2015 resulting from future cash flows vary by 1.0% (31 December 2014: 1.0%) from the calculated estimate, the profit would be approximately RR 1,010,813 thousand (31 December 2014: RR 939,073 thousand) higher or lower.

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

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

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

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 36.

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 2015, but did not have any material impact on the Group:

- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- IFRIC 21 – Levies (issued on 20 May 2013 and effective for annual periods beginning 17 June 2014).

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 2016 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.

Notes to the Consolidated Financial Statements continued

31 December 2015

6 New Accounting Pronouncements continued

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 currently in the process of considering the requirements of IFRS 9 "Financial Instruments" which is effective for the annual period beginning 1 January 2018, subject to EU endorsement. Following this consideration, the Group is planning to proceed with a detailed gap analysis covering among others, analysis of IT systems, specific policies, procedures and controls in place, as well as data and credit modelling requirements. Following the result of this gap analysis, the Group will proceed with the development of an implementation plan to address the gaps identified with the aim to complete this process prior to the adoption of the new standard on 1 January 2018.

The standard is expected to have a significant impact on the Group's loan impairment provisions. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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.

IFRS 16 "Leases" (issued in 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.

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

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016)*.

- 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).

6 New Accounting Pronouncements continued

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture –Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016)*.

- 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 in 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 in December 2014 and effective for annual periods on or after 1 January 2016)*.

- Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 February 2015).

- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 February 2015).

- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).

- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017)*.

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 thousands of RR	31 December 2015	31 December 2014
Cash on hand	34,991	25,571
Cash balances with the CBRF (other than mandatory reserve deposits)	5,314,736	2,295,541
Placements with other banks and organizations with original maturities of less than three months, including:		
- AA- to AA+ rated	1,178,834	-
- A- to A+ rated	633	3,426,240
- BBB- rated	6,807,176	2,655,663
- BB- to BB+ rated	49,636	33,721
- B- to B+ rated	66,343	118,936
Unrated	236,695	2,143,905
Total Cash and Cash Equivalents	**13,689,044**	**10,699,577**

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

Placements with other banks and organizations with original maturities of less than three months includes placements under reverse sale and repurchase agreements in the amount of RR 5,733,462 thousand as at 31 December 2015 (31 December 2014: none).

Cash and cash equivalents are neither impaired nor past due. Refer to Note 36 for the disclosure of the fair value of cash and cash equivalents. Interest rate, maturity and geographical risk concentration analyses of cash and cash equivalents is disclosed in Note 31.

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.

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

Notes to the Consolidated Financial Statements continued

31 December 2015

8 Loans and Advances to Customers

In thousands of RR	31 December 2015	31 December 2014
Loans to individuals:		
Credit card loans	90,381,616	85,064,092
Installment loans	8,283,462	6,534,975
Cash loans	1,724,352	1,564,940
POS loans	691,824	743,319
Total loans and advances to customers before impairment	**101,081,254**	**93,907,326**
Less: Provision for loan impairment	(19,014,236)	(19,327,328)
Total loans and advances to customers	**82,067,018**	**74,579,998**

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.

During June to October 2015 the Group acquired in three tranches a portion of JSC Svyaznoy Bank's credit card portfolio for RR 5,705 mln. The acquired portfolio consisted of neither past due, nor impaired credit card loans at the date of acquisition.

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

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

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 2015	31 December 2014
Credit card limits		
Up to 20 RR thousand	663,357	945,575
20-40 RR thousand	393,750	414,678
40-60 RR thousand	278,260	298,444
60-80 RR thousand	226,550	254,678
80-100 RR thousand	190,984	204,724
100-120 RR thousand	157,111	157,480
120-140 RR thousand	277,882	206,603
More than 140 RR thousand	72,381	12,590
Total cards	**2,260,275**	**2,494,772**

8 Loans and Advances to Customers continued

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

In thousands 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	15,609,454	(370,930)	(12,080,771)	11,328,826	14,486,579
Installment loans	3,133,634	(58,756)	(2,166,329)	3,184,938	4,093,487
Cash loans	457,893	-	(419,402)	233,596	272,087
POS loans	126,347	-	(124,957)	160,693	162,083
Total provision for loan impairment	**19,327,328**	**(429,686)**	**(14,791,459)**	**14,908,053**	**19,014,236**

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

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

In 2015 the Group sold impaired loans to third parties (external debt collection agencies) with a gross amount of RR 439,280 thousand (2014: RR 1,420,999 thousand), and provision for impairment of RR 429,686 thousand (2014: RR 1,362,545 thousand). The difference between the carrying amount of these loans and the consideration received was recognised in profit or loss as gain from the sale of impaired loans in the amount of RR 27,830 thousand (2014: RR 28,159 thousand).

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

	31 December 2015				31 December 2014			
In thousands of RR	Credit card loans	Install-ment loans	Cash loans	POS loans	Credit card loans	Install-ment loans	Cash loans	POS loans
Neither past due nor impaired:								
- new	2,166,188	-	347,515	130,487	965,111	-	-	291,659
Loans collectively assessed for impairment (gross):								
- non-overdue	72,609,522	5,460,407	1,097,210	391,435	66,142,385	4,083,880	1,080,654	305,023
- less than 30 days overdue	2,346,495	626,659	42,075	15,842	3,230,355	490,447	68,554	27,136
- 30 to 90 days overdue	2,622,035	680,646	40,160	20,669	3,015,618	518,151	79,082	19,892
- 90 to 180 days overdue	2,795,976	582,822	49,980	24,390	3,126,610	609,545	107,693	22,388
- 180 to 360 days overdue	3,516,483	932,928	147,412	109,001	4,625,476	832,952	228,957	77,221
- loans in courts	4,324,917	-	-	-	3,958,537	-	-	-
Less: Provision for loan impairmenv t	(14,486,579)	(4,093,487)	(272,087)	(162,083)	(15,609,454)	(3,133,634)	(457,893)	(126,347)
Total loans to individuals	**75,895,037**	**4,189,975**	**1,452,265**	**529,741**	**69,454,638**	**3,401,341**	**1,107,047**	**616,972**

Notes to the Consolidated Financial Statements continued

31 December 2015

8 Loans and Advances to Customers continued

Loans in category "new" represent loans provided to borrowers for which the date of the first payment did not occur before the reporting date 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 36 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 is disclosed in Note 31. Information on related party balances is disclosed in Note 38.

9 Investment Securities Available for Sale

In thousands of RR	**31 December 2015**	**31 December 2014**
Corporate bonds	15,623,636	216,535
Russian government bonds	312,230	-
Total investment securities available for sale	**15,935,866**	**216,535**

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

In thousands of RR	**Corporate bonds**	**Russian government bonds**	**Total**
Neither past due nor impaired			
BBB rated	7,481,361	53,963	7,535,324
BB- to BB+ rated	7,687,392	258,267	7,945,659
B- to B+ rated	454,883	-	454,883
Total neither past due nor impaired investment securities available for sale	**15,623,636**	**312,230**	**15,935,866**

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

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

9 Investment Securities Available for Sale continued

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

In thousands of RR	**31 December 2015**
Carrying amount at 1 January	216,535
Purchases	13,860,287
Redemption of investment securities available for sale	(2,308,802)
Disposal of investment securities available for sale	(737,843)
Interest income accrued on investment securities available for sale (Note 21)	1,006,814
Interest received	(879,964)
Receipt under Sale and Repurchase agreements	5,492,475
Pledged under Sale and Repurchase agreements	(1,877,287)
Foreign exchange gain on investment securities available for sale in currency	701,989
Revaluation through other comprehensive income	461,662
Carrying amount at 31 December 2015	**15,935,866**

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

In thousands of RR	31 December 2014
Carrying amount at 1 January	-
Purchases	7,079,917
Disposals of investment securities available for sale	(551,788)
Redemption of investment securities available for sale	(694,138)
Interest income accrued on investment securities available for sale (Note 21)	319,684
Interest received	(303,367)
Pledged under sale and repurchase agreements	(5,366,280)
Revaluation through other comprehensive income	(267,493)
Carrying amount at 31 December 2014	**216,535**

10 Repurchase Receivables

Repurchase receivables represent securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge. The short-term repurchase agreements mature by 11 January 2016, the long-term repurchase agreements mature by 20 April 2016 (31 December 2014: matured on 14 January 2015).

In thousands of RR	**31 December 2015**	**31 December 2014**
Available-for-sale securities sold under sale and repurchase agreements		
Corporate bonds	2,060,815	5,098,868
Russian government bonds	283,265	267,412
Total repurchase receivables	**2,344,080**	**5,366,280**

Notes to the Consolidated Financial Statements continued

31 December 2015

10 Repurchase Receivables continued

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

In thousands of RR	Available-for-sale securities Russian government bonds	Corporate bonds
Neither past due nor impaired		
BBB rated	283,265	1,168,693
BB- to BB+ rated	-	892,122
Total neither past due nor impaired debt securities classified as repurchase receivables	**283,265**	**2,060,815**

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

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

Refer to Note 14 for the related liabilities.

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 2015 and 2014) 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 thousands of RR	Building	Equipment	Leasehold improve-ments	Vehicles	Total tangible fixed assets	Intangible assets
Cost						
At 31 December 2013	**-**	**649,378**	**528,675**	**35,314**	**1,213,367**	**907,057**
Additions	-	149,618	13,744	20,986	184,348	799,574
Disposals	-	-	-	(16,106)	(16,106)	-
At 31 December 2014	**-**	**798,996**	**542,419**	**40,194**	**1,381,609**	**1,706,631**
Additions	1,564,248	174,154	604	-	1,739,006	476,478
Disposals	-	(75,080)	-	(1,885)	(76,965)	-
At 31 December 2015	**1,564,248**	**898,070**	**543,023**	**38,309**	**3,043,650**	**2,183,109**
Depreciation and amortisation						
At 31 December 2013	**-**	**(344,573)**	**(233,490)**	**(14,498)**	**(592,561)**	**(392,292)**
Charge for the period (Note 26)	-	(177,627)	(73,644)	(6,658)	(257,929)	(189,032)
Disposals	-	-	-	10,229	10,229	-
At 31 December 2014	**-**	**(522,200)**	**(307,134)**	**(10,927)**	**(840,261)**	**(581,324)**
Charge for the period (Note 26)	-	(147,441)	(74,221)	(7,178)	(228,840)	(183,164)
Disposals	-	75,080	-	1,885	76,965	-
At 31 December 2015	**-**	**(594,561)**	**(381,355)**	**(16,220)**	**(992,136)**	**(764,488)**
Net book value						
At 31 December 2014	**-**	**276,796**	**235,285**	**29,267**	**541,348**	**1,125,307**
At 31 December 2015	**1,564,248**	**303,509**	**161,668**	**22,089**	**2,051,514**	**1,418,621**

13 Other Financial and Non-financial Assets

In thousands of RR	31 December 2015	31 December 2014
Other Financial Assets		
Settlement of operations with plastic cards	3,355,490	1,813,784
Trade and other receivables	127,104	76,633
Other	16,966	250
Total Other Financial Assets	**3,499,560**	**1,890,667**
Other Non-Financial Assets		
Prepaid expenses	1,701,877	691,438
Other	79,089	68,422
Total Other Non-Financial Assets	**1,780,966**	**759,860**

Settlement of operations with plastic cards represents balances due from payment agents in respect of payments made by borrowers to reimburse credit card loans and to be settled within 30 days. This amount includes prepayment to the payment systems for operations during Holiday period.

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

Other financial assets are not impaired and not past due. Refer to Note 36 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 thousands of RR	31 December 2015	31 December 2014
Short-term loan from CBRF	4,014,043	2,005,548
Sale and repurchase agreements with CBRF	2,127,346	5,002,399
Loan from OJSC Sberbank of Russia	-	2,994,061
Due to other banks	250,247	329,208
Total due to banks	**6,391,636**	**10,331,216**

On 14 October 2015 the Group raised two loans from CBRF in the total amount of RR 2,000 mln with a contractual interest rate of 12.75% maturing 12 January 2016.

On 5 November 2015 the Group raised two loans from CBRF in the total amount of RR 2,000 mln with a contractual interest rate of 12.75% maturing 3 February 2016.

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

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

On 14 March 2014 the Bank raised a loan from PJSC Sberbank of Russia in the amount of RR 3,000 mln with a contractual interest rate of 11.2%. The loan was fully redeemed on 13 September 2015.

As at 31 December 2015, in amounts due to banks are included liabilities of RR 2,127,346 thousand from sale and repurchase agreements with CBRF (31 December 2014: RR 5,002,399 thousand).

Refer to Note 36 for the disclosure of the fair value of due to banks.

Notes to the Consolidated Financial Statements continued

31 December 2015

15 Customer Accounts

In thousands of RR	31 December 2015	31 December 2014
Legal entities		
-Current/settlement accounts of corporate entities	517,715	196,242
-Term deposits of corporate entities	375,123	1,878,589
Individuals		
-Current/settlement accounts of individuals	24,505,510	11,056,383
-Term deposits of individuals	63,944,294	30,235,220
Total Customer Accounts	**89,342,642**	**43,366,434**

Refer to Note 36 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 38.

16 Debt Securities in Issue

In thousands of RR	Date of maturity	31 December 2015	31 December 2014
Euro-Commercial Paper issued in December 2015	20.06.2016	1,876,764	-
RR denominated bonds issued in May 2013	24.05.2016	28,093	1,131,498
USD denominated bonds issued in September 2012	18.09.2015	-	14,426,424
RR denominated bonds issued in July 2012	14.07.2015	-	2,094,954
RR denominated bonds issued in April 2012	16.04.2015	-	1,538,870
Euro-Commercial Paper issued in February 2014	26.02.2015	-	223,034
Total Debt Securities in Issue		**1,904,857**	**19,414,780**

On 2 December 2015 the Group issued RR denominated Euro-Commercial Paper (ECP) with a nominal value of RR 2 bln with a discount of 7.2% maturing on 20 June 2016.

On 28 May 2013 the Group issued RR denominated bonds with a nominal value of RR 3,000 mln at 10.25% coupon rate maturing on 24 May 2016. As a result of an offer event as at 25 November 2014 securities with nominal value of RR 1,880 mln were repurchased by the Group. In November 2014 the Group set the coupon rate of RR denominated bonds at 14.00% till the next offer event. On 29 May 2015 as a result of an offer event securities with nominal value of RR 1,092 mln were repurchased by the Group. In May 2015 the Group set the coupon rate of RR denominated bonds at 12.50% till maturity.

On 18 September 2012 the Group issued USD denominated bonds with a nominal value of USD 250 mln at 10.75% coupon rate maturing on 18 September 2015. On 18 September 2015 the Group redeemed the outstanding balance of the USD denominated bonds at maturity, when listing and trading was cancelled.

On 16 July 2012 the Group issued RR denominated bonds with a nominal value of RR 2,000 mln at 13.9% coupon rate maturing on 14 July 2015. On 14 July 2015 the Group redeemed all outstanding bonds of this issue at maturity.

On 19 April 2012 the Group issued RR denominated bonds with a nominal value of RR 1,500 mln at 13.25% coupon rate maturing on 16 April 2015. On 16 April 2015 the Group redeemed all outstanding bonds of this issue at maturity.

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

All bonds issued by the Group are traded on stock exchanges. Refer to Note 36 for the disclosure of the fair value of debt securities in issue.

17 Subordinated Debt

As at 31 December 2015 the carrying value of the subordinated debt was RR 14,609,295 thousand (31 December 2014: RR 11,250,686 thousand). On 6 December 2012 and 18 February 2013 respectively the Group issued USD denominated subordinated bonds with a nominal value of USD 125 mln with zero premium and USD 75 mln at a premium of 7.0% at 14.0% coupon rate (applicable to both tranches) maturing on 6 June 2018. The claims of the lenders against the Group in respect of the principal and interest on these bonds are subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation.

Interest rate, maturity and geographical risk concentration analyses of subordinated debt are disclosed in Note 31. Refer to Note 36 for the disclosure of fair value of subordinated debt.

18 Insurance Provisions

In thousands of RR	31 December 2015	31 December 2014
Insurance Provisions		
Provision for unearned premiums	168,550	62,812
Loss provisions	346,910	185,597
Total Insurance Provisions	**515,460**	**248,409**

Movements in provision for unearned premiums for the year ended 31 December 2015 and 2014 are as follows:

	2015			2014		
In thousands 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	**63,103**	**-**	**63,103**	**29,268**	**-**	**29,268**
Change in provision, gross	105,447	-	105,447	33,544	-	33,544
Change in reinsurers' share of provision	-	(9)	(9)	-	-	-
Provision for unearned premiums as at 31 December	**168,550**	**(9)**	**168,541**	**62,812**	**-**	**62,812**

Movements in loss provisions for the year ended 31 December 2015 and 2014 are as follows:

In thousands of RR	OCP and IBNR	URP	Provision for claims handling expenses	Total loss provisions
Loss provisions as at 1 January 2014	**23,354**	**-**	**123**	**23,477**
Change in provision	155,047	12,632	3,990	171,669
Netting with deferred acuiqition costs	-	(9,549)	-	(9,549)
Loss provisions as at 31 December 2014	**178,401**	**3,083**	**4,113**	**185,597**
Change in provision	106,982	71,432	30,145	208,559
Netting with deferred acuiqition costs	-	(47,246)	-	(47,246)
Loss provisions as at 31 December 2015	**285,383**	**27,269**	**34,258**	**346,910**

19 Other Financial and Non-financial Liabilities

In thousands of RR	31 December 2015	31 December 2014
Other Financial Liabilities		
Settlement of operations with plastic cards	622,390	1,009,440
Trade payables	637,792	470,608
Other	36,042	93,813
Total Other Financial Liabilities	**1,296,224**	**1,573,861**
Other Non-financial Liabilities		
Accrued administrative expenses	381,113	213,965
Taxes payable other than income tax	406,410	355,468
Other	30,920	29,999
Total Other Non-financial Liabilities	**818,443**	**599,432**

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 36 for disclosure of fair value of other financial liabilities.

20 Share Capital

In thousands of RR except for number of shares	Number of authorised shares	Number of outstanding shares	Ordinary shares	Share premium	Treasury shares	Total
At 31 December 2013	**190,479,500**	**181,189,075**	**186,162**	**8,622,919**	**(2,524)**	**8,806,557**
Shares issued	-	1,449,750	1,950	-	(1,950)	-
At 31 December 2014	**190,479,500**	**182,638,825**	**188,112**	**8,622,919**	**(4,474)**	**8,806,557**
GDRs buy-back	-	-	-	-	(323,808)	(323,808)
Shares sold under ESOP	-	-	-	-	564	564
At 31 December 2015	**190,479,500**	**182,638,825**	**188,112**	**8,622,919**	**(327,718)**	**8,483,313**

Share premium represents the excess of contributions received over the nominal value of shares issued.

In June 2014 the Group issued 1,449,750 ordinary shares with a par value of USD 0.04 per share, fully paid, to Altruco Trustees Limited under the ESOP. Refer to Note 38.

Treasury shares represent "Class A" shares of the Group under the ESOP and Equity LTIP and all held by a trustee and GDRs repurchased from the market during the period from April to June 2015. Refer to Note 38.

During the three months ended 30 June 2015 the Group repurchased 1,843,682 GDRs at market prices for RR 323,808 thousand.

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

For the purpose of calculating diluted earnings per share the Group considered the effect of shares issued under the ESOP and Equity LTIP. Refer to Note 38.

20 Share Capital Continued

Earnings per share are calculated as follows:

In thousands of RR except for number of shares	2015	2014
Profit for the year attributable to ordinary shareholders	1,850,182	3,400,613
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation (thousands)	178,175	179,025
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation (thousands)	178,584	179,991
Basic earnings per ordinary share (expressed in RR per share)	**10.38**	**19.00**
Diluted earnings per ordinary share (expressed in RR per share)	**10.36**	**18.89**

21 Interest Income and Expense

In thousands of RR	2015	2014
Interest income		
Loans and advances to customers, including:		
Credit card loans	37,621,657	37,226,170
Installment loans	925,059	558,832
Cash loans	640,633	707,121
POS loans	380,330	236,013
Interest income accrued on investment securities available for sale and repurchase receivables	1,089,868	319,684
Placements with other banks	115,742	14,191
Total Interest Income	**40,773,289**	**39,062,011**
Interest expense		
Customer accounts	9,203,755	4,606,577
Eurobonds	1,020,692	1,329,731
Subordinated debt	1,743,801	1,093,672
RR denominated bonds	227,731	708,101
Due to banks	488,528	469,819
Euro-Commercial Paper	22,322	56,126
Total Interest Expense	**12,706,829**	**8,264,026**
Net Interest Income	**28,066,460**	**30,797,985**

22 Customer Acquisition Expense

In thousands of RR	2015	2014
Marketing and advertising	1,828,075	1,395,675
Staff costs	1,583,989	1,422,619
Credit bureaux	174,548	186,235
Telecommunication expenses	68,261	68,557
Personalisation, printing and distribution	6,734	21,793
Acquisition and partnerships	-	406
Total customer acquisition expenses	**3,661,607**	**3,095,285**

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22 Customer Acquisition Expense Continued

Customer acquisition expenses represent expenses paid by the Group on services related to origination of credit 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 pension fund in the amount of RR 321,714 thousand (2014:_RR_242,977 thousand).

23 Net Gains/(Losses) from Operations with Foreign Currencies

In thousands of RR	2015	2014
Gains less losses from derivative revaluation	1,917,602	7,654,876
Foreign exchange translation losses less gains	(1,881,100)	(9,636,327)
Gains less losses from trading in foreign currencies	133,634	859,397
Net Gains/(Losses) from operations with foreign currencies	**170,136**	**(1,122,054)**

24 Insurance Claims Incurred

In thousands of RR	2015	2014
Claims paid	236,750	43,617
Change in loss provision	161,313	162,120
Claims handling expenses	13,462	4,323
Total insurance claims incurred	**411,525**	**210,060**

25 Fee and Commission Income and Expense

In thousands of RR	2015	2014
Fee and commission income		
Merchant acquiring commission	551,209	9,055
Interchange fee	405,137	138,237
Cash withdrawal fee	109,200	73,152
SMS fee	74,573	35,390
Card to card commission	65,271	18,578
Repayment fee	59,877	34,087
Other fees receivable	105,966	3,646
Total fee and commission income	**1,371,233**	**312,145**

In thousands of RR	2015	2014
Fee and commission expense		
Payment systems	1,314,149	446,113
Service fees	398,389	524,575
Court enforcement fee	193,138	-
Banking and other fees	55,388	20,442
Total fee and commission expense	**1,961,064**	**991,130**

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

26 Administrative and Other Operating Expenses

In thousands of RR	Note	2015	2014
Staff costs		4,704,794	3,444,531
Taxes other than income tax		722,268	884,052
Rental expenses		480,642	377,283
Expenses on deposit insurance		257,723	166,745
Information services		255,291	151,199
Communication services		241,641	295,422
Depreciation of tangible fixed assets	12	228,840	257,929
Amortization of intangible assets	12	183,164	189,032
Professional services		134,388	105,192
Stationery and office expenses		80,609	56,805
Transportation		10,949	15,705
Other administrative expenses		238,743	147,679
Total administrative and other operating expenses		**7,539,052**	**6,091,574**

The expenses stated above include fees of RR 6,535 thousand (2014: RR 5,220 thousand) for audit services, RR 935 thousand (2014: RR 3,191 thousand) for tax consultancy services and RR 450 thousand (2014: RR 2,846 thousand) for other non-audit assurance services charged by the Company's statutory audit firm.

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

In thousands of RR	2015	2014
Statutory social contribution to the pension fund	817,182	484,744
Share-based remuneration	93,386	109,460

27 Other Operating Income

In thousands of RR	2015	2014
Income from marketing services	92,544	95,892
Profit from sale of investment securities available for sale	33,159	13,815
Subrogation fee	29,373	-
Insurance agency fees	7,284	46,180
Other operating income	78,492	26,424
Total other operating income	**240,852**	**182,311**

28 Income Taxes

Income tax expense comprises the following:

In thousands of RR	2015	2014
Current tax	(60,932)	(190,457)
Deferred tax	(654,317)	(1,303,615)
Income tax expense for the year	**(715,249)**	**(1,494,072)**

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28 Income Taxes Continued

The income tax rate applicable to the majority of the Group's income is 20% (2014: 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% (2014: 12.5%).

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

In thousands of RR	2015	2014
Profit before tax	**2,565,430**	**4,894,685**
Theoretical tax expense at statutory rate of 20% (2014: 20%)	(513,086)	(978,937)
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	(200,699)	(366,166)
- Other including dividend tax	1,276	(150,079)
Effects of different tax rates in other countries		
- Financial result of parent entity at 12.5% (2014: 12.5%)	(2,740)	1,110
Income tax expenses for the year	**(715,249)**	**(1,494,072)**

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% (2014: 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 thousands of RR	31 December 2014	Charged/(credited) to profit or loss	Credited to equity	31 December 2015
Tax effect of deductible and taxable temporary differences				
Loans and advances to customers	148,059	(75,473)	-	72,586
Tangible fixed assets	(50,688)	(6,267)	-	(56,955)
Intangible assets	(164,584)	(54,171)	-	(218,755)
Revaluation of investment securities available for sale and repurchase receivables	56,262	-	(89,545)	(33,283)
Accrued expenses	256,618	(28,375)	-	228,243
Customer accounts	(56,888)	(28,066)	-	(84,954)
Debt securities in issue	4,683	7,067	-	11,750
Financial derivatives	(1,775,994)	(491,477)	-	(2,267,471)
Due to banks	(2,108)	2,108	-	-
Insurance provision	(14,480)	(2,027)	-	(16,507)
Tax loss carried forward	559,325	22,364	-	581,689
Net deferred tax liabilities	**(1,039,795)**	**(654,317)**	**(89,545)**	**(1,783,657)**

28 Income Taxes Continued

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

29 Dividends

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

No dividends were accrued or paid in 2015. In 2014 all dividends were declared and paid in USD.

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 Board of Directors of the Group.

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

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

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

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31 December 2015

30 Segment Analysis Continued

Factors that management used to identify the reportable segments

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

Measurement of operating segment profit or loss, assets and liabilities

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

Information about reportable segment profit or loss, assets and liabilities

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

In thousands of RR	Retail banking	Insurance operations	Eliminations	Total
Cash and cash equivalents	13,665,935	386,254	(363,145)	13,689,044
Mandatory cash balances with the CBRF	674,717	-	-	674,717
Due from other banks	-	726,209	-	726,209
Loans and advances to customers	82,067,018	-	-	82,067,018
Financial derivatives	11,344,871	-	-	11,344,871
Investment securities available for sale	15,935,866	-	-	15,935,866
Repurchase receivables	2,344,080	-	-	2,344,080
Current income tax assets	713,118	29,604	-	742,722
Guarantee deposits with payment systems	3,376,795	-	-	3,376,795
Tangible fixed assets	2,049,283	2,231	-	2,051,514
Intangible assets	1,089,227	329,394	-	1,418,621
Other financial assets	3,455,799	65,582	(21,821)	3,499,560
Other non-financial assets	1,664,619	116,347	-	1,780,966
Total reportable segment assets	**138,381,328**	**1,655,621**	**(384,966)**	**139,651,983**
Due to banks	6,391,636	-	-	6,391,636
Customer accounts	89,705,787	-	(363,145)	89,342,642
Debt securities in issue	1,904,857	-	-	1,904,857
Current income tax liabilities	35,784	-	-	35,784
Deferred income tax liability	1,752,673	30,984	-	1,783,657
Subordinated debt	14,609,295	-	-	14,609,295
Financial derivatives	7,514	-	-	7,514
Insurance provisions	-	515,460	-	515,460
Other financial liabilities	1,246,530	71,515	(21,821)	1,296,224
Other non-financial liabilities	805,438	13,005	-	818,443
Total reportable segment liabilities	**116,459,514**	**630,964**	**(384,966)**	**116,705,512**

30 Segment Analysis Continued

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

In thousands of RR	Retail banking	Insurance operations	Eliminations	Total
Cash and cash equivalents	10,692,202	896,304	(888,929)	10,699,577
Mandatory cash balances with the CBRF	685,510	-	-	685,510
Loans and advances to customers	74,579,998	-	-	74,579,998
Financial derivatives	8,879,972	-	-	8,879,972
Investment securities available for sale	216,535	-	-	216,535
Repurchase receivables	5,366,280	-	-	5,366,280
Current income tax assets	1,080,050	14,038	-	1,094,088
Deferred income tax assets	-	-	-	-
Guarantee deposits with payment systems	2,967,132	-	-	2,967,132
Tangible fixed assets	540,702	646	-	541,348
Intangible assets	864,181	261,126	-	1,125,307
Other financial assets	1,890,667	32,581	(32,581)	1,890,667
Other non-financial assets	648,062	111,798	-	759,860
Total reportable segment assets	**108,411,291**	**1,316,493**	**(921,510)**	**108,806,274**
Due to banks	10,331,216	-	-	10,331,216
Customer accounts	44,255,363	-	(888,929)	43,366,434
Debt securities in issue	19,414,780	-	-	19,414,780
Current income tax liabilities	12,593	-	-	12,593
Deferred income tax liability	1,013,610	26,185	-	1,039,795
Subordinated debt	11,250,686	-	-	11,250,686
Insurance provisions	-	248,409	-	248,409
Other financial liabilities	1,553,207	53,235	(32,581)	1,573,861
Other non-financial liabilities	594,158	5,274	-	599,432
Total reportable segment liabilities	**88,425,613**	**333,103**	**(921,510)**	**87,837,206**

In thousands of RR	Retail banking	Insurance operations	Eliminations	Total
2015				
External revenues				
Interest income	40,717,758	55,531	-	40,773,289
Income from insurance operations	283,964	1,170,221	(283,964)	1,170,221
Gain from sale of impaired loans	27,830	-	-	27,830
Fee and commission income	1,371,233	-	-	1,371,233
Net gains from operations with foreign currencies	152,548	17,588	-	170,136
Other operating income	212,654	31,192	(2,994)	240,852
Total revenues	**42,765,987**	**1,274,532**	**(286,958)**	**43,753,561**
Interest expense	(12,706,829)	-	-	(12,706,829)
Provision for loan impairment	(14,908,053)	-	-	(14,908,053)
Customer acquisition expenses	(3,393,091)	(552,480)	283,964	(3,661,607)
Fee and commission expense	(1,961,064)	-	-	(1,961,064)
Administrative and other operating expenses	(7,254,345)	(287,701)	2,994	(7,539,052)
Insurance claims incurred	-	(411,525)	-	(411,525)
Segment result	**2,542,605**	**22,826**	**-**	**2,565,431**

30 Segment Analysis Continued

In thousands of RR	Retail banking	Insurance operations	Eliminations	Total
2014				
External revenues				
Interest income	39,062,011	7,327	(7,327)	39,062,011
Income from insurance operations	276,933	923,363	(276,933)	923,363
Gain from sale of impaired loans	28,159	-	-	28,159
Fee and commission income	312,145	-	-	312,145
Other operating income	184,311	-	(2,000)	182,311
Total revenues	**39,863,559**	**930,690**	**(286,260)**	**40,507,989**
Interest expense	(8,271,353)	-	7,327	(8,264,026)
Provision for loan impairment	(15,839,175)	-	-	(15,839,175)
Customer acquisition expenses	(2,920,638)	(414,257)	276,933	(3,057,962)
Net losses from operations with foreign currencies	(1,122,054)	-	-	(1,122,054)
Fee and commission expense	(991,130)	-	-	(991,130)
Administrative and other operating expenses	(5,946,696)	(184,201)	2,000	(6,128,897)
Insurance claims incurred	-	(210,060)	-	(210,060)
Segment result	**4,772,513**	**122,172**	**-**	**4,894,685**

Depreciation charges for 2015 included in administrative and other operating expenses in the amount of RR 228,388 and RR 452 thousand (2014: RR 257,929 and RR 39 thousand) relate to the Bank and to the Insurance Company, correspondingly. Amortisation for 2015 included in the administrative and other operating expenses in the amount of RR 136,800 thousand and RR 31,720 thousand (2014: RR 173,975 thousand and RR 15,057 thousand) relate to the Bank and to the Insurance Company, correspondingly.

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

In thousands of RR	2015	2014
Total revenues for reportable segments	44,040,519	40,794,249
Intercompany transactions	(286,958)	(286,260)
Total consolidated revenues	**43,753,561**	**40,507,989**

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 thousands of RR	2015	2014
Total reportable segment result	2,565,431	4,894,685
Profit or loss before tax	**2,565,431**	**4,894,685**

In thousands of RR	31 December 2015	31 December 2014
Total reportable segment assets	140,036,949	109,727,784
Intercompany balances	(384,966)	(921,510)
Total consolidated assets	**139,651,983**	**108,806,274**

In thousands of RR	31 December 2015	31 December 2014
Total reportable segment liabilities	117,090,478	88,758,716
Intercompany balances	(384,966)	(921,510)
Total consolidated liabilities	**116,705,512**	**87,837,206**

31 Financial Risk Management

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

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets. The Group uses a migration matrix approach for calculation of the loan loss provisions. The Group grants retail loans to customers across all regions of Russia, therefore its credit risk is broadly diversified. The recent economic crisis resulted in growth of credit risk. The management of the Group takes special measures to mitigate growing credit risk such as decreasing of credit limits for unreliable clients, diversifying of modes of work with overdue borrowers, toughening of scoring for the new borrowers etc.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position and 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 500 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. Credit officers check the documents and validate contact information (addresses and telephone numbers).
- the second step includes phone verification of the application information about the potential customer, his/her employment, social and property status, etc. This step may be omitted for POS loans.
- the third step includes requesting of the previous credit history of the applicant from the three largest credit bureau in Russia – Equifax, UCB (United Credit Bureau) and NBCH (National Bureau of Credit Histories).
- based on all available information, the credit score of the applicant is calculated and a final decision is made about the approval of the credit product.
- finally, the approved loan amount, loan term and tariff plan are calculated depending on the score and declared income.

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31 Financial Risk Management Continued

When loans become unrecoverable or not economically viable to pursue further collection efforts, the Collection Department may decide to sell these loans to a debt collection agency. The Collection Department considers the following criteria for impaired loans qualifying for sale to external debt collection agencies:

a) loans remain unpaid after all collection procedures were performed (no payment during last 4-6 months);

b) the debtor cannot be either reached or found for the previous 4 months;

c) the debtor has no assets and there is no expectation he/she will have any in the future;

d) the debtor has died and there is no known estate or guarantor;

e) it is determined that it is not cost effective to continue collection efforts.

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

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

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

c) if borrower's income is substantially less than at the time of loan origination then the borrower's limit for credit might be reduced accordingly.

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

Another way of working with overdue loans is initiation of the state court process. This collection option statistically gives greater recovery than the sale of impaired loans. Defaulted clients that could be subject to the court process are chosen by the Bank's Collection Department considering the following criteria:

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

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

c) the client denied restructuring program;

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

e) court process is economically justified;

f) other minor criteria.

Market risk. The Group takes on exposure to market risks. Market risks 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 summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2015				At 31 December 2014			
In thousands of RR	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
RR	109,306,701	(83,282,078)	(5,230,070)	20,794,553	86,800,421	(49,192,192)	(15,948,808)	21,659,421
USD	8,992,355	(26,502,858)	16,797,810	(712,693)	6,821,521	(34,173,757)	24,816,488	(2,535,748)
Euro	4,014,233	(3,759,718)	(230,383)	24,132	2,783,757	(2,819,437)	12,292	(23,388)
Total	**122,313,289**	**(113,544,654)**	**11,337,357**	**20,105,992**	**96,405,699**	**(86,185,386)**	**8,879,972**	**19,100,285**

31 Financial 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 35. 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:

	At 31 December 2015		At 31 December 2014	
In thousands of RR	Impact on profit or loss	Impact on equity (pre-tax)	Impact on profit or loss	Impact on equity (pre-tax)
USD strengthening by 30% (2014: by 30%)	(213,808)	(213,808)	(760,724)	(760,724)
USD weakening by 30% (2014: by 30%)	213,808	213,808	760,724	760,724
Euro strengthening by 30% (2014: by 30%)	7,240	7,240	(7,016)	(7,016)
Euro weakening by 30% (2014: by 30%)	(7,240)	(7,240)	7,016	7,016

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

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

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

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

In thousands of RR	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
31 December 2015						
Total financial assets	30,433,747	51,922,789	22,118,690	26,232,105	2,950,829	133,658,160
Total financial liabilities	(38,386,042)	(43,654,666)	(15,511,466)	(15,999,994)	-	(113,552,168)
Net interest sensitivity gap at 31 December 2015	**(7,952,295)**	**8,268,123**	**6,607,224**	**10,232,111**	**2,950,829**	**20,105,992**
31 December 2014						
Total financial assets	22,387,295	33,949,670	23,443,642	24,557,458	947,606	105,285,671
Total financial liabilities	(22,020,240)	(20,115,194)	(29,317,647)	(3,233,210)	(11,250,686)	(85,936,977)
Net interest sensitivity gap at 31 December 2014	**367,055**	**13,834,476**	**(5,874,005)**	**21,324,248**	**(10,303,080)**	**19,348,694**

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

At 31 December 2015, if interest rates at that date had been 500 basis points lower (2014: 500 points lower), with all other variables held constant, profit would have been RR 1,005,300 thousand (2014: RR 955,014 thousand) lower.

If interest rates had been 500 basis points higher (2014: 500 points higher), with all other variables held constant, profit would have been RR 1,005,300 thousand (2014: RR 955,014 thousand) higher.

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31 December 2015

31 Financial Risk Management Continued

The Group monitors interest rates for its financial instruments. The table below summarises interest rates for the years 2015 and 2014 based on reports reviewed by key management personnel.

	2015			2014		
In % p.a.	RR	USD	EURO	RR	USD	EURO
Assets						
Cash and cash equivalents	0.0	0.0	0.0	0.3	0.0	0.1
Loans and advances to customers	51.7	-	-	52.1	-	-
Due from banks	11.4	2.5	-	-	-	-
Investment Securities available for sale	13.9	5.6	-	9.2	-	-
Repurchase receivables	8.5	6.4	-	9.3	4.3	-
Liabilities						
Due to banks	12.6	2.2	-	18.9	-	-
Customer accounts	14.5	4.9	5.0	11.9	7.9	6.8
Debt securities in issue	14.5	-	-	12.2	11.7	-
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 (2014: no material impact).

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

In thousands of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	12,501,709	1,187,335	-	-	13,689,044
Mandatory cash balances with the CBRF	674,717	-	-	-	674,717
Loans and advances to customers	82,067,018	-	-	-	82,067,018
Due from other banks	726,209	-	-	-	726,209
Financial derivatives	9,487,747	1,857,124	-	-	11,344,871
Investment securities available for sale	15,935,866	-	-	-	15,935,866
Repurchase receivables	2,344,080	-	-	-	2,344,080
Guarantee deposits with payment systems	-	3,376,795	-	-	3,376,795
Other financial assets	1,439,345	2,060,215	-	-	3,499,560
Total financial assets	**125,176,691**	**8,481,469**	**-**	**-**	**133,658,160**
Financial liabilities					
Due to banks	6,391,636	-	-		6,391,636
Customer accounts	88,845,378	-	497,264	-	89,342,642
Debt securities in issue	1,876,764	-	-	28,093	1,904,857
Subordinated debt	-	-	-	14,609,295	14,609,295
Financial derivatives	7,514	-	-	-	7,514
Other financial liabilities	1,203,158	93,066	-	-	1,296,224
Total financial liabilities	**98,324,450**	**93,066**	**497,264**	**14,637,388**	**113,552,168**
Unused limits on credit card loans (Note 33)	**50,829,812**	**-**	**-**	**-**	**50,829,812**

31 Financial Risk Management Continued

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

In thousands of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	7,239,616	3,459,961	-	-	10,699,577
Mandatory cash balances with the CBRF	685,510	-	-	-	685,510
Loans and advances to customers	74,579,998	-	-	-	74,579,998
Financial derivatives	5,244,630	3,635,342	-	-	8,879,972
Investment securities available for sale	216,535	-	-	-	216,535
Repurchase receivables	5,366,280	-	-	-	5,366,280
Guarantee deposits with payment systems	-	2,967,132	-	-	2,967,132
Other financial assets	788,260	1,102,407	-	-	1,890,667
Total financial assets	**94,120,829**	**11,164,842**	**-**	**-**	**105,285,671**
Financial liabilities					
Due to banks	10,331,216	-	-	-	10,331,216
Customer accounts	41,487,846	-	1,878,588	-	43,366,434
Debt securities in issue	-	223,034	-	19,191,746	19,414,780
Subordinated debt	-	-	-	11,250,686	11,250,686
Other financial liabilities	730,955	842,906	-	-	1,573,861
Total financial liabilities	**52,550,017**	**1,065,940**	**1,878,588**	**30,442,432**	**85,936,977**
Unused limits on credit card loans (Note 33)	**38,320,923**	**-**	**-**	**-**	**38,320,923**

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 2015 and 2014.

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 2015 and 2014.

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31 December 2015

31 Financial Risk Management Continued

The CFO receives information about the liquidity profile of the financial assets and liabilities. This includes daily, weekly, monthly and quarterly updates on the level of credit card transactions and repayments, statistics on credit card issuance and credit card limit utilisation, inflow and outflow of retail deposits, level of expected outflows such as operating costs and financing activities. The CFO then ensures the availability of an adequate portfolio of short-term liquid assets, made up of an amount on the correspondent account with the CBRF and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole. Major assumptions used in liquidity analysis are based on long-standing statistics that shows that on average, about 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 2015 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

In thousands of RR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities						
Due to banks	2,523,109	2,023,753	1,889,048	-	-	6,435,910
Customer accounts	34,955,537	21,431,659	18,706,176	16,976,246	1,553,528	93,623,146
Debt securities in issue	-	-	2,029,156	-	-	2,029,156
Subordinated debt	-	-	1,020,358	1,020,358	17,637,614	19,678,330
Other financial liabilities	1,296,224	-	-	-	-	1,296,224
Financial derivatives	3,648,514	56,223	6,145,329	70,570	3,517,394	13,438,030
Unused limits on credit card loans (Note 33)	50,829,812	-	-	-	-	50,829,812
Total potential future payments for financial obligations	**93,253,196**	**23,511,635**	**29,790,067**	**18,067,174**	**22,708,536**	**187,330,608**

The maturity analyses of financial liabilities at 31 December 2014 is as follows:

In thousands of RR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities						
Due to banks	5,411,600	2,077,737	831,699	2,283,140	-	10,604,176
Customer accounts	15,269,009	8,099,825	7,066,577	12,299,714	3,415,079	46,150,204
Debt securities in issue	104,720	981,006	2,780,440	17,003,490	-	20,869,656
Subordinated debt	-	-	787,618	787,618	15,189,768	16,765,004
Other financial liabilities	1,573,861	-	-	-	-	1,573,861
Financial derivatives	5,700,492	91,329	150,211	3,476,567	9,849,940	19,268,539
Unused limits on credit card loans (Note 33)	38,320,923	-	-	-	-	38,320,923
Total potential future payments for financial obligations	**66,380,605**	**11,249,897**	**11,616,545**	**35,850,529**	**28,454,787**	**153,552,363**

31 Financial Risk Management Continued

Financial derivatives receivable and payable are disclosed in the Note 35. 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 2015 is presented in the table below.

In thousands of RR	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Total**
Assets						
Cash and cash equivalents	13,689,044	-	-	-	-	13,689,044
Mandatory cash balances with the CBRF	219,673	59,702	64,357	106,156	224,829	674,717
Due from other banks	207,107	329,423	189,679	-	-	726,209
Loans and advances to customers	12,272,020	19,313,110	19,428,962	19,302,965	11,749,961	82,067,018
Financial derivatives	-	-	7,721,398	-	3,623,473	11,344,871
Investment securities available for sale	15,935,866	-	-	-	-	15,935,866
Repurchase receivables	283,265	-	2,060,815	-	-	2,344,080
Guarantee deposits with payment systems	504,955	794,673	799,440	794,255	483,472	3,376,795
Other financial assets	3,499,560	-	-	-	-	3,499,560
Total financial assets	**46,611,490**	**20,496,908**	**30,264,651**	**20,203,376**	**16,081,735**	**133,658,160**
Liabilities						
Due to banks	2,513,955	2,000,000	1,877,681	-	-	6,391,636
Customer accounts	29,088,022	7,905,391	8,521,845	14,056,710	29,770,674	89,342,642
Debt securities in issue	-	-	1,904,857	-	-	1,904,857
Subordinated debt	-	-	136,048	-	14,473,247	14,609,295
Financial derivatives	7,514	-	-	-	-	7,514
Other financial liabilities	1,296,224	-	-	-	-	1,296,224
Total financial liabilities	**32,905,715**	**9,905,391**	**12,440,431**	**14,056,710**	**44,243,921**	**113,552,168**
Net liquidity gap at 31 December 2015	**13,705,775**	**10,591,517**	**17,824,220**	**6,146,666**	**(28,162,186)**	**20,105,992**
Cumulative liquidity gap at 31 December 2015	**13,705,775**	**24,297,292**	**42,121,512**	**48,268,178**	**20,105,992**	**-**

Notes to the Consolidated Financial Statements continued

31 December 2015

31 Financial Risk Management Continued

The expected maturity analysis of financial instruments at carrying amounts as monitored by management based on the revised approach at 31 December 2014 is as follows:

In thousands of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Assets						
Cash and cash equivalents	10,699,577	-	-	-	-	10,699,577
Mandatory cash balances with the CBRF	214,003	49,421	63,466	156,666	201,954	685,510
Loans and advances to customers	9,193,912	15,127,382	16,389,873	18,488,062	15,380,769	74,579,998
Financial derivatives	-	-	-	2,705,553	6,174,419	8,879,972
Investment securities available for sale	216,535	-	-	-	-	216,535
Repurchase receivables	5,366,280	-	-	-	-	5,366,280
Guarantee deposits with payment systems	365,776	601,836	652,064	735,539	611,917	2,967,132
Other financial assets	1,890,667	-	-	-	-	1,890,667
Total financial assets	**27,946,750**	**15,778,639**	**17,105,403**	**22,085,820**	**22,369,059**	**105,285,671**
Liabilities						
Due to banks	5,331,607	2,005,548	748,515	2,245,546	-	10,331,216
Customer accounts	13,538,174	3,126,442	4,014,948	9,910,938	12,775,932	43,366,434
Debt securities in issue	98,808	672,865	2,670,368	15,972,739	-	19,414,780
Subordinated debt	-	-	-	-	11,250,686	11,250,686
Other financial liabilities	1,573,861	-	-	-	-	1,573,861
Total financial liabilities	**20,542,450**	**5,804,855**	**7,433,831**	**28,129,223**	**24,026,618**	**85,936,977**
Net liquidity gap at 31 December 2014	**7,404,300**	**9,973,784**	**9,671,572**	**(6,043,403)**	**(1,657,559)**	**19,348,694**
Cumulative liquidity gap at 31 December 2014	**7,404,300**	**17,378,084**	**27,049,656**	**21,006,253**	**19,348,694**	**-**

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.

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 RR and USD denominated securities issued; (iii) to safeguard the Group's ability to continue as a going concern.

The Group considers total capital under management to be equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2015 was RR 22,946,471 thousand (2014: RR 20,969,068 thousand). Compliance with capital adequacy ratios set by the CBRF is monitored daily and submitted to the CBRF monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level of 10%. Based on the report submitted to CBRF the Bank's statutory capital ratio equal to 13.01% as of 31 December 2015.

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 2015 was RR 28,102,033 thousand (2014: RR 27,156,707 thousand), the amount of Tier 1 capital as at 31 December 2015 was RR 21,527,850 thousand (2014: RR 19,843,761 thousand). Total capital adequacy ratio and Tier 1 capital adequacy ratio were 18.25% and 13.98% respectively (2014: 21.81% and 15.94% respectively). The Group and the Bank have complied with all externally imposed capital requirements throughout 2015 and 2014.

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 losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

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

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis.

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

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, 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 deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation will apply to.

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31 December 2015

33 Contingencies and Commitments Continued

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 2015 no material tax risks were identified (2014: same).

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

In thousands of RR	2015	2014
Not later than 1 year	660,345	541,735
Total operating lease commitments	**660,345**	**541,735**

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

In thousands of RR	31 December 2015	31 December 2014
Not later than 1 year	597,729	512,570
Later than 1 year and not later than 5 years	-	1,025,141
Total other commitments	**597,729**	**1,537,711**

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 2015 and 31 December 2014.

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

Outstanding credit related commitments are as follows:

In thousands of RR	2015	2014
Unused limits on credit card loans	50,829,812	38,320,923

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.

Assets pledged. The Group had assets pledged as collateral with the following carrying value:

		31 December 2015		31 December 2014	
In thousands of RR	Note	Asset pledged	Related liability	Asset pledged	Related liability
Repurchase receivables	10,14	2,344,080	2,127,346	5,366,280	5,002,399
Total		**2,344,080**	**2,127,346**	**5,366,280**	**5,002,399**

Mandatory cash balances with the CBRF of RR 674,717 thousand (2014: RR 685,510 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 3.

34 Transfers of Financial Assets

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

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

Sale and repurchase transactions. At 31 December 2015, the Group has available for sale securities represented by Russian government bonds of RR 283,265 thousand and corporate bonds of RR 2,060,815 thousand (2014: Russian government bonds of RR 267,412 thousand and corporate bonds of RR 5,098,868 thousand) that are subject to obligation to repurchase the securities for a fixed pre-determined price. Refer to Note 14 for the carrying value of obligations from this sale and repurchase transactions.

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

		31 December 2015		31 December 2014	
In thousands of RR	Note	Carrying amount of the assets at year end	Carrying amount of the associated liabilities	Carrying amount of the assets at year end	Carrying amount of the associated liabilities
Repurchase receivables	10	2,344,080	2,127,346	5,366,280	5,002,399
Total		**2,344,080**	**2,127,346**	**5,366,280**	**5,002,399**

35 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.

	2015		2014	
In thousands of RR	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	20,083,723	27,639	24,816,488	-
- USD payable on settlement (-)	-	(3,313,552)	-	-
- RR payable on settlement (-)	(8,738,852)	(35,897)	(15,936,516)	(12,292)
- RR receivable on settlement (-)	-	3,544,679	-	-
- EUR receivable on settlement (+)	-	8,258	-	12,292
- EUR payable on settlement (-)	-	(238,641)	-	-
Net fair value of foreign exchange forwards and swaps	**11,344,871**	**(7,514)**	**8,879,972**	**-**

Included in financial derivatives held by the Group as at 31 December 2015 is one outstanding swap contract with positive fair value of RR 1,857,124 thousand, which includes reference to the default of JSC VTB Bank, JSC Gazprom or the Russian Federation (31 December 2014: RR 929,788 thousand). There are also three other outstanding swap contracts with total positive fair value of RR 9,487,747 thousand which include reference to the default of the Bank (31 December 2014: RR 7,950,184 thousand).

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

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

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36 Financial Derivatives

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 2015				31 December 2014			
In thousands of RR	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets AT FAIR VALUE								
Financial derivatives	-	11,344,871	-	11,344,871	-	8,879,972	-	8,879,972
Investment securities available for sale	15,935,866	-	-	15,935,866	216,535	-	-	216,535
Repurchase receivables	2,344,080	-	-	2,344,080	5,366,280	-	-	5,366,280
Total assets recurring fair value measurements	**18,279,946**	**11,344,871**	**-**	**29,624,817**	**5,582,815**	**8,879,972**	**-**	**14,462,787**

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2015 are as follows:

In thousands of RR	**Fair value**	**Valuation technique**	**Inputs used**
ASSETS AT FAIR VALUE			
Foreign exchange swaps	11,344,871	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	**11,344,871**		

In thousands of RR	**Fair value**	**Valuation technique**	**Inputs used**
LIABILITIES AT FAIR VALUE			
Foreign exchange forwards	7,514	Application of forward market quotes as of the date of valuation.	Bloomberg forward quotes.
Total recurring fair value measurements at level 2	**7,514**		

36 Fair Value of Financial Instruments Continued

There were no changes in the valuation techniques for level 2 recurring fair value measurements during the year ended 31 December 2015 (2014: none) except for the refining of the method of the counterparty's' credit risk applying.

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

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

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

	31 December 2015				31 December 2014			
In thousands of RR	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL Assets CARRIED AT AMORTISED COST								
Cash and cash equivalents								
- Cash on hand	34,991	-	-	34,991	25,571	-	-	25,571
- Cash balances with the CBRF (other than mandatory reserve deposits)	-	5,314,736	-	5,314,736	-	2,295,541	-	2,295,541
- Placements with other banks with original maturities of less than three months	-	8,339,317	-	8,339,317	-	8,378,465	-	8,378,465
Mandatory cash balances with the CBRF	-	674,717	-	674,717	-	685,510	-	685,510
Due from other banks	-	724,266	-	726,209	-	-	-	-
Loans and advances to customers	-	-	82,067,018	82,067,018	-	-	74,579,998	74,579,998
Guarantee deposits with payment systems	-	-	3,376,795	3,376,795	-	-	2,967,132	2,967,132
Other financial assets	-	-	-	-				
Settlement of operations with plastic cards receivable	-	3,355,490	-	3,355,490	-	1,813,784	-	1,813,784
Trade and other receivables	-	-	127,104	127,104	-	-	76,633	76,633
Other financial assets	-	-	16,966	16,966	-	-	250	250
Total financial assets carried at amortised cost	**34,991**	**18,408,526**	**85,587,883**	**104,033,343**	**25,571**	**13,173,300**	**77,624,013**	**90,822,884**

Notes to the Consolidated Financial Statements continued

31 December 2015

36 Fair Value of Financial Instruments Continued

In thousands of RR	31 December 2015 Level 1	Level 2	Level 3	Carrying value	31 December 2014 Level 1	Level 2	Level 3	Carrying value
FINANCIAL liabilities CARRIED AT AMORTISED COST								
Due to banks	-	6,381,803	-	6,391,636	-	10,167,498	-	10,331,216
Customer accounts								
Legal entities								
-Current/settlement accounts of corporate entities	-	517,715	-	517,715	-	196,242	-	196,242
-Term deposits of corporate entities	-	375,123	-	375,123	-	1,878,589	-	1,878,589
Individuals								
-Current/settlement accounts of individuals	-	24,505,510	-	24,505,510	-	11,056,383	-	11,056,383
-Term deposits of individuals	-	65,919,231	-	63,944,294	-	27,797,931	-	30,235,220
Debt securities in issue								
USD denominated bonds	-	-	-	-	13,912,820	-		14,426,424
RR Bonds issued on domestic market	28,354	-	-	28,093	4,590,139	-		4,765,322
ECP	1,894,200	-	-	1,876,764	215,094	-		223,034
Subordinated debt	15,377,715	-		14,609,295	8,079,644	-		11,250,686
Other financial liabilities								
Settlement of operations with plastic cards	-	622,390	-	622,390	-	1,009,440	-	1,009,440
Trade payables	-	-	637,792	637,792	-	-	470,608	470,608
Other financial liabilities	-	-	36,042	36,042	-	-	93,813	93,813
Total financial liabilities carried at amortised cost	**17,300,269**	**98,321,772**	**673,834**	**113,544,654**	**26,797,697**	**52,106,083**	**564,421**	**85,936,977**

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 (2014: OJSC Moscow Exchange MICEX-RTS, Berlin Stock Exchange, Frankfurt Stock Exchange and Irish Stock Exchange)

36 Fair Value of Financial Instruments Continued

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

In % p.a.	2015	2014
Assets		
Cash and cash equivalents	0.0	0.2
Due from other banks	10.5	-
Loans and advances to customers	51.7	52.1
Investment securities available for sale	13.5	9.3
Repurchase receivables	6.4	9.1
Liabilities		
Due to banks	9.4	18.9
Customer accounts	11.9	18.2
Debt securities in issue	10.6	18.4
Subordinated debt	11.8	27.7

37 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 2015:

In thousands of RR	Loans and receivables	FVTPL	Available-for-sale assets	Total
Cash and cash equivalents				
- Cash on hand	34,991	-	-	34,991
- Cash balances with the CBRF (other than mandatory reserve deposits)	5,314,736	-	-	5,314,736
- Placements with other banks with original maturities of less than three months	8,339,317	-	-	8,339,317
Mandatory cash balances with the CBRF	674,717	-	-	674,717
Due from other banks	726,209			726,209
Loans and advances to customers	82,067,018	-	-	82,067,018
Financial derivatives	-	11,344,871	-	11,344,871
Guarantee deposits with payment systems	3,376,795	-	-	3,376,795
Investment securities available for sale	-	-	15,935,866	15,935,866
Repurchase receivables	-	-	2,344,080	2,344,080
Other financial assets				
- Settlement of operations with plastic cards receivable	3,355,490	-	-	3,355,490
- Trade and other receivables	127,104	-	-	127,104
- Other financial assets	16,966	-	-	16,966
TOTAL FINANCIAL ASSETS	**104,033,343**	**11,344,871**	**18,279,946**	**133,658,160**

Notes to the Consolidated Financial Statements continued

31 December 2015

37 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 2014:

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

As of 31 December 2015 and 2014 all of the Group's financial liabilities except derivatives were carried at amortised cost.

38 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:

	2015		2014	
In thousands of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
ASSETS				
Gross amounts of loans and advances to customers (contractual interest rate: 24.7% (2014: 24%))	2,670	-	2,663	-
Other non-financial assets	-	567,744	-	423,194
LIABILITIES				
Customer accounts (contractual interest rate: 8.01% p.a. (2014: 11-21% p.a.))	788,672	497,264	485,181	1,878,589
Other non-financial liabilities	40,700	-	-	-
EQUITY				
Share-based payment reserve				
- Employee share option plan	537,309	-	526,444	-
- Equity long term incentive plan	77,085	-	60,756	-

38 Related Party Transactions Continued

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

Other non-financial assets represent a prepayment made under the sponsorship contract with the Tinkoff Saxo Cycling Team ("Team"), the related expense is included in customer acquisition expense. The Team is owned by the Group's ultimate controlling party. Commitments in relation to this sponsorship agreement are disclosed in Note 33.

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

	2015		2014	
In thousands of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
Interest income	517	-	910	-
Interest expense	(56,239)	(132,427)	(46,140)	(62,027)
Customer acquisition expense	-	(1,013,042)	-	(494,596)
Unrealised foreign exchange translation losses less gains	-	(204,926)	-	(773,636)

Key management compensation is presented below:

In thousands of RR	2015	2014
Short-term benefits:		
- Salaries	318,166	261,654
- Short-term bonuses	293,191	90,532
Long-term benefits:		
- Employee share option plan	77,057	95,976
- Equity long term incentive plan	16,329	13,484
Total	**704,743**	**461,646**

Employee share option plan. In May 2011 the Group introduced a share-based payment plan (ESOP) as a long-term incentive and retention tool for the key management of the Bank. The maximum share capital attributable to the plan was 2.98% of issued share capital at 20 May 2011 (i.e. 2.65% of issued share capital at 30 September 2015 and 31 December 2014).

The plan vests gradually in three tranches and expenses are recognised in accordance with the graded vesting schedule. 40% vested on 30 June 2012; 30% vested on 30 June 2013 and 30% vested on 30 June 2014. The shares do not give the employees any voting power. The employees cannot own or exercise their shareholder rights directly, except for the dividends, if any.

The number of shares in issue for ESOP purposes is 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 (unless shareholders extend this date to 30 September 2016 if change of control is seen as likely in the first half of 2016).

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

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

On 27 October 2014 amendments to the ESOP were signed. According to them the shares within the plan become sellable for the benefit of participants, in three tranches of approximately 33% each from 25 October 2014; from 1 June 2015 and from 1 June 2016, respectively. These amendments resulted in accelerated recognition of the expenses.

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38 Related Party Transactions Continued

Equity long term incentive plan. In 2011 the Group also introduced a long term incentive plan (Equity LTIP) for the management of the Bank. The senior and middle management, not participating in the ESOP, was entitled to cash payment calculated under their individual packages defined as a percentage of shares 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. Except for the manner of settlement and maturity of the plan which is expected to continue for at least five years from July 2013, other financial terms and conditions of the new arrangement remained unchanged, including the amount of instruments granted.

At the date of modification the full carrying amount of the liability was transferred to equity as this represents settlement provided by the employees for the equity instruments granted to them.

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

In 2015 the total remuneration of Directors listed in the Report of the Board of Directors (included in key management personnel compensation above) amounted to RR 17,729 thousand (2014: RR 11,925 thousand).

39 Events after the End of the Reporting Period

On 7 January 2016 the Group repurchased from the market 3,969,420 GDRs for RR 868,468 thousand which are to be allocated to meet projected commitments under a new long term management incentive plan due to be launched in 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
Cost of risk	n/a	Loan loss provision / Average gross loans
Cost to income ratio	C/I	Operating and acquisition expense / Core revenue
Cost to income ratio (excl. acquisition costs)	n/a	Operating expense / Core revenue
Corporate social responsibility	CSR	n/a
Days past due	dpd	n/a
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
International financial reporting standards	IFRS	n/a
Interest-earning assets	IEA	Gross loans + interbank loans and accounts + securities + interest earning cash equivalents
Interest-earning liabilities	IEL	Deposits + interbank + debt securities + subordinated loans + syndicated loan
KASKO	KASKO	Voluntary car insurance programme
Key performance indicators	KPI	n/a
Loan loss provision	LLP	Allowance for bad loans
N1.0	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
Compulsory car insurance programme	OSAGO	n/a
Russian accounting standards	RAS	n/a
Return on average assets	ROAA	Net income / Average assets
Return on average equity	ROAE	Net income / Average equity
Return on equity	ROE	n/a
Risk-adjusted net interest margin	Risk-adjusted NIM	(Net interest income - PL provisions) / Average IEA
Risk-weighted assets	RWA	Assets weighted by risk as per the CBRF methodology

Investors' information

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

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