ONWARDS AND UPWARDS: BUILDING OUT THE TINKOFF ECOSYSTEM

ANNUAL REPORT 2017
TCS GROUP HOLDING PLC

RUSSIA'S BANK OF THE YEAR 2017

According to The Banker, a monthly international financial magazine owned by The Financial Times Group. In choosing Russia's Bank of the Year 2017, The Banker's editorial team looked for strong financial performance and evidence of banks setting new standards for their local industries, whether it was by using new technology or coming up with innovative, cost-efficient ways of expanding their businesses.

CONTENTS

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

Contents

TCS Group or Tinkoff (or the Group) are the names used in this Report for TCS Group Holding PLC and its group of companies operating under the Tinkoff brand in Russia. These include Tinkoff Bank and Tinkoff Insurance.

Summary of presentation of financial and other information.

All financial information in this document is derived from the 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 2017 included in this document. A detailed description of the presentation of financial and other information is set out after page 59 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

ONE-STOP SHOP FOR ALL YOUR DAILY FINANCIAL NEEDS

ONE CLICK

DAILY BANKING
- Debit cards
- Credit cards
- Payments
- P2P transfers
- Public services

SMALL BUSINESS
- Business account
- Salary project
- Overdraft
- Business loans
- Accounting

SAVINGS & INVESTMENTS
- Deposits
- Securities
- Pensions
- Investment strategy

REAL ESTATE
- Mortgage
- Insurance
- Valuation
- Legal support
- Utility bills, taxes
- Rent payments

MOBILE
- Own number
- Own mobile network code
- Own SIM cards

AUTO
- Fines
- Insurance
- Auto loans

INSURANCE
- Cars
- Travel
- Property
- Health
- Life

ENTERTAINMENT
- Ticketing
- Restaurant reservations
- Stories
- Travel

LIFE-STYLE BANKING IN YOUR MOBILE PHONE

6mn DOWNLOADS OF TINKOFF MOBILE APP

1mn ACTIVE DAILY USERS

PROVEN TRACK RECORD OF DRIVING SUSTAINABLE GROWTH

HIGHLIGHTS

Growth

- Gross loans up 31% to RUB157.8bn since YE2016
- More than 1.8 mn new credit card customers acquired in 2017 and over 1mn new debit cards issued
- SME business developing rapidly, over 234,000 SME customers acquired
- Customer accounts up 44% at RUB179.0bn

Key events

- Introduced a new dividend policy in March 2017
- In March 2017 the Group expanded and deepened its management long term incentive plan
- in June the Group issued a USD300mn perpetual bond 9.25% coupon with a 2022 call option
- In August the Group started rolling out its own ATM network, with over 200 now installed across Russia
- In October the Group acquired a 55% stake in CloudPayments, an innovative online payments solutions provider
- In December the Group successfully launched its own mobile virtual network operator Tinkoff Mobile
- Moody's upgraded long-term debt and deposit ratings of Tinkoff Bank to B1 from B2; outlook stable

Profitability

- FY2017 net income, a Group record at RUB19bn, with 3 consecutive quarters of record net income
- ROAE of 52.8% for FY2017
- Growing contribution from non-credit business income streams

Credit quality

- Ongoing focus on credit quality
- NPLs (90d+) dropped to 8.8% at YE2017
- Loan loss provision decreased to 1.26x at YE2017

Liquidity and capitalisation

- Total assets up by 53.3% over 2017 at RUB268.8bn, with cash and treasury portfolio up at RUB95.5bn
- Total equity up by 42.1% to RUB41.9bn at YE2017
- 31 December 2017 CBRF N1 statutory capital ratio of 16.3% and Tier 1 up at 21.0%
- Treasury portfolio of RUB71.7bn of highly liquid CBRF repoable bonds

179 RUBbn CUSTOMER ACCOUNTS

52.8% ROE 2017

268.8 RUBbn TOTAL ASSETS

2.4mn CREDIT CARDS ISSUED IN 2017

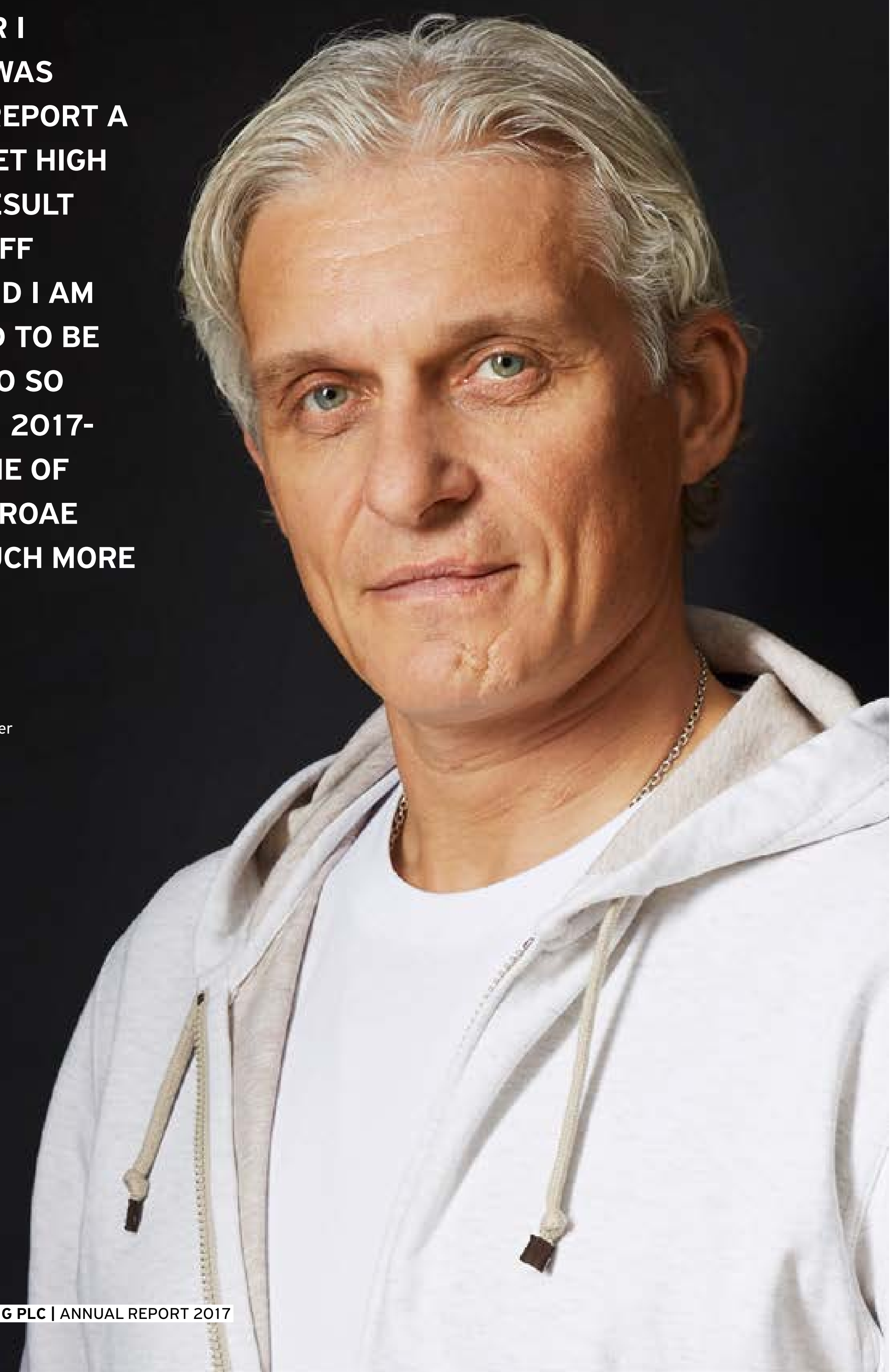
19.0 RUBbn NET PROFIT

16.3% N1.0 AT THE END OF 2017

2017

OUR HISTORY

	Highlights of TCS Group's innovative development	Net loan portfolio growth (RUBmn)
2017	• Launch of Tinkoff Mobile • Roll-out of own ATM's across Russia • Acquisition of a 55% stake in CloudPayments • Launch of Stories for mobile app • Launch of Tinkoff Property • A partnership with Skolkovo Innovation Center announced • Tinkoff Bank was admitted to membership in the FinTech Association	140,245
'16	• Launched a network of software development hubs countrywide, the first in St Petersburg • Joined the Russian blockchain consortium • Introduced a face recognition system for scoring • Launched a new management long term incentive plan • One of the first launching Apple Pay and Samsung Pay in Russia	102,912
'15	• Acquired parts of Svyaznoy Bank's credit card portfolios • Became Russia's second largest credit card provider • Launched a range of new business lines, transitioning to online financial marketplace Tinkoff.ru • Issued new co-branded cards	82,067
'14	• New brand - Tinkoff Bank • Launch of a series of co-branded cards • Launch of a number of mono mobile applications	74,580
'13	• TCS Group IPO on the London Stock Exchange Main Market • Launch of Tinkoff Insurance • Launch of cash loans	73,962
'12	• Minority stakes sold to Baring Vostok and Horizon • Launch of online POS loan programme	47,784
'11	• Launch of mobile banking • Launch of the mobile and telesales sub-channels of Tinkoff Bank online customer acquisition platform	21,359
'10	• Launch of online acquisition channel for credit cards • Launch of "smart courier" service	9,643
'09	• Launch of the retail deposit programme • First debit card issued	5,254
'08	• Minority stakes sold to Goldman Sachs and Vostok Nafta • Launch of internet bank	4,117
'07	• First credit card issued	1,593
'06	**Tinkoff Credit Systems Bank was created by Oleg Tinkov**	



LAST YEAR I WROTE IT WAS GOOD TO REPORT A RECORD NET HIGH INCOME RESULT FOR TINKOFF GROUP, AND I AM DELIGHTED TO BE ABLE TO DO SO AGAIN FOR 2017- NET INCOME OF RUB19BN, ROAE 52.8%, MUCH MORE BESIDES

Oleg Tinkov
Founder and
Controlling Shareholder

FOUNDER'S STATEMENT

Dear Stakeholders

Last year I wrote that it was good to report a record high net income result for Tinkoff Group, and I am delighted to be able to do so again for 2017 - net income of RUB19bn, ROAE 52.8%, much more besides.

But beyond the headline numbers, great progress was made on further rolling out our financial supermarket, an advanced high-tech financial eco-system where our customers get our premium quality service in buying the full range of financial, transactional and insurance services - not only Tinkoff branded products but those of our chosen partners too. While diversifying our business adds in new sources of non-credit revenue, it also enables us to capture an ever increasing share of customers' wallets. And I am confident this process will continue, with new lines added going forward.

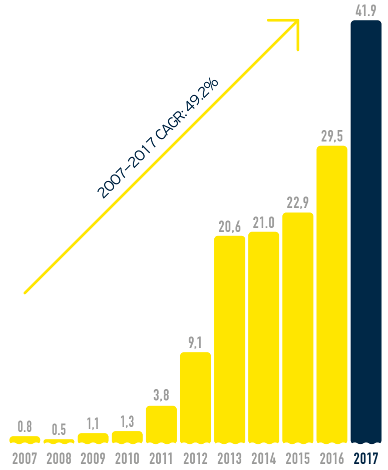
We have proved we can build and scale non-credit lines profitably. Tinkoff Business, Tinkoff Black and Tinkoff Mortgage all broke even in 2017, and good contributions all round, and I am confident we are well set for 2018 and beyond. And while there are so many highlights, positive contributions, impressive performances I could pick out and it is invidious to pick just one, nonetheless I am going do just that.

Last year I wrote about my long-term support for share based compensation and how we introduced it at Tinkoff from the early days. It has always been a key part of building an entrepreneurial spirit within the Company; now I feel we are making a contribution by helping the entrepreneurial spirit develop in Russia through Tinkoff Business.

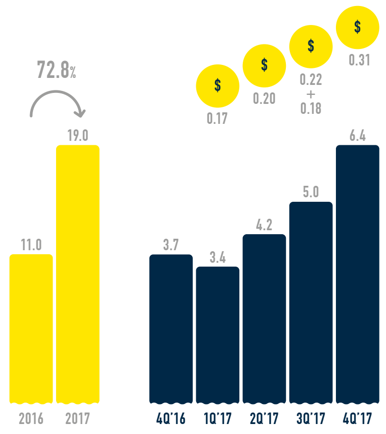
We launched Tinkoff Business in Q4 2016; it grew impressively from the outset, broke even in June 2017. At the end of 2016 we had around 50,000 customers, but this grew five-fold in 2017 to over 240,000 SME customers at year end. Whether it is help with cash management and payments, payroll, accounting, tax returns, recruitment, customs and logistics or recruitment, or dealing with the State authorities, for the full range of issues confronting start-up businesses, Tinkoff is there at the coalface too with innovative, digital, customer-friendly solutions.

Of course I treasure all our customers, but I have a special regard for the entrepreneurs, those whose instinct is see an opportunity and pursue it, those who want to establish their own business and not remain where they are, those who believe they can make a difference. Doers, risk-takers, optimists - there can never be enough of them. I wish them all the determination, self-belief, persistence, powers of persuasion and maybe even luck they deserve. One day they should get the wider recognition, the appreciation they truly deserve. And maybe some of them will join me in my ambition to launch a University of Entrepreneurship here in Russia.

Equity RUBmn



Net income & dividend per share/GDR



Finally, I want to record my thanks to all those who made a telling contribution to the successes of Tinkoff in 2017; they know who they are (and so do I).

Oleg Tinkov

Founder and Controlling Shareholder

BUSINESS MODEL

TCS GROUP IS EVOLVING RAPIDLY INTO A UNIQUE LIFE-STYLE BANKING SOLUTION AND WILL CONTINUE TO EXPAND THE RANGE OF PRODUCTS AND IMPROVE THE QUALITY OF ITS CUSTOMER SERVICE

OPERATING FLEXIBILITY

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

ROBUST DATA AND RISK MANAGEMENT

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

DIVERSIFIED PROVIDER OF RETAIL FINANCIAL, INSURANCE AND QUASI-FINANCIAL SERVICES

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

HIGH LIQUIDITY AND WELL-BALANCED FUNDING BASE

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

POWERFUL DISTRIBUTION

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

PREMIUM-LEVEL SERVICE AND BRAND

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

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 and mass affluent customers in Russia through a unique online, branchless platform.

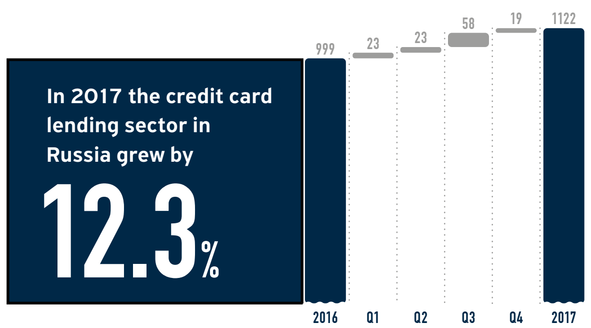
MARKET CONTEXT

Credit card lending

2017 was the first year of market growth after two consecutive years of sharp falls. The operating environment in Russia significantly improved and the consumer lending market showed first signs of recovery, supported by stronger oil prices, a rebounding Rouble and continued consumer deleveraging as the macroeconomic environment further improved and by the ongoing clean-up of the market. The competitive environment has been and still remains slow with many lenders struggling to find the right distribution model and customer value proposition in a market that has changed radically over the last three years.

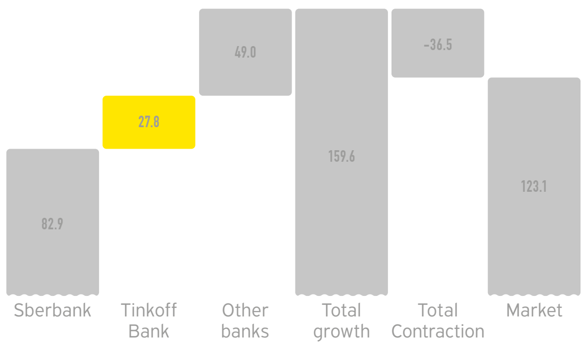
Despite the fact that the credit card market showed positive dynamics in 2017 (RUB1.1trn versus RUB999bn a year before (based on CBRF 101 form)), only a few participants managed to grow their loan books and increase their market share by the year end. Tinkoff Bank is one of them. Even taking into account the CBRF's increasing efforts to regulate the market, expectations are this sector should revive strongly as in Russia it is still underdeveloped and underpenetrated relative to the most developed economies as well as to certain high growth emerging economies.

Credit card market in Russia (RUBbn)

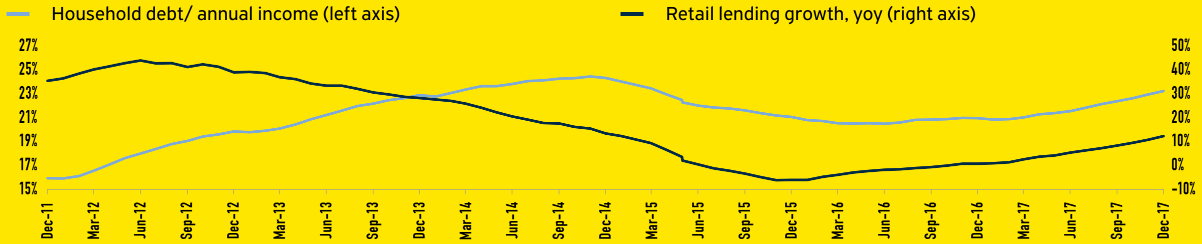


Source: CBRF

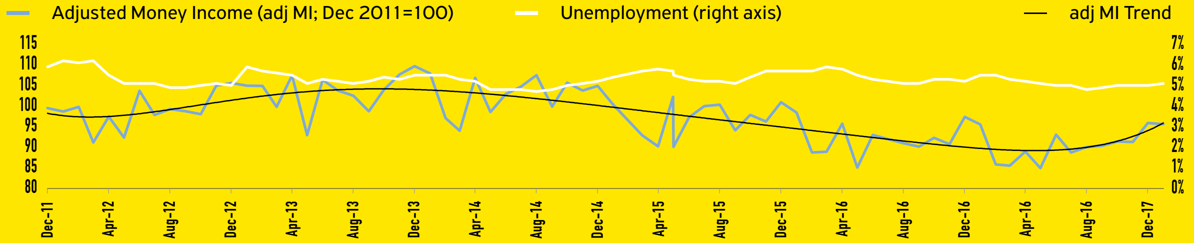
Market dynamics in 2017 (RUBbn)



Household debt returned to growth in 2017



- The capacity of households to service their debt has stabilized as adjusted money income started to recover in the second half of 2017
- Banks' underwriting standards remain tight, new vintages perform well



Note: Money income (MI) covers all sources of household revenue including salaries and pensions. MI adjusted for inflation (CPI) and seasonality.

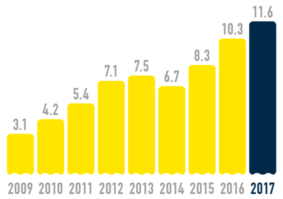
Sources: CBRF, Rosstat

MARKET POSITION

A leading credit card lender in Russia

In 2017 Tinkoff Bank managed to further improve its position on the market and cemented its position as the number 2 credit card player in Russia with its share of the Russian credit card market at 11.6% (the second largest non-delinquent credit card loan portfolio in Russia), thanks to tighter risk controls implemented in good time.

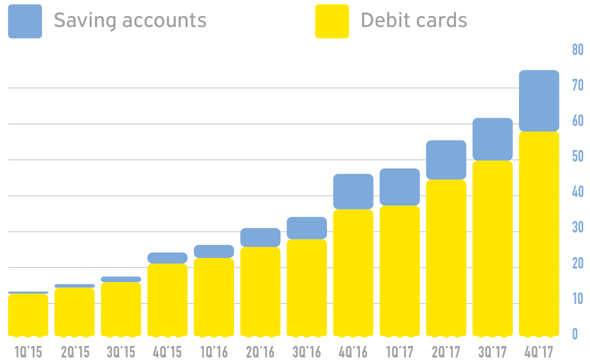
Tinkoff Bank credit card market share (%) (as of YE2017)



Tinkoff Black debit card is flying

In 2017 we brought our current accounts product to a new level of customer servicing and satisfaction with a Net Promoter Score (NPS) of 57, which is much higher than smartphones which came next with a NPS of 40. As a result the current accounts portfolio demonstrated x1.5 growth and allowed us to attract a very different customer base from our typical credit card customers. These customers spend more money and use internet, mobile bank and other services more frequently. They are the key target audience for the Tinkoff.ru platform.

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



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

A leader in the internet and mobile financial solutions in Russia

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

In 2017 Tinkoff Bank launched Android Pay and made available the full spectrum of OS along with Apple Pay, Samsung Pay and Windows 10 - all are fully integrated into the Tinkoff mobile banking App – a touch free wireless payment solution for mobile devices. In 2017 Tinkoff Bank became the first bank anywhere in the world to introduce a Stories feature to its mobile app for iOS and Android, bringing new content to the almost 1 million people who use the Bank's award-winning app on a daily basis.

STRATEGY

TINKOFF'S STRATEGY IS TO BE A FULL SERVICE, ONLINE FINANCIAL SUPERMARKET THAT OFFERS PREMIUM QUALITY SERVICE AND CONVENIENCE.

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

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

Tinkoff Insurance

Tinkoff Insurance has developed a proprietary and advanced IT platform and leveraged the vast expertise of Tinkoff Bank to build a customised choice of insurance products, as well as a convenient claims settlement and sales process, which can be accessed online from anywhere in Russia. The new online insurance products are delivered to the Group's traditionally high customer service standards.

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

02. Maintain leadership in customer service

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

03. Support business expansion using advanced IT systems

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

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

Tinkoff Bank intends to increase its technological advantages over traditional Russian banks. In 2016 Tinkoff Bank announced its IT expertise expansion through a number of IT development centers in big cities across Russia. To further strengthen its IT capabilities and position as a leading IT company, in 2017 Tinkoff Bank set up partnerships with Skolkovo Innovation Center as well as became a member of the Association for Financial Technologies Development.

04. High liquidity and well-balanced funding base

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

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

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

Tinkoff E-commerce products

Since the end of 2013 Tinkoff has focused on the high growth e-commerce market. Our existing electronic online and mobile platforms together with attractive growth opportunities in this sector give us significant advantages on the market. Since December 2013 TCS Group has released a number of mobile mono applications (traffic fines payments, card-to-card transfers, MoneyTalk, GoAbroad, Tinkoff SME, Tinkoff Investments) (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 2017 and these initiatives have already been recognised and received awards from international leaders in this sector.

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

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

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

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

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

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

Credit card lending will remain Tinkoff Bank's core business. We intend to continue to extend the range of our credit card products, strengthen its existing credit card distribution channels and develop new channels including retail partners with large distribution networks, affinity programmes and cross-selling to customers using new products such as co-brand and payroll programmes, insurance, and mono applications. Tinkoff Bank will also continue to develop consumer lending products, such as point-of- sale lending to customers making online purchases through Internet retailers and cash loans to Tinkoff Bank's existing customers.

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

Brokerage Platform

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

Products launched through the Brokerage Platform

- Mortgages
- Retail securities trading
- Travel
- Non-Tinkoff insurance

...and other products coming soon

- Car loans
- Cash loans

WHAT MAKES US DIFFERENT?

>9.3mn
OVER 9.3MN CREDIT CARDS ISSUED SINCE INCEPTION

>274bn
OVER RUB274BN OF CUSTOMER CREDIT CARD TRANSACTIONS IN 2017

>2mn
RECEIVED OVER 2,000,000 APPLICATIONS PER MONTH ON AVERAGE DURING 2017

RUSSIA'S BANK OF THE YEAR 2017[2] AND BEST MOBILE BANK APP[3]

11.6%
#2 PLAYER IN THE RUSSIAN CREDIT CARD MARKET WITH 11.6% MARKET SHARE[1]

10.0mn
OVER 2MN INBOUND CALLS/ AROUND 10MN OUTBOUND CALLS PER MONTH ON AVERAGE IN 2017

1 As of 31 December 2017 based on CBRF data.

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

Point of destination for daily banking

Tinkoff Bank is a top-2 credit card lender in Russia. In addition to our market-leading credit card offering, Tinkoff Bank has developed a successful online retail deposits programme, retail and car and other insurance, financial products in the fast emerging mobile payments and e-wallet segments. Leveraging its innovative approach, existing infrastructure and customer base, Tinkoff Bank has been expanding to bring additional partners' products and services through its full-cycle brokerage platform so now we make available to Russian consumers mortgage programmes, retail securities trading, and expected soon travel services, car loans and more.

2 According to The Banker
3 According to Markswebb Rank & Report

High-tech virtual platform

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

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

WHAT MAKES US DIFFERENT?

52.8% ROAE 2017

DIVERSIFIED PRESENCE IN ALL REGIONS OF RUSSIA, INCLUDING UNDERBANKED SMALL CITIES AND TOWNS

55x ALMOST 55X INCREASE IN EQUITY SINCE 2007

2,500 ALMOST 2,500 SMART COURIERS AND SALES AGENTS COVERING AROUND 2,100 CITIES AND TOWNS

56.5% 56.5% NET LOAN PORTFOLIO CAGR IN 2007–2017

NETWORK OF PARTNERS (ON-LINE, PAYMENT TERMINALS, RETAIL AND OTHER)

TCS group is transforming the Russian financial services market and driving a differentiated customer proposition.

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 2,100 cities and towns in Russia which allows next day delivery. In addition, Tinkoff Bank's online origination process makes extensive use of online data and behavioural profiles, and gives it clear advantages over competitors in terms of underwriting.

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.

I WAS PLEASED TO REPORT IN MARCH AN EXCELLENT SET OF RESULTS FOR 2017. WE OUTPERFORMED IN ALL OUR KEY METRICS. 2017 HAS BEEN THE BEST YEAR TINKOFF EVER HAD

Oliver Hughes
Chief Executive Officer

CEO STRATEGIC REVIEW

52.8% ROAE

ROAE IS 52.8% AND TOTAL EQUITY CLIMBED TO RUB41.9BN

Dear Investors

One year ago, I presented my fifth strategic review, for FY2016. At that time I reported to you that, as we celebrated our tenth year, 2016 had been the best year Tinkoff had ever had. The five main 'big picture' themes I identified - credit fundamentals, growth machine, payments business, brand awareness and diversification of business lines, were the major drivers of remarkable financial results in 2016 and I felt confident they would propel us into 2017 and beyond.

Profitable growth

And so it has turned out. I was pleased to report in March an excellent set of results for 2017. We outperformed in all our key metrics. 2017 has been the best year Tinkoff ever had.

In 2017, we saw the resumption of cautious growth in the Russian consumer lending market – for the first time in four years. This growth accelerated in the second half of 2017, on into 2018. The macro-economic picture in 2017 was good, with unemployment and credit risks low; we believed then, and still believe now, there is room for quality growth for players with the right business model, commitment and brand like Tinkoff.

Delivering our revenue diversification plan

2017 for Tinkoff was a year when everything seemed to go in the right direction, when the non-credit business lines moved more centre stage, a trend we confidently expect will continue, and the investments made in earlier years all came good, exceeding their targets.

As of 1 February 2018 Tinkoff was the second largest credit card player in Russia with a market share of 11.7%*, acquiring 1.8 million new credit card customers last year. It is for this that we are perhaps best known. There is though much more to Tinkoff than that - over several years, we have invested in the launch and roll out of the online supermarket, with the consequent diversification of our revenue streams to non-credit lines.

In 2017 our strong revenue growth of 36%, from RUB58bn to RUB79bn, came from two main sources:

- the dynamic performance of our consumer credit businesses; and
- even stronger growth in our transactional and servicing business lines (including Tinkoff Business (for SMEs), Tinkoff Black, Tinkoff Mortgage, Tinkoff Investment, Merchant Acquiring and Tinkoff Insurance). As a result, our non-credit business lines made a positive and meaningful contribution to Net Income, the bottom line.

Our Net Income for 2017 grew by over 70% year-on-year and reached a record RUB19bn, and a very impressive ROAE.

Behind this headline lies a back-story of judgment, commitment, expertise, professionalism and hard work. Intensive, focused work on:

- building our brand,
- expanding our product range,
- enhancing customer experience,
- retaining laser-like focus on efficiency, tight control of risk

all the time coupled with extensive scaling up of the newer business lines we have built out and enhanced over the last 3-4 years.

To track our progress in building the Tinkoff.ru financial ecosystem, we have started prioritizing new retention metrics such as DAU/MAU in our mobile apps and Net Promoter Score (NPS) which is central to the 'recommendation effect' that drives customer acquisition. We now

* Bank's analytics based on CBRF 101 form

CONTINUED

CEO STRATEGIC REVIEW

have around 7 million customers. NPS for each of the Tinkoff Black and Tinkoff Business lines is close to 60 – this is a Tinkoff record high level for customer servicing and satisfaction.

We have close to 1 million daily users of the mobile banking app and this number has doubled over the last year. As well as frequency of use of the app, our customers are spending more and more time in our interfaces to check balances, make transfers, pay bills, apply for products, book restaurant tables, buy travel services, read 'Tinkoff Stories' and for a wide range of other purposes. 'Tinkoff Stories' is a key block as we significantly step up our efforts to build content. Along with the emphasis on content and product, we are investing in our corporate finance capability (a subject I will come back to later on), with a view to achieving a sharp increase in our active customer base in the next few years.

A look at the business lines' contributions

So, what drove the bottom line in 2017?

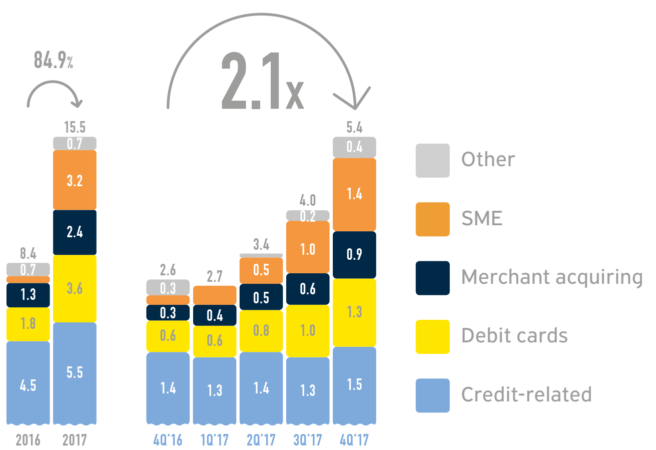
I will address this under two headings:

1. our transactional and servicing business lines; and
2. our credit business lines.

1 Transactional and servicing business lines

Our non-credit business lines grew at an impressive pace making a 21.2% contribution to the 2017 top line. As we scale these businesses up, our acquisition effort becomes more efficient and unit economics continue to improve as a result.

Fee and commission income (RUBbn)



Here is an overview of the main non-credit business lines:

- Tinkoff Business,
- Tinkoff Black,
- Tinkoff Mortgage,
- Tinkoff Investment, and
- Merchant Acquiring.

Tinkoff Business (SME services) is the largest driver of our fee-and-commissions revenue. It broke-even in June 2017 well ahead of targeted break even in H2 2017 and brought RUB830mn as seen in segment reporting in our 2017 IFRS accounts. We opened 240,000 new accounts by year-end representing an almost five-fold growth year-on-year.

We are now number two in Russia by number of accounts opened per month, averaging 20,000. We currently focus on the underpenetrated segment of micro and small business (up to 20 employees) and in 2017 we became the sixth largest player in terms of our market share of Individual Entrepreneurs*. We plan to expand the product range further, building new value-added services and adding lending products through our SME market place. An example of this is our proprietary cloud accounting solution for small businesses which is now used by 365,000 customers. SME is emerging as a growing bottom line contributor.

Tinkoff Black (individual current accounts) ramped up with almost 1.2 million cards issued in 2017 taking us to a total of over 2.8 million personal current accounts opened. We continue to see strong self-generated demand for Tinkoff Black which is important as this product is the locomotive through which we attract mass affluent customers into our ecosystem. The spend on Tinkoff Black debit cards doubled last year and as a result we are now number 4 in Mastercard Russia by total spend. Tinkoff Black became a break-even business (before acquisition cost) in FY 2016.

Tinkoff Mortgage (mortgage broker) now has increasing momentum, having broken-even on target in December. In 2017 we exceeded our targets and originated over RUB10bn of mortgage loans for our partner-banks of whom there are now eleven.

* Bank's analytics based on CBRF 101 form

Tinkoff Investment (retail securities trading platform-broker) also exceeded expectations with over 70,000 brokerage accounts opened by year-end 2017. We see growing demand for our product and interface, fuelled by the steady decline in deposit rates across the market. In Q42017, every fourth new brokerage/MOEX account in Russia was opened through us. From May 2018 we will be rolling out our own platform and offering brokerage accounts directly to customers – we received from the CBRF in March 2018 a professional securities market license to offer brokerage and depositary services. This business line will grow significantly throughout the year as we enrich and expand our product and service offering.

Merchant Acquiring revenues have been growing nicely and Merchant Acquiring made a healthy contribution in 2017. Our newly-acquired subsidiary CloudPayments, an innovative Internet payments provider, will make a growing contribution to our bottom-line in this business line over time.

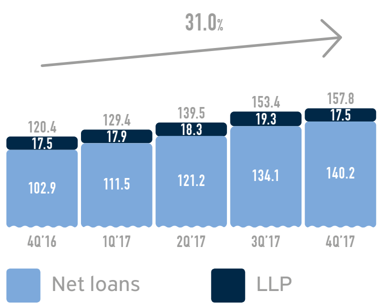
As a result, the overall contribution to total gross revenue from all non-credit-related business lines (including Tinkoff Insurance) doubled in 2017. Our publicly stated target for the end of FY2019 is to have 30% of net income from non-credit lines. By the end of FY2015, the revenue from non-credit lines was 10%, rising to 15% by the end of the following year, and up to 23% by the end of 2017. A definite trend that underlines my belief our 30% target is achievable. I am pleased that we are ahead of our own projections, but I believe that is just the start of this journey as we continue to invest in new non-credit business lines and build out our ecosystem.

2 The credit business-lines

Whilst we are excited by the results and potential of our non-credit business lines, we continue to treasure our core business.

Overall, we beat our internal target, exceeding 36% net loan growth for the year. The credit card business had another great year as we added almost 1.8 million new customers. Credit quality is good, the risk profile of incoming customers is stable and as a result, annualised cost-of-risk was down to 5.5% versus 7.6% in 2016. The cost-of-borrowing further decreased to 7.6% in 2017 from 11% in 2016. Along with a stable cost-of-acquisition, this ensured good credit card economics for the year.

Gross loans



In addition to credit card portfolio growth, we grew our personal cash loan business by 3.2 times from RUB2.2bn to RUB7bn in 2017. Most of this business comes through cross-selling to mass affluent borrowers in our existing customer base. This business line gave us a strong positive contribution to Net Income. We also made strides in POS lending as we grew the book by 3.7 times and took this business line to break-even. We see good prospects to ramp this business up in the still uncrowded 'long-tail'.

This year we plan to launch new tests of car loans by leveraging the Tinkoff Broker platform that we have built for POS lending. We will also carry out other careful tests in the secured lending space. Our goal is to become a full spectrum retail financial player using a combination of smart balance-sheet and broker origination for partners.

2017 highlights

Other noteworthy events in 2017, to pick out only a few, were:

– the successful launch of Tinkoff Mobile, a mobile virtual network operator (MVNO) in partnership with Tele2, last December;
– the launch of Tinkoff's own ATM network in August, giving us over 200 ATMs to date with more to come;
– a large number of awards received throughout the year from reputable international and local institutions -including 'best consumer bank', 'best mobile app solution' and 'best customer experience and servicing'-these are featured under "Our recent awards" elsewhere in this Report;
– the acquisition of a controlling interest in CloudPayments, an innovative online payment solutions provider, in October.

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CEO STRATEGIC REVIEW

The next stage of our journey

We see no shortage of opportunities, quite the opposite. I have alluded to just a few of them already. With our strong revenue and capital generating capacity, we are very well placed to take maximum advantage. Our highly professional management team have demonstrated an ability to react swiftly to change, to spot opportunities before others do and to exploit them.

In 2018 so far we have opened a development hub at Skolkovo innovation centre focusing on business solutions based on blockchain as well as voice and face recognition technologies.

Tinkoff is playing a leading role in piloting various CBRF Fintech initiatives such as the beta version of the Unified Biometrics System ('UBS'), developed by the Ministry of Communication and the CBRF as a digital identity authentication platform. We are also gearing up to participate in the rapid retail payments system pilot in the coming months.

What else then do I see coming, further out in 2018? I'd like to touch on two more factors that should have a bearing on Tinkoff in the rest of 2018. The first is additional regulation, the second M+A.

1 Regulation of our industry

The financial sector in Russia is now fairly heavily regulated, and we expect there will be more consumer regulation to come. An interventionist CBRF has had considerable success in avoiding system-wide problems in the wake of the failures of some of Russia's largest privately- owned banks. It is also actively working to prevent the appearance of new consumer bubbles both in secured and unsecured consumer lending.

The next piece of regulation in the pipeline relates to payment-to-income ratios (PTIs) for unsecured lending. We are actively engaged in the consultations with the CBRF and expect that this initiative will be announced in Spring of this year; that it will at first be a recommendation and that, after a period of monitoring and analysis, it will become mandatory. As with all new regulatory measures, this will require some adjustment for Tinkoff, but given the nature of our business and the small loan sizes we offer, we expect to navigate this with only minimal impact. In reality we see opportunity rather than threat here.

Tinkoff welcomes these additional consumer protections and new regulatory initiatives such as possible payment to income ratio caps. This initiative is intended to have the effect of avoiding future consumer lending bubbles caused by irrational competition in the unsecured (and possibly in the future secured) lending space. Conceptually we support such measures and as a responsible lender that issues low credit limits to customers, we believe this should make the market safer for Tinkoff to operate in as Russia goes into the next market-wide growth phase and should work to the advantage of those lenders like Tinkoff who are focused on building long-term relationships with their customers and a sustainable lending business.

2 M+A

Tinkoff has traditionally grown organically. We have done very little M&A in the past, although we have made targeted small-scale asset acquisitions and we acquired a number of tranches of high quality credit card portfolios from Svyaznoy Bank in 2015. We are also continuously involved in evaluating acquisition proposals, some identified by us, others brought to us, at different stages to determine their fit into the Tinkoff ecosystem.

However, as we build our financial ecosystem we are entering a new phase and we may make moves to buy Fintech companies and content providers that are complementary to our existing business lines.

The deal with CloudPayments was the first of these. We believe that the template of the CloudPayments deal -where Tinkoff takes a controlling stake (with the right to buy out the balance) leaving a significant minority stake with the talented team of co-founders and managers to incentivize them to develop further the business they are firmly committed to, within the Tinkoff ecosystem- is one we should repeat.

To close I should like to thank those-our controlling shareholder, our management team, our business partners, our employees- who have made a contribution to our successes in 2017 and to welcome on board all those who joined us in 2017. A special mention too for all our customers; we truly value you and appreciate your ideas, your feedback and your loyalty.

Oliver Hughes
Chief Executive Officer

OUR RECENT AWARDS

The Banker

- Russia's 2017 Bank of the Year
- Most Profitable CEE Bank in Central and Eastern Europe

Markswebb Rank&Report

- Best Mobile Application for iPhone, Android and Windows and iPad tablets
- Most effective solution for small businesses for Android (Tinkoff Business)

Global Finance

- Best Online Deposit, Credit and Investment Product Offerings and Best inSocial Media

UsabilityLab

- Best Mobile Application on the iOS for convenience and functionality

IR magazine Russia & CIS

- Grand prix for best overall investor relations, small cap

IN 2017 THE GROUP POSTED THE STRONGEST SET OF RESULTS IN ITS HISTORY. THESE RESULTS HAVE FURTHER CEMENTED TINKOFF GROUP'S PLACE AS THE SECOND LARGEST PLAYER IN THE RUSSIAN CREDIT CARD MARKET

Ilya Pisemsky
Chief Financial Officer

FINANCIAL REVIEW

Dear Investors

Just a year ago now, I wrote this: 'in 2016 the Group posted the strongest set of results in its history. These results have cemented Tinkoff Group's place as the second largest player in the Russian credit card market with a market share of 10.3% at the close of 2016.'

One year on, in 2017 the Group posted the strongest set of results in its history. These results have further cemented Tinkoff Group's place as the second largest player in the Russian credit card market with a market share of 11.6% at the close of 2017.

The Group showed a quarterly all-time record profit of RUB6.4bn in the fourth quarter and RUB19bn for the year which is 72.8% higher than in 2016. Return on average equity reached 63.1% in the fourth quarter and 52.8% for the year.

Tinkoff Group is buzzing.

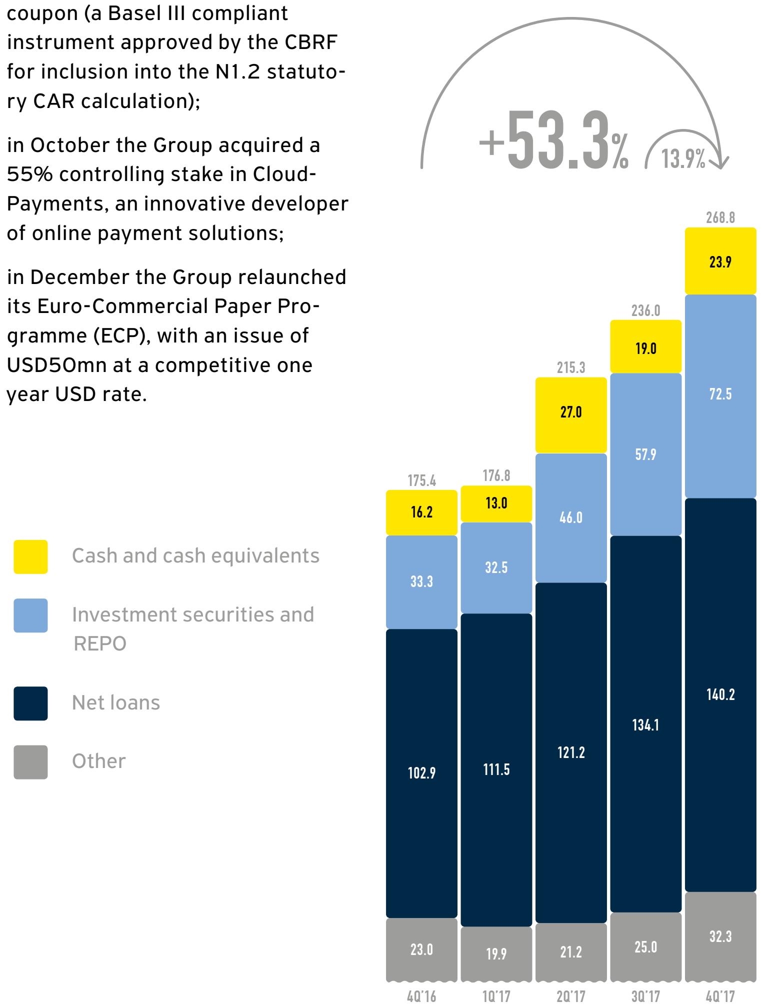
In my review I will share with you my observations on FY2017 and our financial highlights and look ahead a little to 2018 which as I write is nearly three months old. Before doing so I would like to raise some business highlights from FY2017 which show the range of business and capital markets initiatives the Group executed which underpin not just last year's results but we firmly believe success in this and following years:

- in February Moody's upgraded Tinkoff long-term local- and foreign-currency deposit ratings and local-currency senior unsecured debt ratings to B1 from B2, outlook — stable.
- in March the Group adopted a new dividend policy, with a target quarterly dividend payout ratio of 50% of the net income from the preceding quarter (this resulted in a total of USD1.08 per GDR declared in dividends based on 2017 earnings);
- in April, Tinkoff successfully placed a 5 year RUB5bn bond with a 9.65% coupon;
- in May ACRA assigned Tinkoff Bank an A(RU) rating, outlook stable;
- the Group introduced Android Pay for our customers, in May;
- also in May the Group launched a successful tender offer to buy back its USD200mn 14% eurobond due in 2018, resulting in nearly USD63mn of notes being accepted for purchase;
- in June the Group successfully launched its USD300mn perpetual callable bond with a 9.25% coupon (a Basel III compliant instrument approved by the CBRF for inclusion into the N1.2 statutory CAR calculation);
- in October the Group acquired a 55% controlling stake in CloudPayments, an innovative developer of online payment solutions;
- in December the Group relaunched its Euro-Commercial Paper Programme (ECP), with an issue of USD50mn at a competitive one year USD rate.

These are just my personal choices but there are others described elsewhere in this Report and many others in the pipeline, at a stage now where it would be premature to mention them.

Let me now turn to the 2017 financial statements and describe some of the dynamics and patterns that can be observed in our business through 2017. I will also discuss some of the implications of our move to IFRS9 from IAS39 this year.

Assets growth RUBmn



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FINANCIAL REVIEW

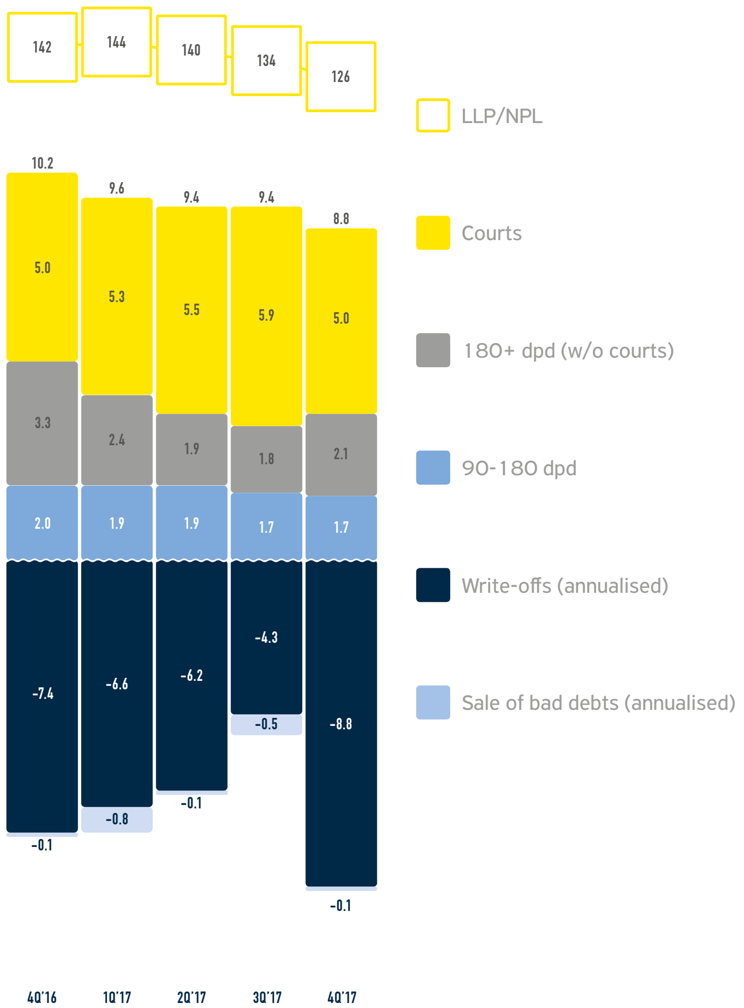
Balance sheet

I will start from the balance sheet, a very healthy balance sheet I would add, as our balance-driven business remained the major driver of our profits in 2017.

Total Assets of the Group grew by 53.3% year-on-year with 13.9% of that growth coming in the fourth quarter. Our net loan portfolio showed an impressive 36.3% growth for the year, slightly ahead of our guidance. This growth was driven not only by the credit card part of the portfolio, but by Cash and POS loans as well. Besides the credit portfolio we saw substantial growth in the investment portfolio which grew by a factor of 2.2. The reason for this dynamic is the strong positive development of the Tinkoff Black and SME business lines. We continue to maintain good quality and well-managed diversification of the bonds within the investment portfolio.

Our gross loan book grew by a solid 31.0% in 2017 which can be attributed to our average monthly credit card issuance rate of 200,000 as well as to the development of cash and POS loans business lines. In December the gross loan portfolio remained effectively flat because of significant increase in the repayment ratio but resumed its strong growth path in January 2018.

Conservative credit risk policy, % of gross loan portfolio



The quality of loans continued to improve. The Non-Performing Loans (NPL) ratio dropped to 8.8% at the year-end showing a decline of 140 basis points through the year. The NPL coverage ratio also declined to 126% under IAS39. The reason behind this reduction was the decrease in the share of restructured loans to delinquent customers in the total loan portfolio. Our funding base is growing strongly mirroring the assets growth. Customer accounts remain the primary source of funding with the 84% share from current accounts growing faster than term deposit balances. Most of the current account money funds our treasury portfolio while term deposits fund the loan portfolio. There is a small overlap in this fund distribution hence we have small short-term portion of loans which is POS loans and credit cards in grace period. At year-end this overlap constituted only 4% of the gross loan portfolio.

We saw rapid development in the SME business with customer account balances showing 4.3 times growth in 2017. It is now a visible balance of RUB23.7bn and is shaping up to be the fastest growing source of funding in 2018. Just as with retail current account money, we keep these funds in very liquid form – either cash or debt securities.

On the wholesale side the Group placed a RUB5bn bond in April and issued a USD300mn perpetual callable subordinated loan at mid-year (a Basel III compliant instrument approved by the CBRF for inclusion into the N1.2 statutory CAR calculation) at much the same time as making a significant buyback of our existing Tier II subordinated loan notes which will mature in June 2018. Just before year end we also placed a USD50mn ECP tranche. The majority of our FX funding is converted to RUB through a number of long term cross-currency swaps with the rates ranging from 3.8% to 4.6%.

Our Equity showed a stable quarterly growth through the year adding 42.1% in 2017 which ensures healthy margins above regulatory capital requirements.

The Basel total and Tier I capital adequacy ratios almost coincide at the year-end following the Tier II subordinated debt buyback and its approaching maturity. Our statutory capital adequacy ratios are well above their respective regulatory minimum levels, with the N1.2 ratio boosted by the perpetual bond placed in June 2017.

In summary a healthy balance sheet; so now I will turn to the Income Statement.

Profit and loss statement

The Group's revenue showed a 36.1% increase in 2017 driven by growth of our core credit business as well as the development of the Group's transactional and servicing businesses. Now The share of non-credit related revenue makes a bigger share in the total despite the solid growth in the core credit business, increasing from 15% in 2016 to 23% in 2017.

In 2017 the Group showed a 25% growth in interest income. Our headline gross interest yield on the credit portfolio slightly decreased from 40.3% to 39.6%, which is a slower decline of gross margin than we anticipated, and the reason for that is higher-than-planned portfolio growth. New loans with smaller-than-average balances give a higher yield than seasoned vintages. Also due to the introduction this year of IFRS 9 gross yield should slightly increase in Q1 2018 (in the region of 1-1.5%), but the general long term reduction of gross yield into the 35% area should continue.

Interest expense showed a decline through 2017 of 6.0% on the back of continued decreases in deposit and market rates. We reduced our top line rate on RUB retail deposits from 8% to 7% during the course of the year and we reduced our top line rate on Tinkoff Black current account from 7% to 6% during 2017. Funding that we receive on SME accounts is also relatively cheap in the area of 2-3% and this also had an impact on total cost of funds reduction. The aggregate cost of borrowing dropped over the last financial year by 340 basis points to 7.6% as a result of declining retail deposit rates and the gradual growth of the weight of the individual and SME current accounts in the liability structure.

Net interest income increased by 37.3% in 2017, which is higher than the top line growth rate, since the interest income grows while interest expense is decreasing. The net interest margin showed an insignificant decline from 25.8% to 25.3% while the risk-adjusted margin grew by 140 basis points to 21.1%.

The reason for the growth of the risk adjusted net interest margin is the decrease of cost of risk during the year. Our cost of risk showed an annual decrease of 2.1% from 7.6% to 5.5% including a seasonal decrease in the fourth quarter to 2.7%. These are IAS 39 percentages; IFRS9 percentages would be 1-2% higher. The average write-off rate for FY2017 was 6.9%.

The Group continues to maximize recoveries in-house by collecting on delinquent loans through courts, installment processes and field collections.

In Q4 2017 we revised our loss-given default expectations on non-performing loans in our portfolio, including loans in court. This resulted in 5.5% reduction in provisioning levels for this category which led to RUB550mn pre-tax P/L effect. This is not a one-off adjustment but rather an effect that otherwise should be spread out through the whole of 2017. There are two reasons for this revision in our view – better market conditions and improved collection effectiveness through court procedures. Finally, this revision placed us closer to IFRS 9 requirements for loss-given default estimation that have been in place since the beginning of 2018.

Net interest income RUBbn

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FINANCIAL REVIEW

In 2017 the Group's fee and commission income demonstrated rapid growth of 84.9% and by 2.6 times if credit-related fees are excluded-this is due to the development of non-credit business lines primarily debit cards, online acquiring and SME services. Credit related fees are not growing especially and their impact on our business will we expect reduce in the next few years. Insurance premiums earned also doubled in 2017 to RUB2.7bn, showing an even higher growth in the auto segment, though we continue to view a more aggressive growth in the insurance business as premature.

With 2.8 million customers, the Group's current accounts business contributed RUB3.6bn in fee and commission income in 2017. We successfully introduced family banking and multi-currency debit cards. We continue to develop our product which we see as the cornerstone of our customer relationship, believing it as having the potential for subsequent cross-sell opportunities. We are intentionally keeping our bottom-line result on this business at break-even, seeing more value in customer base growth and potential synergetic effects with other business lines rather than a source of pure net income growth. Our award-winning mobile and internet banking applications ensure best-in-class customer experience.

Launched about two years ago our SME business line came to break-even in June 2017, emerging as a growing bottom line contributor. As at year-end we are serving about 250,000 customers; in 2017 that number grew five-fold. The SME business line contributed RUB3.2bn in 2017 fee and commission income and over RUB800mn in net segment income. We continue to expand the range of services for SME customers to support the growth and improve the economics of this business line.

Our mortgage broker business is looking to scale up without excessive pressure on operating profit. The volume of mortgage loans originated through our mortgage broker platform exceeded RUB10bn in 2017 compared to RUB3bn in 2016. This business line became break-even in the last quarter of 2017. Currently, we have 11 partners-two more banks have joined the partners' group- and we continue to optimize business processes for customers.

More than 60,000 accounts were opened in 2017. About 80,000 customers now use our Tinkoff Investments platform for buying or selling securities. In the fourth quarter the volume of deals exceeded RUB12bn with an average ticket of RUB60,000. This business has shown steady growth and is at break-even in partnership with BCS Broker, Russia's leading retail brokerage. Now though we are also developing our own brokerage solution which should push the total business line into small minus for 2018.

Now some comments regarding operating expenses. Operating expenses were up by 44.4% in 2017. In the fourth quarter we saw a seasonal growth which was attributed primarily to the salary review process and advertising campaign expenses. This influenced the cost-to-income ratio which ticked up to 45.5%. Overall, we showed a slight decline in cost-to-income ratio for the year from 43.9% to 43.2%.

9.3mn CREDIT CARDS

BY THE END OF 2017 TINKOFF BANK HAD ISSUED OVER 9.3MN CREDIT CARDS

>2.8mn DEBIT CARDS

TINKOFF BANK ISSUED OVER 2.8MN DEBIT CARDS AT YE2016

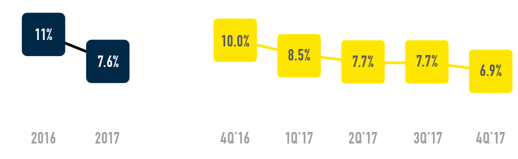
The Group is required to transition for this year from accounting standard IAS39 to IFRS9. I will summarize what I see as its main impacts. The one-time downward effect on Equity is around RUB9.7bn, which is higher than we predicted earlier, mostly for the reason of the higher growth of the gross loan portfolio.

IFRS9 also requires us to introduce provisioning for customers' unused credit limits. Instalment loans will be recognized as stage 3 loans. NPL calculated as 126% under IAS 39 would increase under IFRS9 to around 157.6%. NPL coverage calculated as 8.8% under IAS 39 would increase under IFRS9 to around 11.9%.

IFRS9 also impacts cost of risk as I discussed above.

It is important to remember that our capital adequacy requirements are measured on the basis of Russian accounting standards that are not affected by this change in standards. We have been preparing for this transition for a long time. We continue polishing our IFRS9 accounting model for our loan portfolios.

Cost of Borrowing



In summary FY2017 was a year of dynamic growth in the credit business, robust credit portfolio performance allied to a strong contribution from our transactional and servicing business lines. We sustained strong positive cost of borrowing and capital adequacy ratio trends, and our profitability was impressive.

Overall we go on into 2018 with a lot of forward momentum.

Ilya Pisemsky
Chief Financial Officer

ASSET, LIABILITY AND RISK MANAGEMENT

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 purpose of the Group's asset, liability and risk management ("risk management") strategy is to evaluate, monitor and manage the risks arising from the Group's activities. The main types of risk inherent in the Group's business are credit risk, market risk, which includes foreign currency exchange risk, interest rate risk and liquidity risk. The Group designs its risk management policy to manage these risks by establishing procedures and setting limits that are monitored by the relevant departments.

Risk Management Organisational Structure

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

Policy Making Bodies

The policy making level of the Group's risk management organisation consists of the Board of Directors, and at the Tinkoff Bank level its Board of Directors, the Management Board, the Finance Committee, the Credit Committee and the Business Development Committee.

These bodies perform the following functions within the Bank:

Board of Directors

The Board of Directors is responsible for the creation and supervision of the operations of the internal control system of the Group and approves the Group's credit policy ("Credit Policy") and approves certain decisions that fall outside the scope of the Credit Committee's authority.

Management Board

The Bank's Management Board, which, in addition to its Chairman, also includes the Group's Risk Director, Chief Financial Officer, Chief Accountant, Chief Legal Counsel, Chief Operational Officer and Head of Payment Systems, has overall responsibility for the Group's asset, liability and risk management operations, policies and procedures. The Management Board delegates individual risk management functions to each of the various decision making and execution bodies within the Group's risk management structure. Chairman of the Management Board appoints members of the Finance Committee and Credit Committee. It meets on a weekly basis.

Finance Committee

The purpose of the Finance Committee is to ensure the long term economic effectiveness and stability of the Group's operations. The Finance Committee establishes the Group's policy with respect to capital adequacy and market risks, including market limits, manages the Group's assets and liabilities, establishes the Group's medium term and long term liquidity risk management policy and sets interest rate policy and charges with respect to individual loan products. The Finance Committee must have at least five members (currently there are seven members) and the Chairman of the Management Board acts as the Chairman of the Finance Committee. It meets on a weekly basis.

Credit Committee

The Credit Committee supervises and manages the Group's credit risks. With respect to credit cards, the Credit Committee approves the consumer lending policy, the underwriting methodologies and the scoring models used for assessment of the probability of default, the initial credit limit assignment and subsequent account management strategies, provisioning rates and decisions to write off non-performing loans. This Committee must consist of at least five members (currently there are six members) and the Chairman of the Management Board acts as the Chairman of the Credit Committee. It meets when necessary, but at least once each month.

Business Development Committee

The Business Development Committee is responsible for the development, design and marketing of the Group's financial products and provides recommendations to the Group's risk management bodies with respect to changes to the Group's lending policies and procedures and the pricing of the Group's loan products. This Committee consists of 12 members appointed by the Management Board. It meets on a weekly basis.

Policy Implementation Bodies

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

Finance Department

The Finance Department is responsible for managing correspondent accounts, daily currency liquidity, money transfer control and daily money transfer modelling to support the required currency liquidity level for correspondent accounts and compliance with the CBRF's liquidity ratios.

The Finance Department is also responsible for closing international and local transactions in accordance with the Group's limits as approved by the Finance Committee and in compliance with the CBRF's regulations, as well as for short term placements, currency hedging and interest rate hedging.

Risk Management Department

The Risk Management Department is responsible for the development and implementation of the Group's consumer lending policy after the final approval of such policy by the Credit Committee. The Risk Management Department is also responsible for credit risk assessment of all proposed new products and related marketing communications, for approval of credit card applications and other loan products applications and for subsequent account management programmes.

Collections Department

The Collections Department is responsible for collection of amounts due but unpaid by delinquent the Group customers. The Management Board approves the Group's collections policy, which is then implemented by the Collections Department.

Internal Control Service

The Internal Control Service assesses the adequacy of internal procedures and professional standards, as well as their compliance with CBRF regulations. The Internal Control Service is controlled by, and reports to, the Board of Directors of the Bank.

Management Reporting Systems

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 (but is not limited to) 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 the CBRF's requirements, capital adequacy and liquidity reports, operational liquidity forecast reports and information on intraday cash flows.

Some reports are submitted for the review of the Bank's Board of Directors on a monthly basis. These include selected financial information based on IFRS and adjusted to meet the requirements of internal reporting, analytical reports on credit risk and lending, reports on the status of the Group's credit card business accompanied by management commentary and analysis and reports on the Group's performance versus budget and operational risk reports.

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ASSET, LIABILITY AND RISK MANAGEMENT

Overview of principal risks

The Group is subject to a number of principal risks which might adversely impact its performance.

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

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

Credit risk;

Market risk;

Foreign currency exchange risk;

Interest rate risk;

Liquidity risk; and

Operational risk.

These are discussed in the following pages.

Credit Risk

The Group is exposed to credit risk, which is the risk that a customer will be unable to pay amounts in full when due. Credit risk arises mainly in the context of the Group's consumer lending activities.

The general principles of the Group's credit policy are outlined in the Credit Policy approved by the Board of Directors of the Bank. This document also outlines credit risk controls and monitoring procedures and the Group's credit risk management systems. Credit limits with respect to credit card applications are established by the Credit Committee and by officers of the Risk Management Department.

The Group structures the levels of its credit risk exposure by placing limits on the amount of risk accepted in relation to different online (Internet, mobile and telesales) and offline (sales through retailers) customer acquisition channels and sub-channels. Such risks are monitored on an ongoing basis and are subject to quarterly or more frequent review with the approval of the Management Board.

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. The Group performs close credit risk monitoring throughout the life of a loan.

Loan Approval Criteria and Procedures

The Group is primarily focused on reducing incoming credit risk at the acquisition stage. The Group's Credit Committee has established general principles for lending to individual customers. According to these principles, the minimum requirements for potential customers are as follows:

Citizenship of the Russian Federation;

Aged from 18 to 70 inclusive;

Possession of a mobile phone;

Longterm current employment;

Monthly income above five thousand roubles; and

Permanent or temporary place of residence.

In almost all cases, the decision to issue a credit card or other loan product to a potential customer is made automatically, based on the credit bureaus information, verification of the customer's identity and credit score of the applicant calculated using one of the acquisition channel-specific scoring models. In very rare cases, decisions to issue credit cards to high income or high net worth customers are taken manually by members of the Credit Committee, but the number of loans granted under such circumstances is immaterial.

The decision to issue a credit card or loan to a customer is made after completion of the following steps:

Solicitation – The initial step in the underwriting process that applies to one-to-one marketing channels (e-mails, phone calls, SMS messages and direct mail) is pre-screening of prospective customers. At this stage, the Group's loan officers check available information on prospective customers and remove potential non creditworthy customers, thereby reducing the cost of customer acquisition.

Validation – The purpose of this stage is to ensure the validity, completeness and quality of application data. The Group's system checks the integrity of the data and, if necessary, call centre staff call applicants to ask them to provide additional information or documentation.

Verification – At this stage, the Group's loan officers verify information provided by the applicant in their application form. This includes confirming the applicant's identity, for example through the telephone numbers from the credit bureau report; investigation of the applicant's financial situation during a phone interview; and verification of employment details (including verification that an applicant's employer is an officially registered legal entity, review of the employer's website to make sure that this entity exists and continues to operate, confirmation of the applicant's employment using telephone numbers of the legal entities from their registrars and, wherever possible, verification of the applicant's declared income with his or her employer). As part of the verification process, the Group's loan officers also gather as many phone numbers linked to the applicant as possible (land-line and mobile, personal and that of a friend and/or a relative) to facilitate future collection efforts.

Credit Bureaus – Subject to the prior consent of the applicants, the Group sends incoming applications to the largest credit bureaus in Russia including Equifax, Unified Credit Bureau (Sberbank, Experian, Interfax) and National Bureaus of Credit Histories, and requests applicants' credit histories. Typically, approximately 18 per cent. of applicants have no credit history in the credit bureaus but they are not automatically rejected and can be accepted on the basis of information provided in their application forms and other sources of information described below.

Scoring Model to Identify Fraud – At this stage, the Group investigates whether the applicant is currently in default according to credit bureaus reports, whether the applicant's passport is invalid according to the Federal Migration Service records, whether the applicant's name appears in any of the Group's proprietary databases or whether any application details (for example, telephone numbers or addresses) are identified as fraudulent in databases of other banks available through antifraud services provided by credit bureaus – Fraud Prevention Service (Equifax) and National Hunter (UCB).

Scoring Models for the Application – the Group has internally developed a set of acquisition channel-specific statistical models that rank all applicants according to their probability of default during the next 12 months. These models use, among other things, (i) demographic data from the application form (for example, age, gender, education and marital status), (ii) payment history, when available – both positive and negative – from the three largest credit bureaus in Russia, (iii) channel-specific marketing and behavioural information (for example, device used to fill in the application form, time between application and first call and the amount of time a web visitor spends on a website).

Application of the NPV Model and Final Decision – the Group has developed acquisition channel-specific models that, amongst other things, estimate a potential customer's net present value from one used credit card. The key components of every NPV model are the customer's probability of default, tendency to use a grace period, and other behaviour characteristics which are calculated using internal scoring models. For potential customers incoming from a particular acquisition channel, and taking into account such customers' estimated behaviour characteristics, initial credit limit and tariff plan, the models estimate the Group's future cash flows from each customer by modelling his or her behaviour in respect of, among others, credit limit utilisation levels, transactional activity, share of cash withdrawals in total card activity and repayment rates. The Group takes a NPV-positive approach to approval of all applications, which means that an application is approved only when the potential customer's net present value from the use of his or her credit card is positive. For all NPV calculations a discount rate of 30 per cent. is used.

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.

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ASSET, LIABILITY AND RISK MANAGEMENT

Credit Line Management Procedures

Credit line management procedures for credit card products include the following:

Initial Credit Line Calculation

The customer's initial credit limit depends primarily on such customer's probability of default and his or her income. Lower probability of default and higher income have a positive impact on the initial credit limit. The initial limit cannot exceed three monthly salaries of the customer or RUB 120,000, whichever is lower.

Regular Update of Credit Line

Once the Group has received at least three minimum payments from a new customer and each six months thereafter, the Group reviews the customer's credit limit. As part of the process, the Group updates credit bureaus reports with respect to the customer and re-calculates such customer's probability of default with the help of internal behavioural scoring model. Based on the updated probability of default, the credit limit may be increased. For premium customers the credit limit may be increased further.

Loan Collection

The Group employs a multi stage collection process that seeks to achieve greater efficiency in the recovery of overdue credit card loans. Collections on loans that are overdue by 0 to 90 days are performed by the Group's internal Collections Department. After 90 days of delinquency, when it is clear that the early collection efforts are unlikely to be effective, customer's debt may be restructured into instalment loans (which is the option preferred by the Group), transferred to collections through courts or sold to its internal collection agency (Feniks) or external collection agencies.

The Group's collections methodology is based on customer behaviour and corresponding collection scores. Under this approach, at initial stage of collections (pre collections and early collections), delinquent customers are allocated to one of three groups depending on their risk profile (high risk of default, medium risk of default and low risk of default). This enables the Group to apply a variety of collections tools and collections treatments to different groups of delinquent customers.

All of the stages described below may be accelerated in cases where the Group has grounds to believe that the delinquent customer will not repay the debt voluntarily or that fraud has taken place. In such circumstances, the time periods between each collections stage are shortened or omitted (the respective loans are accelerated into collections used for non-performing loans) in order to increase the chances of recovery.

The Group's management uses monthly second payment default rate (percentage of accounts on which payment has not been received within 30 days of the first due date) as an important measure of asset quality that provides early indication of how non-performing loans levels and provisions might change in the future.

Pre Collections (Four Days Prior to Due Date). The Group sends to all customers a reminder about forthcoming payments and the amount due two to four days prior to the due date. The customer receives a SMS and/or an e-mail. High-risk customers also receive a call. Pre collections calling has proved to be an important way to combat delinquency.

Early Collections (0 – 30 Days). If payment is more than one day overdue, the customer receives reminders via SMS and email, as well as calls from the collections team. The level of contact is determined by behavioural scoring (their probability of default based on the customer's previous history with the Group and external credit bureaus scores) to ensure efficient use of collections resources.

"Soft" Collections (30 – 90 Days). Once a credit card loan becomes more than 30 days overdue (after the second payment default), the customer is switched to "soft" collections. On the 31st day of delinquency, the customer is sent a written notification of the missed payment and receives SMS and e-mail reminders at regular intervals, as well as follow up calls by members of the "soft" collections team. The Group's objective at the "soft" collection stage is to identify and assess the reasons why the customer has missed payments, to assist the customer in making payments, to collect payments and to identify early customers who should be transferred to collections used for non-performing loans. In rare circumstances, the Group provides temporary relief from credit card repayments for a period that usually does not exceed three months to borrowers with temporary financial difficulties but with a positive credit history. Monthly minimal payments are reduced to an amount that a borrower is able to repay during the relief period.

Non-Performing Loans Management. When loans are overdue by more than 90 days, the Group collection efforts consists of (i) the restructuring of credit card debt to personal instalment loans, which is the preferred option of the Group to handle such delinquency, or, if customers do not agree to such restructuring, then either (ii) collections through courts with the enforcement of judgments with the help of the Federal Service of Court Bailiffs of the Russian Federation or (iii) sales of non-performing loans to its internal collection agency (Feniks) or external collection agencies.

Conversion of Credit Card Debt to Personal Instalment Loans. Conversion of credit card debt to personal instalment loans was first introduced by the Group in 2010. This programme is based on regular instalments paid by delinquent customers. After consultations with the delinquent customer, the Group fixes the outstanding amount of the debt under the credit card loan and offers the customer an option to repay his or her debt in monthly instalments during a period limited to 36 months.

Recoveries through the Courts. The Group applies to courts through mailing standardised claims rather than appearing before a court to enforce overdue loans. The Group considers these generally straightforward and quick court proceedings as a preferred alternative to collection agency services in those locations in which court decisions can be obtained in approximately three months or faster. Most courts in Russia are able to resolve court cases initiated by the Group within this time framework.

Sales of Non-Performing Loans to Collection Agencies. Typically, loans delinquent for more than 150 days and not converted into instalment loans or being resolved through claims submitted to the courts, and loans with court orders with low collection rate are sold to in-house Feniks collection agency. In rare circumstances limited loan portfolios are sold to external collection agencies.

Fraud Prevention

The Group maintains a fraud prevention strategy which is based on the identification and fraud monitoring.

Access to customers' accounts is secured via smart identification system, which takes into account various customer profile parameters, including information on a device used and session data, and sets an identification level. Depending on such identification level, the customer needs to acknowledge the entry into the account by way of a login and password, four-digit access code, fingerprint, security question or a password sent to the customer's contact number. In securing access to customers' accounts a two-factor identification is used.

Customer support centres use a unified identification manager, which allows to request a customer's identification data and passwords without providing access to such data to the customer support service. In addition, a real-time voice authentication system is used to verify the identity of a caller. The system is based on the NICE Real-Time Voice Authentication System by Nice. The system is synchronised with the universal authentication manager processing customer calls to the centre. This technology enables customer voice identification during a regular phone call, reducing verification time from 40 seconds to 7 seconds. This dramatically improved customer experience by saving customer time and helped to reduce traffic costs and enhance security, given the prevalent risk of personal data in the age of social engineering.

Payment operations are generally secured via one-time SMS codes. Any operations with cash and movements on customer accounts are only carried out upon confirmation using a code sent via SMS and push notifications. IMSI system is used to check to authenticate a sim card.

Unauthorised operations are prevented by fraud monitoring system, which is based on IBM Safer Payments solution. The system allows to effectively prevent fraud at various stages of a payment process using a cross-channel monitoring. This secures online banking, emission, acquiring, deposit withdrawals, sms-banking, operations on accounts of legal entities.

The monitoring system may, inter alia, automatically reject or suspend a payment, block an account or send an alert report of a suspicious operation. Once a suspicious transaction is identified a customer may confirm such operation by phone, sms-bank or mobile application

When suspicious transactions are identified, the Bank gives the customer a choice - to confirm transactions by phone or for cases with the presence of a card through the sms-bank or mobile application. In more than 90 per cent. of cases, the customer does not have to contact the bank by phone, which is especially important for customers abroad.

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ASSET, LIABILITY AND RISK MANAGEMENT

Provisioning Policy

Provisioning policy falls under the responsibility of Tinkoff Bank's Management Board that approves internal documents regulating the determination of delinquency groups and creation of allowances for potential losses in connection with the Group's loan portfolio.

IFRS provisioning

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 year, the Group's management 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's management considers as objective evidence of impairment is the overdue status of the loan.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In accordance with internal methodology for the provision estimation, the Group uses all available loss statistics for the whole period of its operations. Starting from 2010, the Group's management uses a seven month horizon for assessment of probabilities of default in calculating the provision for impairment as these statistics provide better information to estimate and project loan losses.

CBRF Provisioning

For CBRF regulatory purposes, the Group currently applies a methodology based on RAS to calculate loan provisioning and determine expected losses. Under CBRF regulations, provisions for loan impairment are established following the borrower's default under the loan or where there is an objective evidence of potential inability of the borrower to repay the loan. In the case of consumer lending, the Group creates provisions by reference to homogenous loan portfolios including groups of loans consolidated on the basis of a certain credit risk criteria (such as type of loan product, region of residence, debt terms or month of issue) as well as individual loan products. Provisions with respect to individual loan products are calculated based on the borrower's financial condition and debt service quality.

CBRF requires banks to classify their loans into the following five risk categories and to create provisions in the corresponding amount at their discretion:

Loan classification	Status of loan and loss potential	Provisioning range (in %)
Category I	Standard loans, without credit risk	0
Category II	Non-standard loans, moderate credit risk	1-20
Category III	Doubtful loans, considerable credit risk	21-50
Category IV	Problem loans, high credit risk	51-100
Category V	Bad loans	100

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 in respect of which 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.

Market Risk

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

The Group is generally not engaged in trading operations. It has mismatches in its foreign currency positions that arise generally due to relatively short term lending in Roubles and relatively long term borrowings in U.S. dollars. The Group manages the positions through hedging, matching or controlled mismatching.

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

Foreign Currency Exchange Risk

The Group suffered from the rouble devaluation in November 2008 to February 2009 and 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.

Non-monetary assets are not considered to give rise to any material currency risk.

Interest Rate Risk

The Group's exposure to interest rate risks arises due to the impact 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 also decrease or create losses in the event that unexpected movements arise. The Group's management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

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

The Group monitors interest rates for its financial instruments.

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. Debt securities in issue consist of Rouble-denominated domestic bonds with maturities of up to five years, in particular RUB3bn 11.7 per cent. domestic bonds due 2021 with 18 months put option and RUB5bn 9.65 per cent. domestic bonds due 2022 with a two year put option.

The Group keeps all available cash in diversified portfolios of liquid instruments, such as a correspondent account with the CBRF and overnight placements in high rated commercial banks, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group believes that the available cash at all times is sufficient to cover (i) debt repayments due within a month and accrued interest for one month ahead and (ii) a deposit liquidity cushion calculated as at least 15 per cent. of total retail deposits (but in practice usually maintained at a level between 20 and 25 per cent.). The Group believes that it has a proven ability to control loan portfolio cash flows to maintain levels of liquidity reflecting changing market realities. The Group also believes that its loan portfolio is responsive to change in inputs (such as stopping the issuance of any new credit cards or other loans and any increases in credit card limits) and that the Group can go from being cash-negative to being cash positive in a short period of time (estimated to be two weeks), as it was able to do in November 2008 and in September 2011.

The Group's liquidity management requires (i) considering the level of liquid assets necessary to settle obligations as they fall due; (ii) maintaining access to a range of funding sources; (iii) maintaining funding contingency plans; and (iv) monitoring balance sheet liquidity ratios against applicable regulatory requirements.

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ASSET, LIABILITY AND RISK MANAGEMENT

Tinkoff Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR, based on stand-alone RAS information of Tinkoff Bank, which is substantially different from the Group's IFRS results. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand. The minimum statutory ratio permitted by the CBRF is 15 per cent.
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The minimum statutory ratio permitted by the CBRF is 50 per cent.
- Long term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The maximum statutory ratio permitted by the CBRF is 120 per cent.

For purposes of managing the Group's liquidity risk, the CFO regularly receives extensive information about the liquidity profile of the financial assets and liabilities. Monitoring of the Group's liquidity position includes, among other things:

- Monthly credit card loan portfolio trends monitoring, which covers transaction and repayment levels, delinquency levels, first month utilisation levels and backlog utilisation levels. This information allows the Group management to exercise control over longer-term cash flows and portfolio size and to plan for debt repayments one to two years ahead;
- Daily monitoring of transactions, repayments and deposits with data for the day updated each evening;
- Close deposit monitoring through daily reports and periodic deposit portfolio/behavioural analysis;
- Daily monitoring of credit card, deposits and cash balances with a one-day lag for all balances;
- Daily monitoring of movements on CBRF and Nostro correspondent accounts; and
- Daily monitoring of payments flows, which consists of tracking incoming and outgoing payments including all future payments for up to three days in advance.

All daily reports also include week-to-day and month-to-day comparisons.

On the basis of all these reports, the CFO then ensures the availability of an adequate portfolio of short term liquid assets, made up of an amount in the correspondent account with the CBRF and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole.

The Group's assets and liabilities management and liquidity policy takes into account certain relatively stable characteristics of the credit card loan portfolio, such as, among others, (i) regular monthly repayments of 12 to 14 per cent. of outstanding receivables, (ii) average utilisation of approximately 80 per cent. of the total portfolio limit, (iii) average utilisation of approximately 45 per cent. of the added amount within three months after regular credit limit upgrades; (iv) positive NPV on a credit card after 12 to 18 months; (v) risk profile of the portfolio, with decreasing delinquency rates resulting in increases in both repayments and transactions and (vi) seasonality, with a spike in usage in December of each year and a slowdown in usage in January and August.

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.

All the investment securities available for sale are classified within demand and less than one month as they are easy repoable in the CBRF 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.

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 and misuse of the Group's property.

The Group has established internal control systems intended to comply with Basel guidelines and the CBRF's requirements regarding operational risk. The Board of Directors of the Bank adopts general risk management policy, assesses the efficiency of risk management, approves the Group's management structure, adopts measures designed to ensure continuous business activities of the Group including measures designed for extraordinary and emergency situations and supervises other executive bodies in respect of operational risk management. The Management Board generally oversees the implementation of risk management processes at the Group including relevant internal policies, adopts internal regulations on the Group's risk management, determines limits for monitoring operational risks and allocates duties among various bodies responsible for operational risk management.

Regular monitoring of activities is intended to detect in a timely manner and correct deficiencies in policies and procedures designed to manage operational risk, which can reduce the potential frequency and/or severity of a loss event. Dedicated the Group personnel track all problems the Group encounters in its operations and record all operation errors/issues and remedial measures taken on a special help-desk system. Reports on such errors or issues are sent to key managers and all such errors are issues are recorded in incident log. In order to minimise operational risk, the Group strives to regularly improve its business processes and its organisational structure as well as incentivise its staff.

The Group insures against operational risks through several insurance policies that cover, among other things, property risks in respect of the Group's offices, IT infrastructure and certain third-party liabilities.

The Group has not experienced any material operational failures in recent years. In order to minimise potential losses from such failures, ensure business continuity in case of disruption to IT systems and provide reliable and continuous access to business data and services, the Group's IT systems are located in two dedicated data centres each connected to separate and independent power supply sources. Critical IT systems are operated in the most accessible, primary data centre with primary Tier-III facilities, while secondary systems and back up facilities are located in a physically separate data centre. Both data centres provide 24 hours a day, seven day a week, year round power, cooling, connectivity and security capabilities to protect mission-critical operations and preserve business continuity for IT systems. Moreover, the Group keeps additional hardware on its premises for back-up purposes and has stand-by servers for each key system, including active standby for critical systems such as processing and transaction authorisation. Data connections to the data centres are 100 per cent. reserved via separate physical lines.

Anti-Money Laundering and Anti-Terrorist Financing Procedures

As a member country of the FATF, Russia adopted the Anti-Money Laundering Law. Subsequent to the adoption of the Anti-Money Laundering Law, the CBRF promulgated 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 requirements of the Russian anti-money laundering regulations, related instructions of the CBRF and international standards. The supervision of the Russian anti-money laundering regime is shared by the CBRF and the FSFMT.

The Group has created a specialised unit and appointed an authorised officer who coordinates activities aimed at preventing money laundering and terrorism financing. The Group conducts identification and review of its customers, customer's representatives, beneficiaries and beneficiary owners, money laundering and terrorism financing risk management, personnel training as well as daily analysis of banking operations, verifies information on operations that are subject to monitoring and sends all required information to the relevant state authorities. Employees of the Group have to take mandatory training on the Group's policies and procedures for preventing money laundering and terrorism financing both as part of the initial training after being hired and as part of the subsequent training activities.

Mandatory internal control checks are conducted by the Group's Internal Control Service. External control is provided by the CBRF and, within an annual audit, by a statutory auditor.

The Group cooperates with the FSFMT by timely addressing their requests regarding certain entities or operations.

CORPORATE AND SOCIAL RESPONSIBILITY

Corporate and Social Responsibility (CSR)

Overview

2017 was a year of important achievements and marked a watershed in the history of TCS Group. We continued developing the Tinkoff.ru ecosystem and integrating innovative technologies into our operational processes, with the aim of ongoing enhancement of operating efficiency.

Aside from strong financial performance, the Group continued to apply innovative technologies in product development and customer service in 2017. For example, chat bots that answer 20% of all the incoming queries without connecting customers and employees helped us to reduce the cost of service.

All this was made possible only through the efforts of our talented team. Throughout 2017, we were hiring the best professionals on the market to support our new lines of business.

By the end of 2017, the Group's headcount totalled more than 18,000 people, with 9,143 being permanent office-based employees and 8,300 employees working remotely. Mathematicians and IT specialists account for 60% of the total headcount at the Company's headquarters.

TCS Group average employment term is more than four years, with 15% of employees working at the Company for over five years. The share of vacancies filled internally is 15%, and the average period of reviewing new candidate applications ranges from three to seven days. According to a study by banki.ru, Russia's leading financial portal, 55.2% of the Company's employees post positive employee feedback.

Our team is still among the youngest on the market: the average age of employees Group-wide stands at 26.

Human resources: key principles

TCS Group adopts an unconventional recruitment approach. Lack of finance or banking background is often viewed as an advantage. We hire people with no stereotypes who are eager to reshape the financial services landscape. People with an analytical mind and the ability to handle huge amounts of data are our first choice.

Tinkoff Bank is a general partner of the Quiksilver New Star Camp 2017 held at the Rosa Khutor alpine resort in Sochi.

Tinkoff Bank is an official sponsor of Red Bull Flug Tag 2017. A challenge for the most courageous and creative pilots who dare to design and pilot self-made flying machines.

The Group's recruitment policy focuses on:

- bringing together smart people with analytical experience;
- a transparent structure with zero tolerance of bureaucracy or hierarchy;
- a smart working environment;
- an effective learning environment;
- encouraging initiative and taking on responsibility;
- creativity and open dialogue between employees;
- promotion of team spirit and entrepreneurial culture;
- broad employee capabilities and delegation of responsibility;
- an environment where employees can experiment, make mistakes and learn lessons;
- promotion of the Test and Learn framework.

In line with our Test and Learn approach we test many concepts and implement the most successful. Our employees are not afraid of making mistakes and failures: in our quest for the most successful models we support any experiments and promote open communication between colleagues.

We welcome innovative ideas to solve challenges in many different ways and we believe in the idea of an environment granting talented people far-reaching authority. Greater rights and opportunities for our people is a crucial element of our success. To deliver on the Group's objectives, we use various channels to establish communication between employees: email, online chats, meetings, etc. Any employee can address anyone in the Company regardless of their position.

Recruitment and training

We seek to recruit the best talent on the market using various tools to motivate and retain people. TCS Group recruits new team members via advertising and job sites, student forums, social networks and other online channels. We actively look for the best students at the top national and global universities, including winners of contests in mathematics, physics and programming. We offer career growth and training opportunities for professionals at every level.

Education projects

Tinkoff Fintech School

Twice a year we recruit students and graduates of top-ranking universities for our Tinkoff Fintech School, where lectures and hands-on seminars are delivered by the Bank's VPs and leading experts. They explain modern technology in the banking industry, mobile banking, social media, artificial intelligence, blockchain and cryptocurrencies.

Education at the Fintech School is provided free of charge. All applicants pass an online exam. The educational course including practical sessions lasts three months. To date, 500 people have completed the training. Currently, the Fintech School is training 250 students across Russia (in Moscow, St Petersburg, Nizhny Novgorod, and Novosibirsk).

The most promising graduates are invited to a job interview at Tinkoff. Since the opening of the Fintech School, 79 graduates have joined Tinkoff Bank's team.

MIPT Master's programme

In April 2017, we launched the Master's programme and a department at the Moscow Institute of Physics and Technology (MIPT). The first admission round took place last summer and saw 22 students enrolled. The MIPT Master's programme is a basic Financial Technologies Department in the Phystech School of Applied Mathematics and Informatics at the Moscow Institute of Physics and Technology. Key Tinkoff Bank employees hold professorial positions at the department. To be admitted to the Master's programme, candidates need to pass an internal examination and interview at Tinkoff, as well as MIPT admission exams. The department provides two-year education free of charge. Graduates receive diplomas from the Department of Control and Applied Mathematics and the Department of Innovation and High Technology. The course schedule enables students to study and work at the same time.

Specialised courses at the Moscow State University's Department of Mechanics and Mathematics (MSU Mech-Maths)

In December 2017, Tinkoff Bank started collaborating with the MSU Mech-Maths' corporate Department of Mathematical and Computer Methods of Analysis. Tinkoff Bank's senior executives and analysts developed specialised courses for the University's curriculum incorporating real-life business cases from Tinkoff Bank. The course curriculum gives students advanced training in programming, machine learning, business analytics,

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EMPLOYEES AND CORPORATE SOCIAL RESPONSIBILITY

big data fundamentals, etc. Admissions will start in September 2018. The course is 2-3 years and provided free of charge.

Tinkoff Bank also actively cooperates with other leading national universities: Bank employees deliver specialised courses at the Bauman Moscow State Technical University, the Faculty of Computer Science of the Higher School of Economics, and MIPT. They also participate in careers fairs.

Partnership project with the Skolkovo Foundation

In 2017, Tinkoff Bank became a partner of the Skolkovo Foundation. The collaboration includes R&D projects run at the Foundation's facilities by a partnership centre of Tinkoff Development Hub.

Under the agreement, Tinkoff Bank employees will participate in R&D conferences and other public events held by Skolkovo. Such events will give the Foundation's resident startups an opportunity to receive feedback on their products and mentoring from Tinkoff Bank's experts, and to partner with the Company.

Paid summer internships

Analysts and developers, first to fifth-year students and recent graduates, are welcome to enrol in annual summer internship at Tinkoff Bank each year and work on real-life projects. The duration of the programme is 1–2 months. During this period, students are familiarised with the banking industry and choose their further career path. A total of 50 students in Moscow and eight in St Petersburg participated in the summer internship in 2017.

Online contests

We launch online projects on a regular basis: computer vision contests, mathematical games, programmer contests, analyst days, machine learning competitions, etc. To date, almost 45,000 people across the globe have participated. In November 2017, Tinkoff Bank held an online contest in satellite imaging recognition. The event was open to anyone interested in computer vision and remote sensing. The panel of judges selected four winners to receive prizes of RUB150,000, RUB100,000 and two of RUB50,000. The best performing participants were invited to a job interview at Tinkoff Bank.

FinTech Youth Day at Finopolis Forum

In the autumn of 2017, Tinkoff Bank became a general partner of the first FinTech Youth Day at Finopolis, a forum of innovative financial technologies. The event was attended by students of specialised colleges and universities, post-graduates and recent graduates selected within an admission contest held by the Bank of Russia and the FinTech Association. George Chesakov, CEO of the Tinkoff Mobile MVNO, delivered an open lecture for forum participants titled Three Secrets of a Successful FinTech (out of 20) and told them about the lessons learned by Tinkoff Bank and its team over 12 years of successful business development.

Free canteen for Tinkoff Bank's employees with a daily offer of balanced meals and fresh fruits including takeaways.

Tinkoff Bank development hubs

In June 2017, Tinkoff Bank launched development hubs in Yekaterinburg, Novosibirsk, Nizhny Novgorod, Kazan (Innopolis) and Rostov-on-Don. By that time the project had already been launched in St Petersburg.

Hub employees work on developing a universal financial platform and financial services such as online banking, personal investment management, insurance, etc. The hub is also tasked with developing mobile apps for individuals and expanding the ecosystem of SME applications.

The regional hubs help the Group source talented software developers across a wider territory, ensure even task distribution, enhance the production cycle as employees work in different time zones, and reduce the time to bring new products to market.

Sporting and other events

TCS Group encourages a healthy lifestyle and supports the cultural development of its employees and society as a whole. Tinkoff Bank takes a regular part in the biggest and culturally important national events related to music, sports, science and education.

Tinkoff Bank is the chief sponsor of the Moscow Bike Parade arranged by the Let's Bike It! project aimed to promote the cycling culture and by the Moscow Department for Transport and Road Infrastructure Development.

In May 2017, Tinkoff Bank became the chief sponsor of the Moscow Cycling Parade arranged by the Let's Bike It! project (aimed to promote cycling culture) and Moscow Department for Transport and Road Infrastructure Development. Oleg Tinkov, the founder of Tinkoff Bank, attended the opening ceremony and rode the route together with other cyclists. The big Moscow Cycling Parade saw 40,000 participants occupying the entire Garden Ring Road at the start. In July 2017, there was a Night Cycling Parade sponsored by Tinkoff Bank. Its goal was to support the cycling infrastructure development and road safety. The Night Cycling Parade, which started at 10 pm on Frunzenskaya Embankment, was attended by 10,000 participants. The route length was 14 kilometres. Group employees are keen to support the Bank's corporate values related to a healthy lifestyle, and are highly proactive and willing to personally participate in cycling parades and other sporting events.

Also in July 2017, 16 top European and Russian teams gathered at Tinkoff Moscow Open – a basketball tournament within a FIBA international challenge. The event was attended by 450 amateur teams from Russia. All in all, 15,000 people took part in the tournament. Tinkoff Moscow Open was part of the Day of Sports programme hosted by the Luzhniki Stadium. About 100,000 people attended the event during the two days.

The GrelkaFest ski festival. Two lively weekends at Sheregesh, with all alpine skiing and snowboarding entertainments gathered in one place.

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EMPLOYEES AND CORPORATE SOCIAL RESPONSIBILITY

Tinkoff Bank is also a general partner of the Quiksilver New Star Camp 2017 held at the Rosa Khutor alpine resort in Sochi. Rosa Khutor gained international acclaim during the Olympic Games and successfully keeps maintain its exclusive status. Quiksilver New Star Camp is one of the main snowboard parks in Russia. Attendees enjoy special terms and offers from Tinkoff Bank at all stages of its operation. In addition to snowboarding competitions, the festival programme includes a series of lectures by influential speakers from the action sports industry, yoga workshops, snow schools for children, and a high altitude FMX and Snowmobile show.

Compensation and incentives

TCS Group offers its employees a unique working environment and a transparent system of career growth. We provide fixed-rate salaries and bonuses, regularly assess the employees' performance against their KPIs, determine amount of compensation and give feedback for future career development. TCS Group has a market-based salary structure, with KPI-related pay-rises and bonuses.

On 1 February 2017, the Group announced an expansion of its long-term management incentive plan. The number of eligible employees was increased from 51 to 69 people. New participants will share in equity-linked compensation. The target equity pool for all the programme participants will amount to 5.6% of the Group's issued share capital.

This plan aims to ensure that managers' and the shareholders' interests are aligned in order to increase the Group's value. The plan is designed for four years and is subject to meeting annual KPIs, with each annual compensation taken into account during the following three years. The managers' shareholding in the Group's equity is an effective tool for motivating and retaining employees.

Health and safety

TCS Group creates a safe and comfortable work environment for its employees in full compliance with Russia's labour laws. We offer annual medical check-ups, vaccinations, voluntary health insurance, free membership of our in-house fitness gym at Tinkoff Bank's headquarters, and other healthcare initiatives. TCS Group encourages a healthy lifestyle and regularly holds corporate competitions in football, volleyball, basketball, alpine skiing and chess.

Tinkoff Moscow Open 2017. A basketball tournament within a FIBA international challenge. About 100,000 people attended the event during the two days.

Quiksilver New Star Camp 2017. The festival programme includes snowboarding competitions, a series of lectures by influential speakers from the action sports industry, snow schools for children, and a high altitude FMX and Snowmobile show.

Diversity and inclusion

Tinkoff Bank's flexible business model, based on a high-tech contactless platform, allows individuals with disabilities to join our team. This helps us expand and diversify the Group's staff and recruit people based on professional skills and merits.

In 2017, we continued developing our home call centre where people can work for the company at any hours and locations convenient for them. This working format is suitable for those residing in remote areas with limited access to transportation as well as for those who can only work remotely (for example, for women on maternity leave). Such employees are trained online, and all the necessary corporate tools and materials are stored in a special cloud environment. 8,300 people throughout the country worked at our home call centre as at the end of 2017.

CSR

We are committed to supporting sustainable social development, and encourage our employees and customers to contribute to improving the quality of life of vulnerable groups in Russia. We also seek to promote various charitable funds among our customers, who can donate money via the Bank's website or mobile app. TCS Group and its employees provide not only financial support but also practical assistance to several non-profit entities, including assisted-care facilities and orphanages, as well as projects for homeless people and those in need of medical care. Our employees have raised funds to be spent on repair and maintenance of facilities and purchase of food, essentials and medications.

TCS Group supports the charitable Galchonok Foundation, which helps children with organic central lesions. In September 2017, Tinkoff Bank took part in Galafest 2017, an annual inclusive festival attended by more than 7,000 guests. The festival is a family event, where children with special needs play and study with their peers on an equal footing to them.

At the festival, Tinkoff Bank opened Galabank, a special children's branch where children of different ages could make a bank card with their own hands. All day long, under the guidance of professional artists and teachers, the children invented and brought to life their designs, and then used the cards for real, buying "growing" crayons with the festival's virtual currency via a specialised terminal. In just one day, Galabank issued more than 700 cards.

The Big Moscow Bike Parade 2017. Tinkoff Bank's employees believe in and embrace the corporate values related to a healthy lifestyle and are willing to personally participate in all sporting events.

BOARD OF DIRECTORS

Constantinos Economides (42)

Chairman of the Board of Directors

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

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

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

Alexios Ioannides (41)

Member of the Board of Directors

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

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

Philippe Delpal (44)

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

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

Mr. Delpal is an Operational Partner for Financial Services in Baring Vostok Capital Partners, one of the largest private equity businesses in Russia. He is also currently serving as a non-executive director of Orient Express Bank, First Collection Bureau, HMS Group (Russia), Renaissance Insurance 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 (58)

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

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

Mr Cocker also serves on the boards of Etalon Group plc, Northumberland Tyne and Wear National Health Service Foundation Trust, Beverley Building Society, Nostrum Oil and Gas PLC and Headhunter Group plc. Mr. Cocker previously held positions at Ernst & Young, Amerada Hess, Deloitte & Touche and KPMG in the United Kingdom, Russia and Kazakhstan.

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.

Directors of the Company gathered at the offices of the Company in Limassol after the Company's board meeting in March 2018.
Left to right: Alexios Ioannides, Philippe Delpal, Martin Cocker, Constantinos Economides (Chairman) and Maria Trimithiotou.

Jacques Der Megreditchian (58)

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

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

Mr. Der Megreditchian previously served as Chairman of the Exchange Council of the Moscow Exchange. 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.

Maria Trimithiotou (40)

Member of the Board of Directors

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

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

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

Dear stakeholders

2017 has been another remarkable, transformational year in the life of the Company as the financial supermarket branches out, augmenting the hugely successful core credit card business. As I have mentioned in the past, stellar financial performance such as the Group delivered in FY2016 and again in FY2017 is the result of many years of groundwork, of informed and astute decisions taken and well targeted investments, allied to complete professionalism, passion for the Tinkoff business and devotion to serving our customers. And above all, true entrepreneurial instinct.

The Group's CFO Ilya Pisemsky's detailed commentary on the operating and financial results is included in this Report in his 'Financial review' as is Oliver Hughes our CEO's 'Strategic review' of 2017 and insights into what 2017 brought and what might lie ahead. I won't attempt to precis them. These two talented managers have a high profile, not least in this Report but they are very ably supported by a wider team of core managers numbering about 50.

Everyone appreciates that the Russian operating environment is not the easiest, throws out more than its fair share of challenges at managers and business lines and recent months have been no exception. Let us not forget the international dimension either. Yet the Group has been able to thrive whatever the challenges, whatever the environment.

Inside the Company; the work of the Board of Directors which I chair, continues. We have sound corporate governance mechanisms in place, but we are always looking to upgrade them, looking at how our peers operate and adapting their better ideas for our entrepreneurial culture. This past year has seen a number of positive developments within the Group's internal audit and information security divisions, to mention just two. More are under active consideration. Our annual appraisal of the Board, its committees and individual directors, their individual and collective strengths and weaknesses, his, her and their performance and effectiveness, was conducted in-house as has been our practice to date, though external assessors may be introduced in the future. The recent appraisal in Q12018 for FY2017 found us in good shape- but we do not take success as a given. It threw up some interesting ideas; we will be looking to develop these in the near future.

I would like to express my particular thanks and gratitude to our founder and controlling shareholder Oleg Tinkov for his vision and offer my congratulations to him and all the Tinkoff management team for their outstanding success.

May 2018 bring more of the same!

Constantinos Economides

Chairman of the Board of Directors

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.

GDRs of TCS Group Holding PLC (a Cyprus incorporated company), with each GDR issued under a deposit agreement dated on or about 24th October 2013 with JPMorganChase Bank N.A. as depositary representing one Class A share, are listed (with a standard listing) 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.

The Company has not adopted corporate governance measures of the same standard as those adopted by UK incorporated companies or companies with a Premium listing of equity shares regardless of whether they are incorporated in the UK or elsewhere. The Company's Home State is Cyprus.

As the Class A shares themselves are not listed on the Cyprus Stock Exchange, the Cypriot corporate governance regime does not apply to the Company and accordingly the Company does not monitor its compliance with that regime.

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

Copies of the Articles of Association of the Company adopted on 21 October 2013, the terms of reference of the committees, and other corporate governance-related as well as investor relations-related materials can also be found on that website, on the Company's page on the London Stock Exchange website and at the official site of the Department of Registrar of Companies, Cyprus (http://www.mcit.gov.cy/).

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 Board operates under a formal schedule of matters reserved to the Board for its decision, approved by shareholders in 2013.

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The current six strong Board of directors is comprised of three executive directors including the chairman, and three non-executive directors two of whom are independent. There was no change in the composition of the Board in 2017. The board of directors currently contains no Directors B.

The longest serving director Mr Constantinos Economides took over the role of Chairman of the Board of directors in June 2015. The names of the people who served on the Board during 2017 are listed at F-2. The Group has established two Committees of the Board. Specific responsibilities have been delegated to those committees as described below.

The Board is required to undertake a formal and rigorous evaluation annually of its own performance, that of its committees and of its individual directors. That review was carried out in early 2018, in-house, in relation to 2017, looking at overall performance in late 2016 and 2017. All directors completed detailed questionnaires on the Board's performance. Analysis of the resultant feedback, which was discussed at a meeting of the Board of Directors in early 2018 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 Board has not appointed a senior independent director. There are only two independent directors of whom at least one will retire each year. The role of assessing the performance of the Chairman for FY2017 was performed by the Chairman of the Audit Committee.

Number of directors

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

The Articles of Association of the Company provide for the retirement by rotation of certain directors at each Annual General Meeting. In 2017 the two directors who retired by rotation were Mr Philippe Delpal and Mr Martin Cocker. Both were duly reappointed by vote of the shareholders.

Director's powers

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

Proceedings of the Board of Directors

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

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

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

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

Attendance table for Board of Director and Committee meetings, FY2017

Director	Board attendance FY2017	AC attendance FY2017	RC attendance FY2017
Constantinos Economides (Chairman)	4/4	n/a	n/a
Maria Trimithiotou	4/4	n/a	n/a
Alexios Ioannides	4/4	n/a	n/a
Martin Cocker	4/4	6/6	4/4
Philippe Delpal	3/4	6/6	4/4
Jacques Der Megreditchian	4/4	6/6	4/4

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CORPORATE GOVERNANCE

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 and considers the appropriateness of additional committees.

Committees-current composition

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

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

The current terms of reference of both Committees are available to the public and can be found on the Company's website. A short summary of both is set out below.

Role of the Audit Committee

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

Under its terms of reference the Audit Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Audit Committee met this obligation in two main ways, through members participating in the main Board review described above in early 2018 and by arranging a complementary committee review on a rolling basis driven by the audit cycle March to March. After consideration of the Audit Committee's own review, no further changes to those adopted in the preceding year were proposed to the committee's terms of reference. During the second half of 2016 the Audit Committee determined to set a more structured framework around the extensive work it had been doing between its quarterly meetings to review the financial statements by adding at least two additional meetings to its annual schedule, at least one of which would be held at the Bank's head office in Moscow, to consider specific non-financial statement related areas within its terms of reference such as risk management issues including internal audit procedures, and the financial and reputational dimensions of cyber security measures put in place by the Group. Two such meetings were held in 2017 with a further two at least in 2018 planned.

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. This matrix is run in conjunction with the internal audit function.

In 2017 the Group reorganised its internal audit function, to clarify the demarcation between its internal audit and internal control (CBRF compliance and regulatory) functions while materially increasing the resources overall within the internal audit team.

In addition a new post of chief information security officer was created in 2017 and filled, with additional personnel expert in cyber-security recruited to support the Group's ever-increasing efforts to stay ahead of trends and threats in this sphere. The Committee met 6 times in FY2017.

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.

Role of the Remuneration Committee

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

The Remuneration Committee continued work into 2017 on its ongoing review of the operation of the Group's equity based incentive and retention plan for key, senior and middle management (MLTIP) which launched in 2016 and in considering additional awards to both existing and new participants for this and subsequent years.

Under its terms of reference the Remuneration Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Remuneration Committee met this obligation through members participating in the main Board review (described above) under which detailed questionnaires were completed by all directors assessing the operation of the Board and both committees. Although earlier reviews had resulted in certain minor changes to the Remuneration Committee's terms of reference to clarify certain procedural matters and to align them more closely with how the committee operated in practice, no further changes were felt required in 2017 or 2018.

The Committee continues to meet as required. It did not identify a need to schedule additional regular meetings, but in 2017 it convened 4 times.

Appointment, rotation and removal of directors

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

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

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CORPORATE GOVERNANCE

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

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

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

The office of director shall be vacated if the director:

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

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

Share capital

As at 31 December 2017, the Company's issued share capital is USD7,305,553 divided in to 182,638,825 shares, each of nominal value of USD0.04 per share and fully paid. Of these 96,239,291 are Class A Shares and 86,399,534 Class B Shares, each with a nominal value of USD0.04 per share and fully paid. As of 31 December 2017, the Company's authorized share capital was USD7,619,180.

All of the Class B shares are held directly or indirectly by Mr Oleg Tinkov, the controlling shareholder. Holding all Class B Shares equates to a 47.3% economic interest in the Company and a voting interest of 89.98%.

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

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

Articles of Association

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

The Company's current Articles of Association were adopted on 21 October 2013. The following is a brief summary of certain material provisions of the Articles of Association, in force as at 31 December 2017.

Rights of shareholders

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

Meeting of shareholders

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

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

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

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

(ii) a Class B shareholder;

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

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

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

An annual general meeting and a meeting called at which a special resolution will be proposed shall be called by at least twenty-one days' prior written notice. All other general meetings may be convened by the board by issuing at least 14 days' prior written notice.

General meetings of the Company may be called by shorter notice and shall be deemed to have been duly called if it is so agreed:

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

Notice to persons

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

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

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

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

Pre-emption rights

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

Specifically, all new shares and/or other securities giving rights to purchase shares in the Company, or which are convertible into shares in the Company that are to be issued for cash, shall be offered to the existing shareholders on a pro-rata basis to the participation of each shareholder in the capital of the Company, on a specific date fixed by the directors. Any such offer shall be made upon written notice to all the shareholders specifying the number of the shares and/or other securities giving rights

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CORPORATE GOVERNANCE

to purchase shares in the Company, or which are convertible into shares in the Company, which the shareholder is entitled to acquire and the time periods (which shall not be less than 14 days from the [date of notification of the offer (or)/from the date of the dispatch of the written notice]), within which the offer, if not accepted, shall be deemed to have been rejected. If, until the expiry of the said time period, no notification is received from the person to whom the offer is addressed or to whom the rights have been assigned that such person accepts all or part of the offered shares or other securities giving rights to purchase shares in the Company, or which are convertible into shares of the Company, the directors may dispose of them in any manner that they deem fit.

These pre-emption rights may be disapplied by a resolution of the general meeting which is passed by a specified majority, being a majority in favour of over one half of all the votes cast if the attendance represents not less than half the issued share capital and a majority in favour of not less than two-thirds of the votes cast in all other cases ("Special Majority Resolution"). In connection with such a waiver, the directors have an obligation to present to the relevant general meeting a written report which explains the reasons for the proposed disapplication of the pre-emption rights and justifies the proposed issue price of the shares. A dis-application of pre-emption rights as aforesaid is regarded as a variation of class rights carried by or conferred on the Class A holders (including the depositary) and Class B holders. Separate prior consent is therefore required from both Class A holders and Class B holders.

Voting rights

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

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

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

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

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

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

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

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

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

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

Conversion rights

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

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

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

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

provided that:

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

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

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

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

Dividend and distribution rights

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

Variation of rights

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

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

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

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

(ii) by a majority of not less than two-thirds of the votes cast by the shareholders present in person or by proxy and entitled to vote in all other cases, at a general meeting of which not less than 14 days' notice specifying the intention to propose the resolution as a "majority resolution" has been given.

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

October 2013 Shareholders' Agreement: automatic termination in 2017

A shareholders' agreement was made in October 2013 between Tadek Holding & Finance SA and four other companies controlled by Mr Oleg Tinkov, and four additional pre IPO investors, (1) ELQ Investors II Limited (ELQ), an entity wholly owned by The Goldman Sachs Group, Inc., (2) Vostok Emerging Finance (Cyprus) Limited (VEF) (following a reorganization from the original party Vostok Komi (Cyprus) Limited), (3) Rousse Nominees Limited (BV) a nominee company holding interests for limited partnerships comprising Baring Vostok Private Equity Fund IV, and (4) Lorimer Ventures Limited (Lorimer), an entity wholly owned by Emerging Europe Growth Fund II LLP, managed by its general partner Horizon Capital GP II LLC.

Lorimer had already ceased to be a party to the Shareholders' Agreement on disposing of its entire interest in the Group. While ELQ, VEF and BV remained significant shareholders and/or GDR holders in the Group, the Shareholders' Agreement automatically terminated last year (2017) when their aggregate holdings fell below 10%.

MANAGEMENT TEAM

Oliver Hughes (47)

CEO, Chairman of the Management Board of Tinkoff Bank

Oliver oversees the strategic direction of Tinkoff Bank.

He joined Tinkoff as CEO in 2007 and has been at the helm every step of the way, helping Tinkoff grow into the world's largest independent digital bank by customer base. Before joining Tinkoff, Oliver worked for Visa International for a decade, including as Head of Visa in Russia from 2005 until 2007. Prior to Visa, he held various positions including at Reebok, Shell UK and the British Library.

Oliver holds a Master of Arts degree in International Politics from Leeds University and a Master's degree in Information Management and Technology from City University in London. He also has a Bachelor's (First Class) degree in Russian and French from the University of Sussex.

Ilya Pisemsky (42)

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

Ilya is responsible for financial management, corporate strategy and planning. He has been Chief Financial Officer at Tinkoff since July 2008 and Deputy Chairman of the Management Board since April 2010. Prior to joining Tinkoff, he was Deputy Chief Financial Officer at Bank Soyuz and held a managerial position at Ernst & Young CIS.

Ilya graduated from the Finance Academy under the Government of the Russian Federation in Moscow and holds an MBA from the F.W. Olin Graduate School of Business at Babson College in Wellesley, Massachusetts.

Sergei Pirogov (47)

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

Sergey has been responsible for capital raising and debt portfolio management at Tinkoff as Head of Corporate Finance since January 2010. Since July 2016, he has served on Tinkoff Bank's Board of Directors. Previously Sergey worked at Citigroup, where he was Director of Corporate Finance for Russia and the CIS from 2002 to 2008. Prior to that, he was Programme Coordinator and Head of Investment Projects at IBS Intertraining.

Sergey graduated from the Moscow State Institute for International Relations. He also holds an MBA from the Darden Graduate School of Business at the University of Virginia, USA.

Artem Yamanov (36)

SVP, Business Development Director

Artem is in charge of business development at Tinkoff. He has been with the company every step of the way, starting his career as head of products at Tinkoff and growing with the company into his current role of senior vice president. Before joining Tinkoff, he held various positions at Russian Standard Bank and Raiffeisen Bank, including overseeing credit card operations in Russia.

Artem holds a Master's degree in Applied Physics and Mathematics from the Moscow Institute of Physics and Technology.

Stanislav Bliznyuk (37)

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

Stanislav oversees operations at Tinkoff. Before being appointed Chief Operating Officer in June 2012, he was Head of Technologies at the bank from 2006. Prior to this, Stanislav worked in the banking sector, including as Process & Project Director at Raiffeisen Bank Russia.

Stanislav graduated from Moscow State University with a Master's degree in Mathematics and Economics.

Darya Ermolina (30)

Communications Director

As head of communications for Tinkoff, Darya oversees strategic communications and media relations for the Tinkoff group of companies. Before joining the Tinkoff team in January 2014, Darya worked as a senior manager for international media relations for Rosneft Oil Company. Prior to Rosneft Darya worked as a media analyst for PBN Hill+Knowlton Strategies (part of WPP).

Darya graduated from the Moscow State University of International Relations (MGIMO) with a bachelor and a masters degree in international relations.

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MANAGEMENT TEAM

Anatoly Makeshin (45)

Head of Payment Systems, Deputy Chairman of the Management Board of Tinkoff Bank

Anatoly has been responsible for Tinkoff's payments systems since 2006. He has also been a member of Tinkoff's Management Board since September 2012.

Anatoly graduated from Moscow Power Engineering Institute and holds a PhD in Technical Science from the Russian Academy of State Service.

Viacheslav Tsyganov (42)

Chief Information Officer

Viacheslav has been with Tinkoff Bank from the beginning of its story. He is in charge of information technology and computer systems at Tinkoff. Viacheslav has been Chief Information Officer since 2009 after transitioning from his role as Head of IT Architecture and Development at the bank.

Viacheslav holds a Master's degree in Computer Science from Southwest State University.

Evgeny Ivashkevich (47)

Risk Director, Deputy Chairman of the Management Board of Tinkoff Bank

Evgeny is in charge of risk management at Tinkoff. He has been in his current role since 2007, having also joined Tinkoff Bank's Management Board as Deputy Chairman in 2011. Before joining Tinkoff, he was a portfolio manager at Renaissance Capital Bank and Head of Product Development at Russian Standard Bank.

Evgeny graduated from the Moscow Institute of Physics and Technology and obtained a PhD in Theoretical Physics from the Joint Institute for Nuclear Research.

George Chesakov (45)

Head of Tinkoff Mobile

George Chesakov is responsible for Tinkoff's mobile virtual network operator (MVNO Tinkoff Mobile) and has been in this role since January 2017. He also served as Chief Operating Officer and Chairman of the Management Board from 2006 until 2011. Prior to his returning to Tinkoff in February 2016, George was President of OTP Bank and co-founder of Revo Technology.

Prior to Tinkoff, George worked at McKinsey & Company, Russian Standard Bank and launched a consumer finance business at Investsberbank (now OTP Bank).

George holds a Master's degree in Computer Science from Princeton University and a Master's degree with honors in Mathematics from Moscow State University.

Natalia Izyumova (55)

Chief Accountant, Member of the Management Board of Tinkoff Bank

Natalia oversees Tinkoff's accounting. She stepped into her current role and became a member of Tinkoff Bank's Management Board when she joined the bank in February 2011. Natalia has also been a member of the Financial Committee of Tinkoff Bank since November 2011. Prior to joining Tinkoff, Natalia held a number of senior-level positions, including that of CFO and Deputy Chairwoman of Dvizheniye Bank's Management Committee.

Natalia graduated from Moscow State University with a degree in Economics and holds a PhD in Economics from the Research Institute of Economy.

Valeria Pavlyukova (34)

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

Valeria has overseen all legal matters at Tinkoff as Chief Legal Officer and Deputy Chairman of the Board since January 2017. Before joining the bank, she was Head of Legal for Sberbank's international division and a Legal Director for InBev for/in Russia.

Valeria graduated from the International University in Moscow and studied finance at Hult International Business School.

31 DECEMBER 2017

TCS Group Holding PLC

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

Contents

Board of Directors and other officers

Board of Directors

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

All served throughout the year ended 2017 and through to the date of these consolidated financial statements.

The Company's Articles of Association include regulations for the retirement by rotation of Directors at each annual general meeting. These regulations will operate in 2018 on the basis of the composition of the Board at the relevant date.

Company Secretary Caelion Secretarial Limited

25 Spyrou Araouzou
Berengaria 25, 5th floor,
3036, Limassol, Cyprus

Registered office

25 Spyrou Araouzou
Berengaria 25, 5th floor,
3036, Limassol, Cyprus

Consolidated Management Report

1. The Board of Directors presents its report together with the audited consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

Principal activities and nature of operations of the Group

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

3. The Bank specialises in retail banking for individuals and small and medium-sized enterprises (SME) accounts and brokerage services. 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.

Changes in group structure

4. During 2017 the Group established LLC "Tinkoff Mobile", a mobile virtual network operator ("MVNO"), to provide mobile services for both current Group's customers and others. The MVNO will have its own network code, number range and SIM cards which will be delivered across Russia via Group's courier network.

5. During 2017 the Group acquired a shareholding in LLC "CloudPayments" ("CloudPayments"), an innovative developer of online payment solutions. Together with the rest of the Group, CloudPayments will further develop its leading technology and servicing platforms. The acquisition will enable the Group to enhance its merchant acquiring business line as part of its growing SME offering.

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

6. The Bank operates a flexible business model. Its virtual network enables it to increase business or slow down customer acquisition depending on the availability of funding and market conditions. The Bank's primary customer acquisition channels are Internet and Mobile, but it also uses Direct Sales Agents (DSA) and partnerships (co-brands) to acquire new customers. These customer acquisition models, combined with the Bank's virtual network, afford it a geographic reach across all of Russia's regions resulting in a highly diversified portfolio.

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

8. In terms of financial performance the net profit of the Group for the year ended 31 December 2017 was RR 19,023 million (2016: RR 11,011 million). This result is driven by two major continuing trends: an ongoing quality growth of the Group's consumer finance business, a growing contribution from the non-credit fees-and-commission business lines. Net interest income increased by 37.3% to RR 46,076 million (2016: RR 33,556 million). Interest expense demonstrated a decline of 6.0% on the back of continued decrease in deposit and market rates. On 31 December 2017 total assets of the Group amounted to RR 268,815 million (2016: RR 175,371 million). This growth was driven not only by the credit cards part of the portfolio but also by Cash and POS loans. The Investment Securities Available for Sale portfolio grew by a factor of 2.2 and amounted to RR 71,676 million (2016: RR 33,286 million). The reason for these dynamics is the development of debit cards and SME business lines. The Group continues to maintain a good quality and diversification of the securities portfolio. Gross loans and advances to customers increased by 31.0% to RR 157,781 million (2016: RR 120,435 million) and the net loans and advances to customers increased by 36.3% to RR 140,245 million (2016: RR 102,912 million). The quality of loans continued to improve. The 90 days plus overdue loans ratio (NPL) reduced to 8.8% (2016: 10.2%). The NPL coverage ratio declined to 126% (2016: 142%). The reason behind this reduction was the decrease of the share of instalment loans in the total loan portfolio which have the highest provision coverage. Customer accounts increased by 43.7% to RR 179,045 million (2016: RR 124,556 million). Customer accounts remain the primary source of funding with an 84% share. There was a rapid development of SME business with customer balances showing a 4.8 times growth during the reporting year. Net assets were RR 41,945 million (2016: RR 29,518 million).

Environmental matters

9. As the Group is an online only financial institution, the management of the Group believe none of Company's business relationships, products or services are likely to have any significant actual or potential significant environmental impacts and do not believe its operations are exposed to any material environmental risks. Management, in reaching this view, have taken into account the risk of adverse impacts that may stem from the Company's own activities as well as its business relationships including its supply and subcontracting chains. This belief is based on continuous scrutiny of the business.

Human resources

10. The Group has a flat organizational culture. We practice delegation of decision making to the levels deep below the management team and we actively promote discussion and idea generation and exchange. We believe in creating an environment where highly talented people are empowered. Empowerment is an important ingredient in the success of our organization. It's also about the workplace environment – having an open leadership style where information can move freely – where ideas are constantly channeled up, down and sideways around the Company. We don't have 'a rule by committee' approach. We utilize all types of forums to promote continual dialogue – using email, various online chat rooms, flash meetings, as well as formalized meeting structures. Anyone can talk to anyone and transparency is promoted. The Group offers a clear far-reaching career path for its employees, unique work environment and fair and a transparent compensation.

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

12. Prior to its IPO in 2013, the Group set up share based long term incentive plans as retention and motivational tools for key and senior managers. In March 2016, the Group announced a consolidated long-term management incentive and retention plan, covering around 50 key, senior and middle managers. In February 2017, the Group announced the expansion of the plan. The number of participants increased to over 80. Total size of the MLTIP pool amounts to 5.6% of the Group's current share capital. The plan is designed to align more closely managers' interests with those of shareholders to grow the Group's value. The plan is awarded over four years 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.

Non-Financial Information and Diversity Statement

13. The Group will be publishing its first Non-Financial Information and Diversity Statement on the company's website, www.tinkoff.ru/eng within six months after the balance sheet date.

Principal risks and uncertainties

14. The Group's business and financial results are impacted by the increased uncertainties and volatility of the Russian economic environment that have been evident throughout recent years but more stable in 2016-2017.

15. The Group is subject to a number of principal risks which might adversely impact its performance. The principal activities of the Group are banking and insurance operations and so it is within this area that the principal risks occur. Management considers that those principal risks are: financial risks, operational risks and legal risks. Financial risk comprises market risks (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

16. The Board has adopted a formal process to identify, evaluate and manage principal risks and uncertainties faced by the Group. The Group has established risk management program that focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. This is overseen by a dedicated Risk Management function, which works directly with the Board of Directors in this area. 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 minimize operational and legal risks. Risk management strategy is established so as to identify, assess, monitor and manage the risks arising from Group's activities. These risks as well as other risks and uncertainties, which affect the Group and how these are managed, are presented in Notes 32 and 33 of the consolidated financial statements.

Consolidated Management Report (Continued)

Future developments

17. The Group's strategic objective 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. While maintaining high growth rates, profitability and effective data-driven risk management.

18. On 31 January 2018 the Agency for Housing Mortgage Lending ("AHML") and Tinkoff Bank have signed an agreement to set up a joint venture to offer mortgage lending on a special electronic platform. The platform was designed to enable online acquisition of mortgage customers using Tinkoff Bank's technology platform. It will support automated mortgage approvals based on AHML standards, execute loan documentation and issue mortgage loans, enable online registration of property transactions with the Federal Service for State Registration, Cadastre and Cartography, and can be integrated with the systems of other Russian mortgage lenders.

Results

19. The Group's results for the year are set out on page F-20 of the consolidated financial statements. Information on distribution of profits is presented in Note 29.

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

20. Important events for the Group that have occurred after the end of the financial year are presented in Note 41.

Share capital

21. There were no changes in issued share capital in 2017, except on 22 November 2017 5,745,145 class B shares were converted to class A shares.

Treasury shares

22. At 31 December 2017 the Group held 6,290,179 (2016: 7,039,437) of its own GDRs that is equivalent of approximately RR 1,587 million (2016: RR 1,473 million) representing 3.4% (2016: 3.9%) of the issued share capital.

23. Treasury shares are GDRs of TCS Group Holding Plc that are held by the EBT, special purpose trust which has been specifically created for the long-term incentive programme for Management of the Group (MLTIP) (see Note 39 for further information).

24. In 2017 the Group repurchased 602,148 GDRs (2016: 5,659,853 GDRs) at market price for RR 397 million (2016: RR 1,246 million) representing 0.3% (2016: 3.1%) of the issued share capital for the purpose of the MLTIP.

25. During 2017 the Group transferred 1,351,406 GDRs (2016: 3,626,664 GDRs) out of treasury shares upon vesting under the MLTIP (2016 :MLTIP and employee share option plan) to retained earnings that is equivalent of RR 283 million (2016: RR 101 million) representing 0.7% (2016: 2.0%) of the issued share capital.

Board of Directors

26. The members of the Board of Directors as of 31 December 2017 and at the date of this report are presented above.

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

Branches

28. The Group did not operate through any branches during the period.

Independent auditor

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

Corporate Governance Statement

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 JPMorgan Chase Bank N.A. as depositary representing one class A share, are listed on the London Stock Exchange (LSE) 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 or the GDRs are not listed on the Cyprus Stock Exchange, the Cypriot corporate governance regime is not applicable for the Company and accordingly the Company does not monitor its compliance with that regime. The rights of shareholders include the right to vote on the appointment and removal of Directors and to amend the Articles of Association.

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

The Board of Directors

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

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The current six strong Board of directors is comprised of three executive directors including the chairman, and three non-executive directors two of whom are independent. There was no change in the composition of the Board in 2017. The board of directors currently contains no Directors B.

The longest serving director Mr Constantinos Economides who became a director in 2008, and later took over the role of Chairman of the Board of directors in June 2015. The names of the people who served on the Board during 2017 are listed in the Introduction Note. The Group has established two Committees of the Board. Specific responsibilities have been delegated to those committees as described below.

The Board is required to undertake a formal and rigorous review annually of its own performance, that of its committees and of its individual directors. That review was carried out, in-house, in relation to 2017, looking at overall performance but focused mainly on late 2016 and 2017. All directors completed detailed questionnaires on the Board's performance. Analysis of the resultant feedback, which was discussed at a meeting of the Board of Directors in early 2018 did not show up any deficiencies in the performance of the Board, its committees or individual directors of a nature that required changes to be made.

Committees of the Board of directors

The Company has established two Committees of the Board of directors: the Audit Committee and the Remuneration Committee and their terms of reference are 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 and considers the appropriateness of additional committees.

Committee composition

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

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

Audit Committee

The Audit Committee's primary purpose and responsibility is to assist the Board in its oversight responsibilities. In executing this role the Audit Committee monitors the integrity of the financial statements of the Group prepared under IFRS and any formal announcements relating to the Group's and the Company's financial performance, reviewing significant financial reporting judgments contained in them, oversees the financial reporting controls and procedures implemented by the Group and monitors and assesses the effectiveness of the Company's

Consolidated Management Report (Continued)

internal financial controls, risk management systems internal audit function, the independence and qualifications of the independent auditor and the effectiveness of the external audit process. The Audit Committee is required to meet at appropriate times in the reporting and audit cycle but in practice meets more often as required.

Under its terms of reference the Audit Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Audit Committee met this obligation in two main ways, through members participating in the main Board review described above in the second half of 2016 and by arranging a complementary committee review on a rolling basis driven by the audit cycle March to March. After consideration of the Audit Committee's own review, no further changes to those adopted in the preceding year were proposed to the committee's terms of reference. During the second half of 2016 the Audit Committee determined to set a more structured framework around the extensive work it had been doing between its quarterly meetings to review the financial statements by adding at least two additional meetings to its annual schedule, at least one of which would be held at the Bank's head office in Moscow, to consider specific non-financial statement related areas within its terms of reference such as risk management issues including internal audit procedures, and the financial and reputational dimensions of cyber security measures put in place by the Group. Two such meetings were held in 2017 with a further two at least in 2018 planned.

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. This matrix is run in conjunction with the internal audit function.

In 2017 the Group reorganised its internal audit function, to clarify the demarcation between its internal audit and internal control (CBRF compliance and regulatory) functions while materially increasing the resources overall within the internal audit team.

In addition a new post of chief information security officer was created in 2017 and filled, with additional personnel expert in cyber-security recruited to support the Group's ever-increasing efforts to stay ahead of trends and threats in this sphere.

Remuneration Committee

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

The Remuneration Committee continued work into 2017 on its ongoing review of the operation of the Group's equity based incentive and retention plan for key, senior and middle management (MLTIP) which launched and in considering additional awards to both existing and new participants for this and subsequent years.

Under its terms of reference the Remuneration Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Remuneration Committee met this obligation through members participating in the main Board review (described above) under which detailed questionnaires were completed by all directors assessing the operation of the Board and both committees. Although earlier reviews had resulted in certain minor changes to the Remuneration Committee's terms of reference to clarify certain procedural matters and to align them more closely with how the committee operated in practice, no further changes were felt required in 2017 and 2018.

Significant direct/ indirect holdings

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

Shareholders' Agreement: additional rights of Minority Shareholders

In October 2013 Tasos Invest & Finance Inc., Tadek Holding & Finance SA, Maitland Commercial Inc, Norman Legal S.A. and Vizer Limited (the Majority Shareholders, controlled by Mr Oleg Tinkov) and the pre IPO investors ELQ Investors II Ltd, Vostok Komi (Cyprus) Limited, Rousse Nominees Limited and Lorimer Ventures Limited (together the Minority Shareholders) entered into a shareholders' agreement (the Shareholders' Agreement) to govern aspects of their relationship after the IPO. The Shareholders' Agreement provided that the Minority Shareholders were entitled to nominate one director to the Board of directors of the Company. The Shareholders' Agreement also contained provisions that required the Majority Shareholders to vote against certain matters unless a majority of the Minority Shareholders approve of such matters. These rights of the Minority Shareholders continue so long as they hold at least 10% of the issued share capital of the Company. The Shareholders' Agreement was automatically terminated when the minority shareholders' aggregate holdings fell below 10%.

Internal control and risk management systems in relation to the financial reporting process

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

Financial reporting process

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

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

Internal Controls and Risk Management

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

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

Diversity policy

The Group is committed to offering equal opportunity to all current and prospective employees, such that no applicant or employee is discriminated in favour of or against on the grounds of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation in recruitment, training, promotion or any other aspect of employment.

Recruitment, training and promotion are exclusively based on merit. All the Group employees involved in the recruitment and management of staff are responsible for ensuring the policy is fairly applied within their areas of responsibility. The Group applies this approach throughout, at all levels. This includes its administrative, management and supervisory bodies, including the Board of Directors of the Company.

Consolidated Management Report (Continued)

The composition and diversity information of the Board of Directors of the Group for the year ended and as at 31 December 2017 is set out below:

Name	Age	Male/Female	Educational/professional background
Constantinos Economides	42	Male	FCA, MSc Management Sciences, experienced in Big 4
Alexios Ioannides	41	Male	FCA, BsC Business Administration, experienced in Big 4
Mary Trimithiotou	39	Female	FCA, Licensed Insolvency practitioner
Philippe Delpal	44	Male	BSc in IT, banking executive experience in banking
Jacques Der Megreditchian	58	Male	Business Administration, stock exchange and finance experience
Martin Robert Cocker	58	Male	BSc in Maths and Economics, ACA, experience in Big 4

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

By Order of the Board

Constantinos Economides

Chairman of the Board
Limassol

9 March 2018

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Independent Auditor's Report

To the Members of TCS Group Holding PLC

Report on the Audit of the Consolidated Financial Statements

Our opinion

In our opinion, the accompanying consolidated financial statements of TCS Group Holding PLC (the "Company") and its subsidiaries (together the "Group") give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the consolidated financial statements which are presented in pages 1 to 62 and comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

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

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

Independence

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

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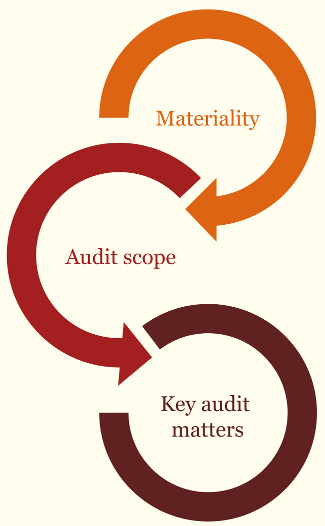
Our audit approach

Overview

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



- Overall group materiality: RR 1 220 million, which represents approximately 5% of profit before tax

- We planned and conducted our audit to cover the two most significant business components of the Group being the Banking and Insurance operations for which we performed an audit of their complete financial information.
- For the non-significant components, we performed substantive audit procedures where necessary.
- Our audit scope addressed approximately 99% of the Group's total assets, 99% of the Group's revenues and 99% of the Group's profit before tax.

We have identified the following key audit matters:

- Impairment of loans and advances to customers;
- Recognition of interest income on loans and advances to customers.

Materiality

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

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

Overall group materiality	RR 1 220 million
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by the users of the consolidated financial statements, and it is a generally accepted benchmark. We chose 5%, which in our experience is an acceptable quantitative threshold for this materiality benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RR 122 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our group audit scope

TCS Group Holding PLC is the parent of a group of companies. The financial information of this Group of companies is included in the consolidated financial statements of TCS Group Holding PLC.

Considering our ultimate responsibility for the opinion on the Group's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we tailored the scope of our audit and determined the nature and extent of the audit procedures for the components of the Group to ensure that we perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the significance and/or risk profile of the group entities or activities, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured into two significant business components being Banking (which includes Retail business for individuals and Small and medium-sized entities business) and Insurance operations both of which operate solely in the Russian Federation. The Banking operations business component comprises a number of business reporting units being JSC Tinkoff Bank, LLC Microfinance company T-Finans and LLC Phoenix. The Insurance operations business component comprises one business reporting unit being JSC Tinkoff Insurance. Full scope audit procedures were performed in respect of the two significant business components.

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

Our audit covered approximately 99% of Group revenue, 99% of profit before tax and 99% of total assets. Group revenue is comprised of Interest income, Fee and commission income, Net (losses)/gains from operations with foreign currencies, Net gains from investment securities available for sale, Gain from sale of impaired loans, Insurance premiums earned and Other operating income.

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

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of Loans and advances to customers We focused on this area because the management makes complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of such impairment. The basis of the impairment provision for loans and advances to customers is described in the significant accounting policies. An assessment of the impairment provision for loans and advances to customers is performed collectively, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting and the estimated recoveries from defaulted loans. Statistical models are used for assessment of the probability of default. Models related to certain types of restructured loans are more complex due to the subjectivity inherent in estimating the recoverability of such loan balances. Note 3 "Significant Accounting Policies", Note 4 "Critical Accounting Estimates and Judgments in Applying Accounting Policies" and Note 8 "Loans and Advances to Customers" to the consolidated financial statements provide detailed information on the provision for impairment of loans and advances to customers. Note 6 "New Accounting Pronouncements" to the consolidated financial statements provides information on the adoption of IFRS 9 "Financial Instruments" ("IFRS 9") by the Group from 1 January 2018, including the estimated impact of the adoption. The adoption of IFRS 9 requires that the Group should introduce significant changes in methodologies and processes for calculation of the provision for expected credit losses.	We assessed and tested on a sample basis the design and operating effectiveness of the key controls over impairment data and calculations. These key controls included those over allocation of cash received from customers to respective loans and advances to customers, identification of the overdue loans and the data transfer from source systems to impairment models. We determined that we could place reliance upon these key controls for the purposes of our audit. In addition, we tested on a sample basis the correctness of loan classification by their type of loan portfolios and performed testing on a sample basis on the statistical models used to calculate impairment. This testing varied by portfolio including testing of the coding used in the impairment models, re-performance of the calculation and testing the extraction of data used in the models for the 'bucketing' into overdue bands. With regard to certain models applied to restructured loans we back tested the outputs of these models to the ultimate recoverability on such loans to consider the appropriateness of the assumptions in the model. We also assessed the consistency of provisioning models applied by management with the prior period. We tested a sample of post model accounting adjustments where applicable, including considering the basis for the adjustment, the logic applied, the source data used and the key assumptions adopted. Based on the evidence obtained we found the models used to be appropriate and the outputs from the models to be reasonable. In relation to the disclosure on the adoption of IFRS 9 by the Group, we have assessed the key methodologies developed for calculation of the provision for expected credit losses in accordance with IFRS 9 for consistency with the requirements of the standard. We have obtained an understanding and assessed for reasonableness the key judgments, assumptions and calculations made by the management for estimating the impact of the adoption of IFRS 9 on the provision for expected credit losses as at 1 January 2018. We determined that the methodologies and models used give a basis for a reasonable quantitative estimate of the impact of the adoption of IFRS 9 as at 1 January 2018.

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of interest income on Loans and advances to customers We focused on this area mainly because the calculation of interest income uses, in addition to relevant nominal interest rates, a number of different fees and costs, incorporates significant assumptions around loan expected lives and involves judgement as to which fees and costs are included in interest income and which are included in net commission income. As the Group has an over ten year history of lending in different economic conditions, it has a significant amount of information from which to assess trends in payment, redemption and product transfers. These detailed patterns are used to obtain a more accurate estimate of future customer behaviour and performance, resulting in lower subjectivity of these assumptions. Note 3 "Significant Accounting Policies", Note 4 "Critical Accounting Estimates and Judgments in Applying Accounting Policies", Note 21 "Net margin" and Note 32 "Financial Risk Management" included in the consolidated financial statements provide detailed information on the interest income and effective interest rates of loans and advances to customers.	Our audit procedures in relation to effective interest rates of loans originated by the Group included testing of the key controls in relation to the nominal interest income, fee income and costs incurred all of which contribute to interest income. These controls included those over calculation and accrual of the nominal interest income and fee income parts of interest income and the data transfer from the source system to the accounting system. We determined that we could place reliance upon these key controls for the purposes of our audit. We analysed the appropriateness and consistency of methodology and application across each of the loan portfolios and assessed the reasonableness of the models' key assumptions, including the fee income and costs components of the effective interest income rate and expected repayment periods of the loans by considering historic information. We also assessed the mathematical accuracy of the models through re-performance of the model calculations, which were tested substantively. In addition, we performed substantive analytical procedures to assess the reasonableness of the interest income recognised by the Group. We determined that the methodologies and models used are appropriate and the outputs are reasonable.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report including the Corporate Governance Statement, which we obtained prior to the date of this auditor's report, and the Company's complete Annual Report and Non-Financial Information and Diversity Statement, which are expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group in 2008 by the members of the Company for the audit of the consolidated financial statements for the year ended 31 December 2007. Our appointment has been renewed annually, since then, by shareholder resolution. In December 2008 the Company listed Euro denominated bonds on the Swedish Stock Exchange (NASDAQ OMX Stockholm) and accordingly the first financial year after the Company qualified as an EU PIE was the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 9 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 7 March 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

A Loizou

Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus

9 March 2018

Consolidated Statement of Financial Position

In millions of RR	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	23,850	16,197
Mandatory cash balances with the CBRF		1,675	1,218
Due from other banks		777	347
Loans and advances to customers	8	140,245	102,912
Financial derivatives	36	2,424	2,718
Investment securities available for sale	9	71,676	33,286
Repurchase receivables	10	798	-
Current income tax assets		301	702
Guarantee deposits with payment systems	11	3,660	2,924
Tangible fixed assets	12	6,140	4,656
Intangible assets	12	3,056	1,820
Other financial assets	13	10,969	7,343
Other non-financial assets	13	3,257	1,248
TOTAL ASSETS		**268,828**	**175,371**
LIABILITIES			
Due to banks	14	595	489
Customer accounts	15	179,045	124,556
Debt securities in issue	16	10,819	2,986
Financial derivatives	36	240	-
Current income tax liabilities		25	24
Deferred income tax liabilities	28	1,479	785
Subordinated debt	17	22,001	11,514
Insurance provisions	18	1,840	767
Other financial liabilities	19	8,043	3,112
Other non-financial liabilities	19	2,796	1,620
TOTAL LIABILITIES		**226,883**	**145,853**
EQUITY			
Share capital	20	188	188
Share premium	20	8,623	8,623
Treasury shares	20	(1,587)	(1,473)
Share-based payment reserve	39	1,286	704
Retained earnings		31,797	20,885
Revaluation reserve		1,436	591
Equity attributable to shareholders of the Company		**41,743**	**29,518**
Non-controlling interest	40	**202**	**-**
TOTAL EQUITY		**41,945**	**29,518**
TOTAL LIABILITIES AND EQUITY		**268,828**	**175,371**

Approved for issue and signed on behalf of the Board of Directors on 9 March 2018.

Constantinos Economides

Director

Mary Trimithiotou

Director

The notes set out on pages F-23 to F-87 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In millions of RR	Note	2017	2016
Interest income	21	59,541	47,644
Interest expense	21	(12,824)	(13,638)
Expenses on deposits insurance		(641)	(450)
Net margin		**46,076**	**33,556**
Provision for loan impairment	8	(7,640)	(8,386)
Net margin after provision for loan impairment		38,436	25,170
Fee and commission income	22	15,531	8,401
Fee and commission expense	22	(5,618)	(3,042)
Customer acquisition expense	23	(9,719)	(6,661)
Net (losses)/gains from operations with foreign currencies	24	(256)	239
Net losses from repurchase of subordinated loan		(619)	-
Net gains from investment securities available for sale		270	214
Gain from sale of impaired loans	8	26	48
Insurance premiums earned		2,735	1,348
Insurance claims incurred	25	(815)	(490)
Administrative and other operating expenses	26	(16,206)	(11,321)
Other operating income	27	1,220	658
Profit before tax		**24,985**	**14,564**
Income tax expense	28	(5,962)	(3,553)
Profit for the year		**19,023**	**11,011**
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Investment securities available for sale and Repurchase receivables			
- Net gains arising during the year, net of tax		1,061	629
- Net gains reclassified to profit or loss upon disposal or impairment, net of tax		(216)	(171)
Other comprehensive income for the year, net of tax		**845**	**458**
Total comprehensive income for the year		**19,868**	**11,469**
Profit is attributable to:			
- Shareholders of the Company		19,019	11,011
- Non-controlling interest		4	-
Total comprehensive income is attributable to:			
- Shareholders of the Company		19,864	11,469
- Non-controlling interest		4	-
Earnings per share for profit attributable to the owners of the Company, basic (expressed in RR per share)	**20**	**107.88**	**63.10**
Earnings per share for profit attributable to the owners of the Company, diluted (expressed in RR per share)	**20**	**104.42**	**61.54**

The notes set out on pages F-23 to F-87 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

In millions of RR	Note	Share capital	Share pre-mium	Share-based payment reserve	Reva-luation reserve	Treasu-ry shares	Retai-ned ear-nings	Total	Noncontrolling interest	Total equity
		Attributable to shareholders of the Company								
Balance at 1 January 2016		**188**	**8,623**	**614**	**133**	**(328)**	**13,716**	**22,946**	**-**	**22,946**
Profit for the year		-	-	-	-	-	11,011	11,011	-	11,011
Other comprehensive income:										
Revaluation of in-vestment securities available for sale and Repurchase receivables		-	-	-	458	-	-	458	-	458
Total comprehensive income for 2016		**-**	**-**	**-**	**458**	**-**	**11,011**	**11,469**	**-**	**11,469**
GDRs buy-back	20	-	-	-	-	(1,246)	-	(1,246)	-	(1,246)
Share-based payment reserve	20, 39	-	-	90	-	101	664	855	-	855
Dividends declared	29	-	-	-	-	-	(4,506)	(4,506)	-	(4,506)
Total transactions with owners		**-**	**-**	**90**	**-**	**(1,145)**	**(3,842)**	**(4,897)**	**-**	**(4,897)**
Balance at 31 December 2016		**188**	**8,623**	**704**	**591**	**(1,473)**	**20,885**	**29,518**	**-**	**29,518**
Profit for the year		-	-	-	-	-	19,019	19,019	4	19,023
Other comprehensive income:										
Revaluation of in-vestment securities available for sale and Repurchase receivables		-	-	-	845	-	-	845	-	845
Total comprehensive income for 2017		**-**	**-**	**-**	**845**	**-**	**19,019**	**19,864**	**4**	**19,868**
GDRs buy-back	20	-	-	-	-	(397)	-	(397)	-	(397)
Business combinations	40	-	-	-	-	-	-	-	198	198
Share-based payment reserve	20, 39	-	-	582	-	283	172	1,037	-	1,037
Dividends declared	29	-	-	-	-	-	(8,279)	(8,279)	-	(8,279)
Total transactions with owners		**-**	**-**	**582**	**-**	**(114)**	**(8,107)**	**(7,639)**	**198**	**(7,441)**
Balance at 31 December 2017		**188**	**8,623**	**1,286**	**1,436**	**(1,587)**	**31,797**	**41,743**	**202**	**41,945**

The notes set out on pages F-23 to F-87 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In millions of RR	Note	2017	2016
Cash flows from operating activities			
Interest received		60,636	46,784
Interest paid		(12,159)	(13,565)
Expenses on deposits insurance paid		(593)	(392)
Customers acquisition expenses paid		(5,860)	(4,237)
Cash (paid)/ received from trading in foreign currencies and operations with financial derivatives		(267)	6,713
Cash received from insurance operations		2,603	1,075
Cash received from sale of impaired loans	8	38	68
Fees and commissions received		15,521	8,169
Fees and commissions paid		(6,099)	(3,076)
Other operating income received		902	515
Administrative and other operating expenses paid		(6,230)	(5,346)
Income tax paid		(5,077)	(4,639)
Cash flows from operating activities before changes in operating assets and liabilities		**43,415**	**32,069**
Changes in operating assets and liabilities			
Net increase in CBRF mandatory reserves		(457)	(542)
Net (increase)/ decrease in due from banks		(176)	285
Net increase in loans and advances to customers		(44,256)	(27,668)
Net increase in guarantee deposits with payment systems		(815)	(109)
Net increase in other financial assets		(3,909)	(4,031)
Net increase in other non-financial assets		(2,226)	(164)
Net increase/(decrease) in due to banks		106	(5,683)
Net increase in customer accounts		44,249	32,114
Net increase in other financial liabilities		3,488	2,017
Net decrease in other non-financial liabilities		(29)	-
Net cash from operating activities		**39,390**	**28,288**
Cash flows used in investing activities			
Acquisition of tangible fixed assets		(1,702)	(3,022)
Acquisition of intangible assets		(1,744)	(633)
Acquisition of investments available for sale	9	(67,814)	(62,804)
Proceeds from sale and redemption of investments available for sale	9	29,610	46,827
Net cash used in investing activities		**(41,650)**	**(19,632)**
Cash flows from financing activities			
Proceeds from perpetual loan participation notes	17,30	17,109	-
Perpetual loan participation notes issued costs	17	(256)	-
Proceeds from debt securities in issue	30	7,819	3,000
Repayment of debt securities in issue	30	-	(1,885)
Repayment of subordinated debt	30	(6,623)	(742)
GDR's buy-back		(397)	(1,246)
Dividends paid	29	(7,970)	(4,227)
Net cash from/(used) in financing activities		**9,682**	**(5,100)**
Effect of exchange rate changes on cash and cash equivalents		231	(1,048)
Net increase in cash and cash equivalents		**7,653**	**2,508**
Cash and cash equivalents at the beginning of the year	7	**16,197**	**13,689**
Cash and cash equivalents at the end of the year	7	**23,850**	**16,197**

The notes set out on pages F-23 to F-87 form an integral part of these Consolidated Financial Statements.

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Notes to the Consolidated Financial Statements

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 2017 for TCS Group Holding PLC (the "Company") and its subsidiaries (together referred to as the "Group"), and in accordance with the requirements of the Cyprus Companies Law, Cap.113.

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

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

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

At 31 December 2017 and 2016 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 2017 the number of "class A" shares is 96,239,291 and "class B" shares is 86,399,534 (2016: "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 2017 and 2016 the entities holding either Class A or Class B shares of the Company were:

	Class of shares	31 December 2017	31 December 2016	Country of Incorporation
	Class B	47.31%	50.45%	
Tadek Holding & Finance S.A.	Class A	0.00%	-	British Virgin Islands
Guaranty Nominees Limited (JP Morgan Chase Bank NA)	Class A	50.06%	41.45%	United Kingdom
Rousse Nominees Limited	Class A	0.99%	2.88%	Guernsey
Vostok Emerging Finance Ltd	Class A	1.64%	3.49%	Bermuda
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
Altruco Trustees Limited	Class A	-	1.73%	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 share-based payment plan (ESOP) only.

As at 31 December 2017 and 2016 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.

1 Introduction (Continued)

On 24 January 2018 Tadek Holding & Finance SA has transferred its entire holding of B class shares (86,399,458 B class shares) to Altoville Holdings Limited, another legal entity 100% beneficially owned by Mr Tinkov. As at 31 December 2017 and 2016 the ultimate controlling party of the Company is Mr. Oleg Tinkov. Mr. Oleg Tinkov controls 89.98% of the aggregated voting rights attaching to the Class A and B shares as at 31 December 2017 (31 December 2016: 91.1%).

The Group owns 100% of shares and has 100% of voting rights of each of these subsidiaries as at 31 December 2017 and 2016 except for TCS Finance D.A.C., Tinkoff Long-Term Incentive Plan Employee Benefit Trust ("EBT"), and LLC "CloudPayments" (see below).

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

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

LLC "Microfinance company "T-Finans" provides micro-finance services.

TCS Finance D.A.C. is a structured entity which issued debt securities including subordinated perpetual bonds for the Group. The Group neither owns shares nor has voting rights in 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 "Phoenix" is a debt collection agency.

Tinkoff Software DC provides software development services to the Group.

LLC "Tinkoff Mobile" is a mobile virtual network operator set up in 2017 to provide mobile services.

LLC "CloudPayments" is a developer of online payment solutions which core business is online merchant acquiring in Russia. The Group owns 55% shareholding in LLC CloudPayments.

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

Principal activity. The Group's principal business activities are retail banking to private individuals, SME accounts services and insurance operations within the Russian Federation through the Bank and the Insurance Company. The Bank operates under general banking license No. 2673 issued by the Central Bank of the Russian Federation ("CBRF") on 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 No. 177-FZ "Deposits of individuals insurance in the Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1.4 million per individual in case of the withdrawal of a license of a bank or a CBRF-imposed moratorium on payments.

Registered address and place of business. The Company's registered address is 25 Spyrou Araouzou, Berengaria 25, 5th floor, Limassol, Cyprus. The Bank's registered address is 1-st Volokolamsky proezd, 10, building 1, 123060, Moscow, Russian Federation. The Insurance Company's registered address is 2-nd Khutorskaya street, building 38A, 127287, Moscow, Russian Federation. The Group's principal place of business is the Russian Federation.

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

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Notes to the Consolidated Financial Statements (Continued)

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 34). The Russian economy was growing in 2017 after the economic recession of 2015, 2016 and the significant correction in the value of Russian Rouble against other major currencies at the end of 2014.

The economy is also impacted by relatively ongoing political tension in the region and international sanctions against various major Russian companies and individuals.

The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to maximize the stability 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.

The Group actively monitors the situation in the Russian banking sector, and the activity of CBRF in response to current and newly developed requirements and any sanctions against the participants who breach them. Management of the Group believes it is highly important to participate in the development of legislation in the banking sphere and supports the intention of the CBRF to make the finance market more transparent and disciplined.

Through to the end of 2017 management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus, final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4 with respect to the introduction of IFRS 9 from 2018.

3 Significant Accounting Policies

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

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2017 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting and IFRS14, "Regulatory Deferral Accounts first time adopters".

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

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

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of

3 Significant Accounting Policies (Continued)

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 Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

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.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

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

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

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

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

The price within the bid-ask spread which management considers to be the most representative of fair value for quoted financial assets and liabilities is the weighted average price during the business day. A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at fair value on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel;

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Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

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 37.

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.

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

Initial recognition of financial instruments. Derivatives and other financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition

3 Significant Accounting Policies (Continued)

is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only observable data from active markets.

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

All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of currency swaps and forward contracts that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. Any such differences are initially recognised within other financial assets or other financial liabilities and are subsequently amortised on a straight line basis over the term of the currency swaps. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or 2 inputs.

De-recognition 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. The Group evaluates the quality of cash and cash equivalents 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.

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. The Group evaluates the quality of due from other banks 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.

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.

Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

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

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently. If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed.

This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows. Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The amount of uncollectible loan balance is estimated on a loan portfolio basis taking into account defaulted loans recovery statistics. In 2017 the Group refined the approach to determination of uncollectible loan balance as sufficient and appropriate loans recovery statistics has now been accumulated.

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.

3 Significant Accounting Policies (Continued)

Repayments of written-off loans. Recovery of amounts previously written off as uncollectible are credited directly to the provisions line in the consolidated statement of profit or loss and other comprehensive income. Cash flows related to repayments of written-off loans are presented within interest received in the consolidated statement of cash flows since they are mainly represented by repayment of interest accrued.

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.

The Group evaluates the quality of debt investment securities available for sale 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.

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.

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Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

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

Credit related commitments. The Group issues financial commitments to provide credit cards loans within credit cards limits. Commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

At each reporting date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

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

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

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

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

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

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

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

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

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

3 Significant Accounting Policies (Continued)

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

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Intangible assets including goodwill with indefinite useful life are tested annually for impairment.

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

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

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

Debt securities in issue. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in a separate line of consolidated statement of profit or loss and other comprehensive income as gains/losses from repurchase of debt securities in issue.

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 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.

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Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

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

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

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

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy.

If a levy is paid before the obligating event, it is recognised as a prepayment.

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

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

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

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the Note "Events after the End of the Reporting Period". The statutory accounting reports of the Group entities are the basis for profit distribution and other appropriations. The separate financial statements of the Company prepared in accordance with IFRS as adopted by the EU and in accordance with Cyprus Companies Law 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.

3 Significant Accounting Policies (Continued)

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. Those costs, which can be directly attributed to the acquisition of a particular client, are included in the effective interest rate of the originated financial instruments; the remaining costs are expensed on the basis of the actual services provided.

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

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

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

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

- ***Premiums written.*** Premiums (hereafter – "premiums" or "insurance premiums") under insurance contracts are recorded as written upon inception of a contract and are earned on a pro-rata basis over the term of the related contract coverage. Reduction of premium written in subsequent periods (under amendments to the signed original contacts, for example) is accounted by debiting of premiums written in current period.
- ***Claims.*** Claims are charged to the consolidated statement of profit or loss and other comprehensive income as compensation is paid to policyholders (beneficiaries) or third parties.
- ***Claims 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.

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Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

- ***Subrogation income.*** The Group has a right to pursue third parties responsible for loss for payment of some or all costs related to the claims settlement process of the Group (subrogation). Reimbursements are recognised as income only if the Group is confident in receipt of these amounts from these third parties. Under inward reinsurance contracts, amounts of reimbursement due to the Group as a result of settlement of reinsurer's subrogation claims are treated as the Group's income as at the date of acceptance of the invoice received from the reinsurer and including calculation of the Group's share in the subrogation claim.
- ***Deferred acquisition costs.*** Deferred acquisition costs ("DAC") are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include remuneration to agents for concluding agreements with corporate clients and individuals and brokerage fees for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortised over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates. For the insurance contracts with duration of less than one month and with automatic prolongation condition amortisation of one-off acquisition costs occurs over the period determined based on statistical assessment of duration of the insurance contract taking into account all of the expected future prolongations.
- ***Insurance agency fee.*** In cases when the Group acts as an agent and attracts clients for the third-party insurance companies, the Bank receives commission income, which is recognised within Fee and commission income in the consolidated statement of profit or loss and other comprehensive income in full amount.

Insurance provisions

- ***Provision for unearned premiums.*** Provision for unearned premiums (UEPR) represents the proportion of premiums written that relate to the unexpired term of policies in force as at the reporting date, calculated on a time apportionment basis. UEPR is recognised within liabilities on a gross basis.
- ***Loss provisions.*** Loss provisions represent the accumulation of estimates for ultimate losses and include outstanding claims provision ("OCP") and provision for losses incurred but not yet reported ("IBNR"). Loss provisions are recognised within liabilities on a gross basis. Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the reporting date.

The estimation is made on the basis of information received by the Group during settlement of the insured event, including information received after the reporting date. IBNR is determined by the Group by line of business using actuarial methods, and includes assumptions based on prior years' claims and claims handling experience. IBNR is calculated for each occurrence period as the difference between the projected maximum amount of future payments resulting from the events that occurred during the period and the amount of future payments resulting from the event already reported but not settled at the reporting date within the same period.

The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss and other comprehensive income as they arise.

Loss provisions are estimated on an undiscounted basis due to relatively quick pattern of claims notification and payment.

- ***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.

3 Significant Accounting Policies (Continued)

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 2017 the rate of exchange used for translating foreign currency balances was USD 1 = RR 57.6002 (2016: USD 1 = RR 60.6569), and the average rate of exchange was USD 1 = RR 58.3529 (2016: USD 1 = RR 67.0508).

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

Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme. Cash flows related to the salaries and other contributions paid to employees of the Group are presented within net increase/(decrease) in customer accounts since salaries and other contributions are paid directly to the current accounts of employees with the Bank and do not represent cash outflow for the Group.

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.

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Notes to the Consolidated Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

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

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

Changes in presentation. During the year ended 31 December 2017 the management of the Group made a detailed review of the components that make up commission expense and using improved technical reports identified the part of payment systems commission expense which has more characteristics of being an effective interest rate rather than commission expense.

As a result the reclassification was made in the consolidated statement of profit or loss and other comprehensive income between Fee and commission income, Fee and commission expense, Interest expense and Interest income as detailed in the table below:

In millions of RR	As originally presented	Reclassification	As reclassified at 31 Decmber 2016
Interest income	47,824	(180)	47,644
Interest expense	(13,348)	(290)	(13,638)
Fee and commission expense	(3,512)	470	(3,042)

The effect of reclassifications on amounts in the consolidated statement of cash flows was as follows:

In millions of RR	As originally presented	Reclassification	As reclassified at 31 Decmber 2016
Interest received	46,964	(180)	46,784
Interest paid	(13,275)	(290)	(13,565)
Fee and commission paid	(3,546)	470	(3,076)

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

economic conditions that correlate with defaults on assets in the group. The primary factor that the Group considers as objective evidence of impairment is the overdue status of the loan.

In general, loans where there are no breaches in loan servicing are considered to be unimpaired. Given the nature of the borrowers and the loans it is the Group's view and experience that there is a very short time lag between a possible loss event that could lead to impairment and the non or under payment of a monthly instalment. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In accordance with the internal methodology for the provision estimation the Group uses its historical retail loan loss statistics for assessment of probabilities of default. The last twelve months of historical loss data are given the most weight in calculating the provision for impairment. This allows the Group to apply its most recent data to estimate losses on loans to individuals as the latest trends are accounted for. The loan loss provision is calculated after adjustment for the expected future recovery of impaired loans based on conservative sampling of historical data.

As at 31 December 2017 the positive effect of the above adjustment for expected recoveries from impaired loans on the total provision for loan impairment is approximately RR 1,115 million (2016: RR 492 million). Such increase in the adjustment is explained by the higher recoveries expected by the Group. To the extent that the incurred losses as at 31 December 2017 resulting from future cash flows vary by 1.0% (2016: 1.0%) from the calculated estimate, the profit would be approximately RR 1,578 million (2016: RR 1,204 million) higher or lower.

Perpetual subordinated bonds. A perpetual subordinated bond issue in June 2017 was initially recognised in the amount of USD 295.8 million (RR 16.9 billion) represented by the funds received from investors less issuance costs. Subsequent measurement of this instrument is consistent with the accounting policy for debt securities in issue. Interest expense on the instrument is calculated using the effective interest rate method and recognised in profit or loss for the year.

In the event that an interest payment on the instrument is cancelled, the reversal of accrued interest payable is made through equity, as any cancelled interest payments are not liable to be paid in the future. Foreign exchange translation gains and losses on the bond are recognised in profit or loss for the period. The Group has taken into consideration that there are genuine contingent settlement provisions that could arise and as such has classified the perpetual subordinated bond instrument in its entirety as a liability, rather than equity, on the basis of terms of issue which stipulate the possible redemption of the instrument in several cases other than liquidation of the issuer. If the Group had recognized this instrument as equity, then interest expense would only have been recognized when it was paid and not accrued as for a debt instrument.

The Group has invested in perpetual subordinated bonds issued by third parties. The Group has taken into consideration that there are genuine contingent settlement provisions that could arise and as such has classified the investments in perpetual subordinated bonds as investments in debt securities on the basis of terms of issue which stipulate the possible redemption of the instrument in several cases other than liquidation of the issuer. The investments in the instruments were classified as investments in securities available-for-sale. Investments in these instruments are carried at fair value. Interest income is accrued using the effective interest method and recognised in profit or loss for the year.

Interest income recognition. Interest income is recognised using the effective interest method which incorporates significant assumptions around loan expected lives as well as judgements of type of fees and costs that are included in interest income as part of the effective interest method. Refer to Note 3.

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 34.

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Notes to the Consolidated Financial Statements (Continued)

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2017, but did not have any material impact on the Group:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

In accordance with the amendments to IAS 7 which became effective for the Group from 1 January 2017 the new disclosures are presented in Note 30.

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 2018 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on the available information and current implementation status the Management currently estimates that the impact on 1 January 2018 of adopting IFRS 9 will result in a decrease in equity attributable to shareholders' of the Company by approximately RR 9.7 billion.This impact primarily arises from an increase in provision for loan impairment on adoption of IFRS 9 less the related deferred tax credit. The Group continues to refine and re-calibrate its models for the latest data as well as review the implementation process which may change the actual impact upon adoption.

6 New Accounting Pronouncements (Continued)

The finally calculated impact upon adoption will be reported in the Group's consolidated condensed interim financial information for the three months ended 31 March 2018.

The analysis of the contractual cash flow characteristics is expected to result in acquired perpetual bonds previously classified as investment securities available for sale (including those which were sold under sale and repurchase agreements) being reclassified as FVTPL. There will be no impact on carrying value of these bonds as at 1 January 2018 from this reclassification.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*. The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group is currently assessing the impact of the amendments on its financial statements and the impact is not yet known.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements and the impact is not yet known.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the new standard on its financial statements and the impact is not yet known.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

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Notes to the Consolidated Financial Statements (Continued)

6 New Accounting Pronouncements (Continued)

If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate.

Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the new standard on its financial statements and the impact is not yet known.

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

- IFRS 14, Regulatory Deferral Accounts first time adopters (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016)*.
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB) *.
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018) *.
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018) *.
- Annual Improvements to IFRSs 2014-2016 cycle — Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginnig on or after 1 January 2019)*.
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018) *.
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)*.
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019)*.

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

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

7 Cash and Cash Equivalents

In millions of RR	31 December 2017	31 December 2016
Cash on hand	2,941	26
Cash balances with the CBRF (other than mandatory reserve deposits)	11,201	6,178
Placements with other banks and organizations with original maturities of less than three months, including:		
- AA- to AA+ rated	856	986
- A- to A+ rated	377	-
- BBB- rated	7,051	8,164
- BB- to BB+ rated	867	328
- B- to B+ rated	256	2
Unrated	301	513
Total Cash and Cash Equivalents	**23,850**	**16,197**

Cash on hand includes cash balances with ATMs and cash balances in transit.

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

Placements with other banks and organizations with original maturities of less than three months include placements under reverse sale and repurchase agreements in the amount of RR 6,607 million as at 31 December 2017 (31 December 2016: RR 6,187 million).

Cash and cash equivalents are neither impaired nor past due. Refer to Note 37 for the disclosure of the fair value of cash and cash equivalents. Interest rate, maturity and geographical risk concentration analysis of cash and cash equivalents are disclosed in Note 32.

8 Loans and Advances to Customers

In millions of RR	31 December 2017	31 December 2016
Loans to individuals:		
Credit card loans	140,190	110,440
Cash loans	7,000	2,160
Instalment loans	5,907	6,554
POS loans	4,684	1,281
Total loans and advances to customers before impairment	**157,781**	**120,435**
Less: Provision for loan impairment	(17,536)	(17,523)
Total loans and advances to customers	**140,245**	**102,912**

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Notes to the Consolidated Financial Statements (Continued)

8 Loans and Advances to Customers (Continued)

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

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

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

POS ("Point of sale") loans represent POS lending through the Bank's programme "POS loans" (KupiVKredit). This programme funds online purchases through internet shops for individual borrowers. Presented below is an analysis of issued, activated and utilised cards based on their credit card limits as at the end of the reporting year:

In units	31 December 2017	31 December 2016
Credit card limits		
Up to 20 RR thousand	631,207	454,610
20-40 RR thousand	458,058	351,823
40-60 RR thousand	394,543	291,083
60-80 RR thousand	361,117	273,350
80-100 RR thousand	293,372	210,229
100-120 RR thousand	252,135	185,614
120-140 RR thousand	377,207	311,466
140-200 RR thousand	155,902	97,218
More than 200 RR thousand	61,761	40,042
Total cards	**2,985,302**	**2,215,435**

Table above only includes credit cards less than 180 days overdue.

Movements in the provision for loan impairment for the year ended 31 December 2017 are as follows:

In millions of RR	As at 31 December 2016	Sales of impaired loans	Amounts written-off during the period	Provision for impairment during the period	As at 31 December 2017
Loans to individuals:					
Credit card loans	13,558	(418)	(7,108)	8,340	14,372
Instalment loans	3,418	(39)	(1,858)	1,151	2,672
Cash loans	429	(7)	(108)	23	337
POS loans	118	(25)	(55)	117	155
Total provision for loan impairment	**17,523**	**(489)**	**(9,129)**	**9,631**	**17,536**

8 Loans and Advances to Customers (Continued)

The provision for impairment during the year ended 31 December 2017 presented in the table above differs from the amount presented in the consolidated statement of profit or loss and other comprehensive income for the year due to RR 1,991 million, recovery of amounts previously written off as uncollectible. The amount of the recovery received during the year was credited directly to the provisions line in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

In 2017 the Group sold impaired loans to third parties (external debt collection agencies) with a gross amount of RR 500 million (2016: RR 1,057 million), and provision for impairment of RR 489 million (2016: RR 1,037 million). The difference between the carrying amount of these loans and the consideration received was recognised in profit or loss as gain from the sale of impaired loans in the amount of RR 26 million (2016: RR 48 million).

Analysis of loans by credit quality is as follows:

	31 December 2017				31 December 2016			
In millions of RR	Credit card loans	Instalment loans	Cash loans	POS loans	Credit cardloans	Instalment loans	Cash loans	POS loans
Neither past due nor impaired:								
- new	3,824	-	1,595	1,234	3,370	-	1,144	191
Loans collectively assessed for impairment (gross):								
- non-overdue	118,193	4,016	5,051	3,304	91,519	4,423	794	963
- less than 30 days overdue	3,097	360	73	37	2,517	453	27	23
- 30 to 90 days overdue	2,682	302	70	25	2,255	373	25	22
- 90 to 180 days overdue	2,340	239	66	24	1,901	395	30	25
- 180 to 360 days overdue	941	543	64	42	2,367	868	84	52
over 360 days overdue	1,189	447	81	18	469	42	56	5
- loans in courts	7,924	-	-	-	6,042	-	-	-
Less: Provision for loan impairment	(14,372)	(2,672)	(337)	(155)	(13,558)	(3,418)	(429)	(118)
Total loans	**125,818**	**3,235**	**6,663**	**4,529**	**96,882**	**3,136**	**1,731**	**1,163**

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Notes to the Consolidated Financial Statements (Continued)

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

Interest rate, maturity and geographical risk concentration analysis of loans and advances to customers are disclosed in Note 32. Information on related party balances is disclosed in Note 39.

9 Investment Securities Available for Sale

In millions of RR	31 December 2017	31 December 2016
Corporate bonds	48,328	31,333
Russian government bonds	13,904	1,252
Perpetual corporate bonds	5,070	-
Municipal bonds	4,374	701
Total investment securities available for sale	**71,676**	**33,286**

Analysis by credit quality of debt securities outstanding at 31 December 2017 is as follows:

In millions of RR	Corporate bonds	Russian government bonds	Perpetual corporate bonds	Municipal bonds	Total
Neither past due nor impaired					
BBB- to BBB+ rated	22,158	13,904	-	1,862	37,924
BB- to BB+ rated	25,955	-	3,959	2,512	32,426
B- to B+ rated	215	-	1,111	-	1,326
Total neither past due nor impaired investment securities available for sale	**48,328**	**13,904**	**5,070**	**4,374**	**71,676**

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

In millions of RR	Corporate bonds	Russian government bonds	Perpetual corporate bonds	Municipal bonds	Total
Neither past due nor impaired					
BBB rated	14,210	1,252	-	231	15,693
BB- to BB+ rated	16,607	-	-	470	17,077
B- to B+ rated	516	-	-	-	516
Total neither past due nor impaired investment securities available for sale	**31,333**	**1,252**	**-**	**701**	**33,286**

9 Investment Securities Available for Sale (Continued)

The movements in investment securities available for sale for the year ended 31 December 2017 are as follows:

In millions of RR	2017
Carrying amount at 1 January	33,286
Purchases	67,814
Redemption of investment securities available for sale	(12,882)
Disposal of investment securities available for sale	(16,728)
Interest income accrued on investment securities available for sale (Note 21)	3,491
Interest received	(3,434)
Reclassification from investment securities available for sale to Repurchase receivables	(798)
Foreign exchange loss on investment securities available for sale in foreign currency	(399)
Revaluation through other comprehensive income	1,326
Carrying amount at 31 December	**71,676**

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

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

Interest rate, maturity and geographical risk concentration analysis of investment securities available for sale are disclosed in Note 32.

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Notes to the Consolidated Financial Statements (Continued)

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 sale and repurchase agreements are short-term and mature by 10 January 2018.

Analysis by credit quality of debt securities classified as repurchase receivables outstanding at 31 December 2017 is as follows:

In millions of RR	**Available-for-sale securities Perpetual corporate bonds**
Neither past due nor impaired	
B- rated	798
Total neither past due nor impaired debt securities classified as repurchase receivables	**798**

No debt securities were sold under sale and repurchase agreements as at 31 December 2016.

Refer to Note 14 for the related liabilities. Interest rate, maturity and geographical risk concentration analysis of repurchase receivables are disclosed in Note 32.

11 Guarantee Deposits with Payment Systems

Guarantee deposits with payment systems represent funds put aside by the Group. As at 31 December 2017 and 2016 a guarantee deposit in favour of MasterCard was put in Barclays Bank Plc London (A rated). As at 31 December 2017 a guarantee deposit in favour of Visa was put in United Overseas Bank Ltd. Singapore (AA - rated). As at 31 December 2016 a guarantee deposit in favour of Visa was put in Barclays Bank Plc London (A rated).

12 Tangible Fixed and Intangible Assets

In millions of RR	Building	Equipment	Leasehold improvements	Vehicles	Total tangible fixed assets	Intangible assets, including goodwill
Cost						
At 31 December 2015	**1,564**	**898**	**543**	**39**	**3,044**	**2,184**
Additions	2,452	397	7	-	2,856	664
Disposals	-	(10)	(92)	-	(102)	-
At 31 December 2016	**4,016**	**1,285**	**458**	**39**	**5,798**	**2,848**
Additions	473	1,151	289	2	1,915	1,720
Disposals	(5)	(16)	-	-	(21)	(9)
At 31 December 2017	**4,484**	**2,420**	**747**	**41**	**7,692**	**4,559**
Depreciation and amortisation						
At 31 December 2015	**-**	**(594)**	**(381)**	**(17)**	**(992)**	**(765)**
Charge for the period (Note 26)	(10)	(157)	(79)	(6)	(252)	(263)
Disposals	-	10	92	-	102	-

12 Tangible Fixed and Intangible Assets (Continued)

In millions of RR	Building	Equipment	Leasehold improvements	Vehicles	Total tangible fixed assets	Intangible assets, including goodwill
At 31 December 2016	**(10)**	**(741)**	**(368)**	**(23)**	**(1,142)**	**(1,028)**
Charge for the period (Note 26)	(38)	(311)	(66)	(5)	(420)	(476)
Disposals	-	10	-	-	10	1
At 31 December 2017	**(48)**	**(1,042)**	**(434)**	**(28)**	**(1,552)**	**(1,503)**
Net book value						
At 31 December 2016	**4,006**	**544**	**90**	**16**	**4,656**	**1,820**
At 31 December 2017	**4,436**	**1,378**	**313**	**13**	**6,140**	**3,056**

Intangible assets in the amount of RR 395 million acquired during the year ended 31 December 2017 represent intangible assets related to the acquisition of LLC "CloudPayments", including technological platform for online payments processing, online merchant portfolio, online cashbox platform and goodwill arising on acquisition. Refer to note 40.

Intangible assets in the amount of RR 333 million related to the software developments made by Tinkoff Software DC during the year ended 31 December 2017.

Other intangible acquired during the year ended 31 December 2017 and 2016 mainly represent accounting software, retail banking software, insurance software, licenses and development of software. Intangible assets also include the license for insurance operations.

During 2017 the Group acquired more office building space for its own use for RR 473 million (2016: RR 1,932 million), VAT included.

13 Other Financial and Non-financial Assets

In millions of RR	31 December 2017	31 December 2016
Other Financial Assets		
Settlement of operations with plastic cards	10,280	6,679
Trade and other receivables	235	350
Other	454	314
Total Other Financial Assets	**10,969**	**7,343**
Other Non-Financial Assets		
Prepaid expenses	3,089	1,112
Other	168	136
Total Other Non-Financial Assets	**3,257**	**1,248**

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

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Notes to the Consolidated Financial Statements (Continued)

13 Other Financial and Non-financial Assets (Continued)

Prepaid expenses consist of prepayments for TV advertising, IT support, office rent and card issuing. Other financial assets are not impaired and not past due. Refer to Note 37 for the disclosure of the fair value of other financial assets. The maturity and geographical risk concentration analysis of amounts of other financial assets are disclosed in Note 32.

14 Due to Banks

In millions of RR	Note	31 December 2017	31 December 2016
Sale and repurchase agreements with other banks	10	591	-
Due to other banks		4	489
Total due to banks		**595**	**489**

Refer to Note 37 for the disclosure of the fair value of amounts due to banks.

15 Customer Accounts

In millions of RR	Note	31 December 2017	31 December 2016
Individuals			
- Current/demand accounts		76,318	46,729
- Term deposits		77,377	72,018
SME			
- Current/demand accounts	31	23,705	4,890
Other legal entities			
- Current/demand accounts		533	551
- Term deposits		1,112	368
Total Customer Accounts		**179,045**	**124,556**

Refer to Note 37 for the disclosure of the fair value of customer accounts. Interest rate, maturity and geographical risk concentration analysis of customer accounts amounts are disclosed in Note 32. Information on related party balances is disclosed in Note 39.

16 Debt Securities in Issue

In millions of RR	Date of maturity	31 December 2017	31 December 2016
RR denominated bonds issued in April 2017	22 April 2022	5,061	-
RR denominated bonds issued in June 2016	24 June 2021	2,989	2,986
Euro-Commercial Paper issued in December 2017	19 December 2018	2,769	-
Total Debt Securities in Issue		**10,819**	**2,986**

On 28 April 2017 the Bank issued RR denominated bonds with a nominal value of RR 5,000 million at 9.65% coupon rate maturing on 22 April 2022.

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

On 20 December 2017 the Group issued USD denominated Euro-Commercial Paper (ECP) with a nominal value of USD 50 million with a discount of 4% maturing on 19 December 2018.

All RR denominated bonds issued by the Bank are traded on OJSC Moscow Exchange. Refer to Note 37 for the disclosure of the fair value of debt securities in issue. Interest rate analysis of debt securities in issue are disclosed in Note 32.

17 Subordinated Debt

As at 31 December 2017 the carrying value of the subordinated debt was RR 22,001 million (31 December 2016: RR 11,514 million).

On 15 June 2017 the Group issued perpetual subordinated loan participation notes with a nominal value of USD 300 million with zero premium. The notes have no stated maturity. The Group has a right to repay the notes at its discretion starting from 15 September 2022 and they are repayable in case of certain events other than liquidation. The notes bear a fixed interest rate of 9.25% p.a. payable quarterly starting from 15 September 2017. Interest payments may be cancelled by the Group at any time.

On 6 December 2012 and 18 February 2013 the Group issued USD denominated subordinated bonds with a nominal value of USD 125 million with zero premium and USD 75 million at a premium of 7.0% respectively, at 14.0% coupon rate (applicable to both tranches) maturing on 6 June 2018.

During the year ended 31 December 2017 the Bank repurchased USD 105 million outstanding principal amount at an average purchase price 110.32% of the bonds nominal value. As at 31 December 2017 USD 84 million outstanding principal amount remains in issue.

The net losses from repurchase of subordinated bonds in 2017 in the amount of RR 619 million are recognised in the consolidated statement of profit or loss and other comprehensive income.

The claims of 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.

The perpetual subordinated loan participation notes and subordinated bonds are traded on the Global Exchange Market and Main Securities Market of the Irish Stock Exchange, respectively. Interest rate, maturity and geographical risk concentration analysis of subordinated debt are disclosed in Note 32. Refer to Note 37 for the disclosure of the fair value of financial instruments.

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Notes to the Consolidated Financial Statements (Continued)

18 Insurance Provisions

In millions of RR	31 December 2017	31 December 2016
Insurance Provisions		
Provision for unearned premiums	1,117	300
Loss provisions	723	467
Total Insurance Provisions	**1,840**	**767**

Movements in provision for unearned premiums for the year ended 31 December 2017 and 2016 are as follows:

	2017			2016		
In millions of RR	Gross provision	Reinsurer's share of provision	Provision net of reinsurance	Gross provision	Reinsurer's share of provision	Provision net of reinsurance
Provision for unearned premiums as at 1 January	**300**	**-**	**300**	**169**	**-**	**169**
Change in provision, gross	817	-	817	131	-	131
Change in reinsurers' share of provision	-	(1)	(1)	-	-	-
Provision for unearned premiums as at 31 December	**1,117**	**(1)**	**1,116**	**300**	**-**	**300**

Movements in loss provisions for the year ended 31 December 2017 and 2016 are as follows:

In millions of RR	OCP and IBNR	URP	Provision for claims handling expenses	Total loss provisions
Loss provisions as at 1 January 2016	**285**	**28**	**34**	**347**
Change in provision	83	72	25	180
Netting with deferred acquisition costs	-	(60)	-	(60)
Loss provisions as at 31 December 2016	**368**	**40**	**59**	**467**
Change in provision	150	115	63	328
Netting with deferred acquisition costs	-	(72)	-	(72)
Loss provisions as at 31 December 2017	**518**	**83**	**122**	**723**

19 Other Financial and Non-financial Liabilities

In millions of RR	31 December 2017	31 December 2016
Other Financial Liabilities		
Settlement of operations with plastic cards	5,271	2,031
Trade payables	2,538	1,052
Other	234	29
Total Other Financial Liabilities	**8,043**	**3,112**
Other Non-financial Liabilities		
Accrued administrative expenses	1,283	682
Taxes payable other than income tax	1,008	646
Other	505	292
Total Other Non-financial Liabilities	**2,796**	**1,620**

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 analysis of other financial liabilities are disclosed in Note 32. Refer to Note 37 for disclosure of fair value of other financial liabilities.

20 Share Capital

In millions of RR except for the number of shares	Number of authorised shares	Number of outstanding shares	Ordinary shares	Share premium	Treasury shares	Total
At 1 January 2016	**190,479,500**	**182,638,825**	**188**	**8,623**	**(328)**	**8,483**
GDRs buy-back	-	-	-	-	(1,246)	(1,246)
GDRs and shares transferred under MLTIP	-	-	-	-	101	101
At 31 December 2016	**190,479,500**	**182,638,825**	**188**	**8,623**	**(1,473)**	**7,338**
GDRs buy-back	-	-	-	-	(397)	(397)
GDRs and shares transferred under MLTIP	-	-	-	-	283	283
At 31 December 2017	**190,479,500**	**182,638,825**	**188**	**8,623**	**(1,587)**	**7,224**

As at 31 December 2017 treasury shares represent GDRs of the Group repurchased from the market for the purposes of MLTIP (2016: for the purposes of MLTIP and ESOP). During the year ended 31 December 2017 the Group repurchased 602,148 GDRs at market price for RR 397 million (2016: 5,659,853 GDRs at amount of RR 1,246 million at market prices). Refer to Note 39.

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 repurchased under MLTIP. Refer to Note 39.

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Notes to the Consolidated Financial Statements (Continued)

20 Share Capital (Continued)

Earnings per share are calculated as follows:

In millions of RR	2017	2016
Profit for the year attributable to ordinary shareholders of the Company	19,019	11,011
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation (thousands)	176,303	174,508
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation (thousands)	182,140	178,937
Basic earnings per ordinary share (expressed in RR per share)	**107.88**	**63.10**
Diluted earnings per ordinary share (expressed in RR per share)	**104.42**	**61.54**

Information on dividends is disclosed in Note 29.

21 Net margin

In millions of RR	2017	2016
Interest income		
Loans and advances to customers, including:		
Credit card loans	52,885	42,677
Cash loans	1,083	559
POS loans	793	514
Instalment loans	711	896
Investment securities available for sale and repurchase receivables	3,491	2,379
Placements with other banks	510	577
Other interest income	68	42
Total Interest Income	**59,541**	**47,644**
Interest expense		
Customer accounts, including:		
Individuals	9,618	10,784
SME	421	48
Other legal entities	65	64
Subordinated debt	2,022	1,952
RR denominated bonds	682	180
Due to banks	13	487
Euro-Commercial Paper	3	123
Total Interest Expense	**12,824**	**13,638**
Expenses on deposit insurance	641	450
Net margin	**46,076**	**33,556**

22 Fee and Commission Income and Expense

In millions of RR	2017	2016
Fee and commission income		
Credit protection fee	4,211	3,603
SME current accounts commission	3,003	150
Merchant acquiring commission	2,416	1,256
Interchange fee	1,683	898
SMS fee	1,341	898
Foreign currency exchange transactions fee	992	483
Cash withdrawal fee	606	225
Card to card commission	555	269
Placement fee	167	112
Brokerage operations	87	-
Court fees reimbursement	-	232
Other fees receivable	470	275
Total fee and commission income	**15,531**	**8,401**

Credit protection fee income represents fee for providing credit insurance to borrowers of the Group. SME current accounts commission represents commission for services to individual entrepreneurs and small to medium businesses. SMS fee income includes fee for sms notification to borrowers of the Group which amounted to RR 1,027 million (2016: RR 730 million).

In millions of RR	2017	2016
Fee and commission expense		
Payment systems	4,766	2,537
Service fees	726	450
Banking and other fees	126	55
Total fee and commission expense	**5,618**	**3,042**

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

23 Customer Acquisition Expense

In millions of RR	2017	2016
Marketing and advertising	5,096	3,607
Staff costs	3,968	2,631
Credit bureaux	358	269
Telecommunication expenses	244	144
Other acquisition	53	10
Total customer acquisition expenses	**9,719**	**6,661**

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Notes to the Consolidated Financial Statements (Continued)

23 Customer Acquisition Expense (Continued)

Customer acquisition expenses represent expenses paid by the Group on services related to origination of 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 directly involved in customer acquisition. Included in staff costs are statutory social contributions to the off-budget funds in the amount of RR 949 million (2016: RR 565 million).

24 Net Gains from Operations with Foreign Currencies

In millions of RR	2017	2016
Net gains less losses from derivative revaluation	(652)	(2,347)
Foreign exchange translation losses less gains	501	2,145
Net (losses)/gains from trading in foreign currencies	(105)	441
Net (losses)/gains from operations with foreign currencies	**(256)**	**239**

25 Insurance Claims Incurred

In millions of RR	2017	2016
Claims paid	516	347
Change in loss provision	256	120
Claims handling expenses	43	23
Total insurance claims incurred	**815**	**490**

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

26 Administrative and Other Operating Expenses

In millions of RR	Note	2017	2016
Staff costs		11,430	7,511
Taxes other than income tax		1,779	1,221
Amortization of intangible assets	12	476	263
Operating lease expense for premises and equipment		441	541
Information services		441	411
Depreciation of fixed assets	12	420	252
Communication services		324	320
Professional services		212	154
Stationery		187	139
Security expenses		134	129
Collection expenses		63	40
Other administrative expenses		299	340
Total administrative and other operating expenses		**16,206**	**11,321**

26 Administrative and Other Operating Expenses (Continued)

The total fees charged by the Company's statutory auditor for the statutory audit of the annual consolidated and separate financial statements of the Company for the year ended 31 December 2017 amounted to RR 2.1 million (2016: RR 2.2 mln). The total fees charged by the Company's statutory auditor for the year ended 31 December 2017 for other assurance services amounted to RR 3.8 million (2016: RR 4.0 million), for tax advisory services amounted to RR 1.1 million (2016: RR 4.3 million) and for other non-assurance services amounted to RR 1.7 million (2016: nil).

Included in staff costs are statutory social contributions to the off-budget funds and share-based remuneration:

In millions of RR	2017	2016
Statutory social contribution to the off-budget funds	1,721	1,076
Share-based remuneration	1,037	855

The average number of employees employed by the Group during the reporting year was 15,391 (2016: 10,217).

27 Other Operating Income

In millions of RR	2017	2016
Income from marketing services	956	503
Subrogation fee	41	47
Income from online acquiring services	32	-
Other	191	108
Total other operating income	1,220	658

28 Income Taxes

Income tax expense comprises the following:

In millions of RR	2017	2016
Current tax	5,479	4,666
Deferred tax	483	(1,113)
Income tax expense for the year	**5,962**	**3,553**

The income tax rate applicable to the majority of the Group's income is 20% (2016: 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% (2016: 12.5%).

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Notes to the Consolidated Financial Statements (Continued)

28 Income Taxes (Continued)

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

In millions of RR	2017	2016
Profit before tax	**24,985**	**14,564**
Theoretical tax expense at statutory rate of 20% (2016: 20%)	4,997	2,913
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	370	350
- Other including dividend tax	549	299
Utilisation of previously unrecognised tax loss carry forwards	-	(49)
Effects of different tax rates in other countries:		
- Differences between 20% and income tax rate adopted in jurisdiction of the Company	46	40
Income tax expenses for the year	**5,962**	**3,553**

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% (2016: 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.

28 Income Taxes (Continued)

In millions of RR	31 December 2016	(Charged)/credited to profit or loss	Charged to OCI	31 December 2017
Tax effect of deductible and taxable temporary differences				
Loans and advances to customers	318	(95)	-	223
Tangible fixed assets	(246)	(98)	-	(344)
Intangible assets	(353)	41	-	(312)
Revaluation of investment securities available for sale and repurchase receivables	(140)	24	(211)	(327)
Securities at fair value through profit or loss	(1)	1	-	-
Accrued expenses and other temporary differences	226	(425)	-	(199)
Customer accounts	(39)	9	-	(30)
Debt securities in issue	(11)	(44)	-	(55)
Financial derivatives	(544)	109	-	(435)
Insurance provisions	5	(5)	-	-
Net deferred tax liabilities	**(785)**	**(483)**	**(211)**	**(1,479)**

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

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Notes to the Consolidated Financial Statements (Continued)

29 Dividends

In millions of RR	2017	2016
Dividends payable at 1 January	167	-
Dividends declared during the year	8,279	4,506
Dividends paid during the year	(7,970)	(4,227)
Dividends paid under MLTIP after vesting date (31 March 2017)	(29)	-
Foreign exchange gain on dividends payable	(70)	(112)
Dividends payable at 31 December	**377**	**167**
Dividends per share declared during the year (in USD)	**0.77**	**0.38**
Dividends per share paid during the year (in USD)	**0.77**	**0.38**

On 19 November 2017 the Board of Directors of the Group declared a dividend of RR 13.12 (USD 0.22) per share/per GDR amounting to RR 2,396 million (USD 40.2 million). At the same date a special interim dividend of of RR 10.73 (USD 0.18) per share/per GDR amounting to RR 1,960 million (USD 32.9) million was declared.

On 28 August 2017 the Board of Directors of the Group declared a dividend of RR 11.83 (USD 0.20) per share/per GDR amounting to RR 2,161 million (USD 36.5 million) paid during the three months ended 30 September 2017.

On 29 May 2017 the Board of Directors of the Group declared a dividend of RR 9.65 (USD 0.17) per share/per GDR amounting to RR 1,762 million (USD 31.05 million) paid during the three months ended 30 June 2017.

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

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

Dividends were declared and paid in USD throughout the years ended 2016 and 2017.

Dividends payable at 31 December 2017 in the amount of RR 377 million are related to treasury shares acquired under MLTIP and included in other non-financial liabilities (2016: RR 167 million).

30 Net Debt Reconciliation

The table below sets out an analysis of the Group's debt and the movements in the Group's debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

	Liabilities from financing activities			
In millions of RR	Other borrowed funds	Perpetual subordinated bonds	Other subordinated debt	Total
Net debt at 1 January 2016	**1,905**	**-**	**14,609**	**16,514**
Cash flows	1,115	-	(742)	373
Foreign exchange adjustments	-	-	(2,353)	(2,353)
Other non-cash movements	(34)	-	-	(34)
Net debt at 31 December 2016	**2,986**	**-**	**11,514**	**14,500**
Cash flows	7,819	16,853	(6,623)	18,049
Foreign exchange adjustments	-	262	(106)	156
Other non-cash movements	14	-	101	115
Net debt at 31 December 2017	**10,819**	**17,115**	**4,886**	**32,820**

31 Segment Analysis

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

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

The Group is organised on the basis of 3 main business segments:

- Retail banking – representing customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and brokerage services to individuals.
- SME accounts services – representing customer current accounts, savings, deposits services to individual entrepreneurs and small to medium businesses.
- Insurance operations – representing insurance services provided to individuals.

Factors that management used to identify the reportable segments

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

Measurement of operating segment profit or loss, assets and liabilities

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

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Notes to the Consolidated Financial Statements (Continued)

31 Segment Analysis (Continued)

Information about reportable segment profit or loss, assets and liabilities

Segment reporting of the Group's assets and liabilities as at 31 December 2017 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	Eliminations	Total
Cash and cash equivalents	16,741	6,067	1,850	(808)	23,850
Mandatory cash balances with the CBRF	1,675	-	-	-	1,675
Due from other banks	256	-	521	-	777
Loans and advances to customers	140,245	-	-	-	140,245
Financial derivatives	2,424	-	-	-	2,424
Investment securities available for sale	53,974	17,500	202	-	71,676
Repurchase receivables	798	-	-	-	798
Current income tax assets	301	-	-	-	301
Guarantee deposits with payment systems	3,660	-	-	-	3,660
Tangible fixed assets	6,138	-	2	-	6,140
Intangible assets	2,391	370	295	-	3,056
Other financial assets	10,514	13	604	(162)	10,969
Other non-financial assets	3,084	-	208	(35)	3,257
Total reportable segment assets	**242,201**	**23,950**	**3,682**	**(1,005)**	**268,828**
Due to banks	595	-	-	-	595
Customer accounts	156,148	23,705	-	(808)	179,045
Debt securities in issue	10,819	-	-	-	10,819
Financial derivatives	240	-	-	-	240
Current income tax liabilities	25	-	-	-	25
Deferred income tax liabilities	1,429	-	50	-	1,479
Subordinated debt	22,001	-	-	-	22,001
Insurance provisions	-	-	1,840	-	1,840
Other financial liabilities	8,103	-	102	(162)	8,043
Other non-financial liabilities	2,808	-	23	(35)	2,796
Total reportable segment liabilities	**202,168**	**23,705**	**2,015**	**(1,005)**	**226,883**

31 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2017 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	Eliminations	Total
2017					
External revenues					
Interest income	58,518	945	116	(38)	59,541
Fee and commission income	12,601	3,227	-	(297)	15,531
Net gains from investment securities available for sale	270	-	-	-	270
Gain from sale of impaired loans	26	-	-	-	26
Insurance premiums earned	-	-	2,742	(7)	2,735
Other operating income	1,140	9	75	(4)	1,220
Total revenues	**72,555**	**4,181**	**2,933**	**(346)**	**79,323**
Interest expense	(12,441)	(421)	-	38	(12,824)
Expenses on deposit insurance	(612)	(29)	-	-	(641)
Provision for loan impairment	(7,640)	-	-	-	(7,640)
Fee and commission expense	(5,192)	(426)	-	-	(5,618)
Customer acquisition expense	(7,770)	(1,588)	(665)	304	(9,719)
Net losses from operations with foreign currencies	(251)	-	(5)	-	(256)
Net losses from repurchase of subordinated loan	(619)	-	-	-	(619)
Insurance claims incurred	-	-	(815)	-	(815)
Administrative and other operating expenses	(14,718)	(879)	(613)	4	(16,206)
Segment result	**23,312**	**838**	**835**	**-**	**24,985**

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Notes to the Consolidated Financial Statements (Continued)

31 Segment Analysis (Continued)

Segment reporting of the Group's assets and liabilities as at 31 December 2016 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	Eliminations	Total
Cash and cash equivalents	14,932	971	777	(483)	16,197
Mandatory cash balances with the CBRF	1,218	-	-	-	1,218
Due from other banks	-	-	347	-	347
Loans and advances to customers	102,912	-	-	-	102,912
Financial derivatives	2,718	-	-	-	2,718
Investment securities available for sale	30,068	3,218	-	-	33,286
Current income tax assets	681	-	21	-	702
Guarantee deposits with payment systems	2,924	-	-	-	2,924
Tangible fixed assets	4,653	-	3	-	4,656
Intangible assets	1,402	108	310	-	1,820
Other financial assets	7,163	-	180	-	7,343
Other non-financial assets	1,094	-	229	(75)	1,248
Total reportable segment assets	**169,765**	**4,297**	**1,867**	**(558)**	**175,371**

In millions of RR	Retail banking	SME accounts services	Insurance operations	Eliminations	Total
Due to banks	489	-	-	-	489
Customer accounts	120,149	4,890	-	(483)	124,556
Debt securities in issue	2,986	-	-	-	2,986
Current income tax liabilities	24	-	-	-	24
Deferred income tax liabilities	765	-	20	-	785
Subordinated debt	11,514	-	-	-	11,514
Insurance provisions	-	-	767	-	767
Other financial liabilities	3,047	-	65	-	3,112
Other non-financial liabilities	1,671	-	24	(75)	1,620
Total reportable segment liabilities	**140,645**	**4,890**	**876**	**(558)**	**145,853**

31 Segment Analysis (Continued)

Segment reporting of the Group's income and expenses for the year ended 31 December 2016 is set out below:

In millions of RR	Retail banking	SME accounts services	Insurance operations	Eliminations	Total
2016					
External revenues					
Interest income	47,439	110	95	-	47,644
Fee and commission income	8,494	160	-	(253)	8,401
Net gains from operations with foreign currencies	239	-	-	-	239
Net gains from investment securities available for sale	214	-	-	-	214
Gain from sale of impaired loans	48	-	-	-	48
Insurance premiums earned	-	-	1,348	-	1,348
Other operating income	658	-	-	-	658
Total revenues	**57,092**	**270**	**1,443**	**(253)**	**58,552**
Interest expense	(13,590)	(48)	-	-	(13,638)
Expenses on deposit insurance	(447)	(3)	-	-	(450)
Provision for loan impairment	(8,386)	-	-	-	(8,386)
Fee and commission expense	(3,017)	(25)	-	-	(3,042)
Customer acquisition expense	(5,904)	(487)	(523)	253	(6,661)
Insurance claims incurred	-	-	(490)	-	(490)
Administrative and other operating expenses	(10,471)	(300)	(550)	-	(11,321)
Segment result	**15,277**	**(593)**	**(120)**	**-**	**14,564**

Depreciation charges for the year ended 2017 included in administrative and other operating expenses in the amount of RR 415 million and RR 2 million (2016: RR 247 million and RR 1 million) relate to the Bank and to the Insurance Company, correspondingly. Amortisation for 2017 included in the administrative and other operating expenses in the amount of RR 403 million and RR 62 million (2016: RR 219 million and RR 44 million) relate to the Bank and to the Insurance Company, correspondingly.

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

In millions of RR	2017	2016
Total revenues for reportable segments	79,669	58,805
Intercompany transactions	(346)	(253)
Total consolidated revenues	**79,323**	**58,552**

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Notes to the Consolidated Financial Statements (Continued)

31 Segment Analysis (Continued)

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

In millions of RR	2017	2016
Total reportable segment result	24,985	14,564
Profit before tax	**24,985**	**14,564**

In millions of RR	31 December 2017	31 December 2016
Total reportable segment assets	269,833	175,929
Intercompany balances	(1,005)	(558)
Total consolidated assets	**268,828**	**175,371**

In millions of RR	31 December 2017	31 December 2016
Total reportable segment liabilities	227,888	146,411
Intercompany balances	(1,005)	(558)
Total consolidated liabilities	**226,883**	**145,853**

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

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

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position and within contingencies and commitments (Note 34). The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

32 Financial Risk Management (Continued)

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

- Citizenship of the Russian Federation;
- Age 18 to 70 inclusive;
- Availability of a cell-phone;
- Permanent employment;
- Permanent income;
- Permanent or temporary place of residence.

For cash loans, minimum requirements are listed below:

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

For POS loans minimum requirements are listed below:

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

A credit decision process includes:

- the first step includes validation of the application data. The system checks the validity of the data provided (addresses, telephone numbers, age, if the applicant already uses any other products of the Bank).
- the second step includes phone verification of the application information about the potential customer, his/her employment, social and property status, etc. This step may be omitted for POS loans.
- the third step includes requesting of the previous credit history of the applicant from the three largest credit bureau in Russia – Equifax, UCB (United Credit Bureau) and NBCH (National Bureau of Credit Histories).
- based on all available information, the credit score of the applicant is calculated and a final decision is made about the approval of the credit product.
- finally, the approved loan amount, loan term and tariff plan are calculated depending on the score and declared income.

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

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

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Notes to the Consolidated Financial Statements (Continued)

32 Financial Risk Management (Continued)

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

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

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

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

When a customer experiences serious difficulties with his/her current debt servicing, he/she may be offered loan restructuring. In this case the Bank stops accrual of interest, commissions and fines and the debt amount is restructured according to a fixed instalment payment plan with not more than 36 equal monthly payments.

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

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

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

c) the client denied restructuring program;

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

e) court process is economically justified;

f) other minor criteria.

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

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

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

	At 31 December 2017				At 31 December 2016			
In millions of RR	Non-derivative monetary financial assets	Non-derivative monetary financial liabilities	Derivatives	Net position	Non-derivative monetary financial assets	Non-derivative monetary financial liabilities	Derivatives	Net position
RR	220,246	(174,842)	(10,200)	35,204	140,219	(113,892)	(2,766)	23,561
USD	26,082	(40,046)	13,565	(399)	18,182	(23,081)	5,966	1,067
Euro	6,837	(5,851)	(1,186)	(200)	5,588	(5,264)	(484)	(160)
GBP	485	(487)	5	3	238	(887)	2	(647)
Total	**253,650**	**(221,226)**	**2,184**	**34,608**	**164,227**	**(143,124)**	**2,718**	**23,821**

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

32 Financial Risk Management (Continued)

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 36. 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 2017		At 31 December 2016	
In millions 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 20% (2016: by 20%)	(80)	(80)	213	213
USD weakening by 20% (2016: by 20%)	80	80	(213)	(213)
Euro strengthening by 20% (2016: by 20%)	(40)	(40)	(32)	(32)
Euro weakening by 20% (2016: by 20%)	40	40	32	32
GBP strengthening by 20% (2016: by 20%)	1	1	(129)	(129)
GBP weakening by 20% (2016: by 20%)	(1)	(1)	129	129

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

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

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

In millions of RR	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Total
31 December 2017						
Total financial assets	72,944	89,477	24,809	20,370	48,474	256,074
Total financial liabilities	(115,982)	(44,828)	(28,355)	(7,040)	(25,261)	(221,466)
Net interest sensitivity gap at 31 December 2017	**(43,038)**	**44,649**	**(3,546)**	**13,330**	**23,213**	**34,608**
31 December 2016						
Total financial assets	44,524	58,434	22,410	23,356	18,221	166,945
Total financial liabilities	(69,581)	(41,240)	(15,969)	(13,348)	(2,986)	(143,124)
Net interest sensitivity gap at 31 December 2016	**(25,057)**	**17,194**	**6,441**	**10,008**	**15,235**	**23,821**

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

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Notes to the Consolidated Financial Statements (Continued)

32 Financial Risk Management (Continued)

At 31 December 2017, if interest rates at that date had been 200 basis points lower (2016: 200 points lower), with all other variables held constant, profit for the year would have been RR 692 million (2016: RR 476 million) higher, mainly as a result of lower interest expense on variable interest liabilities. Other components of equity would have been RR 692 million (2016: RR 476 million) higher, mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.

If interest rates had been 200 basis points higher (2016: 200 points higher), with all other variables held constant, profit would have been RR 692 million (2016: RR 476 million) lower, mainly as a result of higher interest expense on variable interest liabilities. Other components of equity would have been RR 692 million (2016: RR 476 million) lower, mainly as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale.

The Group monitors interest rates for its financial instruments. The table below summarizes interest rates for the years 2017 and 2016 based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2017				2016			
In % p.a.	RR	USD	EURO	GPB	RR	USD	EURO	GPB
Assets								
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	45.5	-	-	-	48.3	-	-	-
Due from banks	6.1	1.3	-	-	9.3	-	-	-
Investment Securities available for sale	8.3	4.7	3.4	-	12.4	5.0	-	-
Repurchase receivables	-	10.9	-	-	-	-	-	-
Liabilities								
Due to banks	0.0	2.5	-	-	-	-	-	-
Customer accounts	6.6	1.8	1.8	4.5	10.9	3.4	3.2	3.3
Debt securities in issue	10.8	4.2	-	-	12.2	-	-	-
Subordinated debt	-	11.1	-	-	-	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 (2016: no material impact).

32 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2017 is set out below:

In millions of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	22,617	1,233	-	-	23,850
Mandatory cash balances with the CBRF	1,675	-	-	-	1,675
Due from other banks	777	-	-	-	777
Loans and advances to customers	140,245	-	-	-	140,245
Financial derivatives	1,207	1,217	-	-	2,424
Investment securities available for sale	71,664	-	12	-	71,676
Repurchase receivables	-	-	798	-	798
Guarantee deposits with payment systems	37	3,623	-	-	3,660
Other financial assets	5,695	5,274	-	-	10,969
Total financial assets	**243,917**	**11,347**	**810**	**-**	**256,074**
Financial liabilities					
Due to banks	4	-	591	-	595
Customer accounts	177,933	-	1,112	-	179,045
Debt securities in issue	2,769	-	-	8,050	10,819
Financial derivatives	240	-	-	-	240
Subordinated debt	-	-	-	22,001	22,001
Insurance provisions	723	-	-	-	723
Other financial liabilities	7,827	216	-	-	8,043
Total financial liabilities	**189,496**	**216**	**1,703**	**30,051**	**221,466**
Unused limits on credit card loans (Note 34)	**78,602**	**-**	**-**	**-**	**78,602**

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Notes to the Consolidated Financial Statements (Continued)

32 Financial Risk Management (Continued)

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

In millions of RR	Russia	OECD	Other Non-OECD	Listed	Total
Financial assets					
Cash and cash equivalents	15,211	986	-	-	16,197
Mandatory cash balances with the CBRF	1,218	-	-	-	1,218
Loans and advances to customers	102,912	-	-	-	102,912
Due from other banks	347	-	-	-	347
Financial derivatives	1,353	1,365	-	-	2,718
Investment securities available for sale	33,286	-	-	-	33,286
Guarantee deposits with payment systems	-	2,924	-	-	2,924
Other financial assets	3,846	3,497	-	-	7,343
Total financial assets	**158,173**	**8,772**	**-**	**-**	**166,945**
Financial liabilities					
Due to banks	489	-	-	-	489
Customer accounts	124,095	-	461	-	124,556
Debt securities in issue	-	-	-	2,986	2,986
Subordinated debt	-	-	-	11,514	11,514
Insurance provisions	467	-	-	-	467
Other financial liabilities	2,782	330	-	-	3,112
Total financial liabilities	**127,833**	**330**	**461**	**14,500**	**143,124**
Unused limits on credit card loans (Note 34)	**54,498**	**-**	**-**	**-**	**54,498**

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 2017 and 2016.

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.

32 Financial Risk Management (Continued)

The liquidity management of the Group requires consideration of 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 2017 and 2016.

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, changes in the investment securities portfolio, 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. Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behavior is reviewed by the CFO.

The table below shows liabilities at 31 December 2017 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the consolidated statement of financial position amount is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

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

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities						
Due to banks	595	-	-	-	-	595
Customer accounts	110,655	19,400	21,635	27,445	3,250	182,385
Debt securities in issue	72	139	214	3,211	8,060	11,696
Subordinated debt	197	377	5,594	827	17,156	24,151
Other financial liabilities	8,043	-	-	-	-	8,043
Financial derivatives	19	104	3,433	185	10,075	13,816
Unused limits on credit card loans (Note 34)	78,602	-	-	-	-	78,602
Total potential future payments for financial obligations	**198,183**	**20,020**	**30,876**	**31,668**	**38,541**	**319,288**

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Notes to the Consolidated Financial Statements (Continued)

32 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2016 is as follows:

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

Financial derivatives receivable and payable are disclosed in the Note 36. The tables above present only the gross payables.

Customer accounts are classified in the above analysis 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 2017 is presented in the table below.

32 Financial Risk Management (Continued)

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Assets						
Cash and cash equivalents	23,041	809	-	-	-	23,850
Mandatory cash balances with the CBRF	978	63	80	204	350	1,675
Due from other banks	-	-	-	401	376	777
Loans and advances to customers	33,420	44,846	34,588	22,041	5,350	140,245
Financial derivatives	-	-	2,424	-	-	2,424
Investment securities available for sale	71,676	-	-	-	-	71,676
Repurchase receivables	798	-	-	-	-	798
Guarantee deposits with payment systems	872	1,170	903	575	140	3,660
Other financial assets	10,938	5	9	12	5	10,969
Total financial assets	**141,723**	**46,893**	**38,004**	**23,233**	**6,221**	**256,074**
Liabilities						
Due to banks	595	-	-	-	-	595
Customer accounts	104,562	6,705	8,597	21,780	37,401	179,045
Debt securities in issue	-	-	88	2,769	7,962	10,819
Financial derivatives	-	-	-	-	240	240
Subordinated debt	-	-	4,942	-	17,059	22,001
Insurance provisions	63	124	197	228	111	723
Other financial liabilities	8,043	-	-	-	-	8,043
Total financial liabilities	**113,263**	**6,829**	**13,824**	**24,777**	**62,773**	**221,466**
Net liquidity gap at 31 December 2017	28,460	40,064	24,180	(1,544)	(56,552)	34,608
Cumulative liquidity gap at 31 December 2017	**28,460**	**68,524**	**92,704**	**91,160**	**34,608**	**-**

Provision for unearned premiums in the amount of RR 1,117 milllion is not included in the insurance provisions stated above. Refer to Note 18.

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Notes to the Consolidated Financial Statements (Continued)

32 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 2016 is as follows:

In millions of RR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Total
Assets						
Cash and cash equivalents	16,086	111	-	-	-	16,197
Mandatory cash balances with the CBRF	561	88	78	123	368	1,218
Due from other banks	244	3	100	-	-	347
Loans and advances to customers	19,697	28,805	25,643	20,726	8,041	102,912
Financial derivatives	5	-	-	-	2,713	2,718
Investment securities available for sale	33,286	-	-	-	-	33,286
Guarantee deposits with payment systems	559	819	729	589	228	2,924
Other financial assets	7,343	-	-	-	-	7,343
Total financial assets	**77,781**	**29,826**	**26,550**	**21,438**	**11,350**	**166,945**
Liabilities						
Due to banks	489	-	-	-	-	489
Customer accounts	57,438	8,957	8,009	12,568	37,584	124,556
Debt securities in issue	-	-	-	-	2,986	2,986
Subordinated debt	-	-	113	-	11,401	11,514
Insurance provisions	64	126	128	107	42	467
Other financial liabilities	3,112	-	-	-	-	3,112
Total financial liabilities	**61,103**	**9,083**	**8,250**	**12,675**	**52,013**	**143,124**
Net liquidity gap at 31 December 2016	**16,678**	**20,743**	**18,300**	**8,763**	**(40,663)**	**23,821**
Cumulative liquidity gap at 31 December 2016	**16,678**	**37,421**	**55,721**	**64,484**	**23,821**	**-**

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

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.

32 Financial Risk Management (Continued)

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.

33 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 Insurance Company to comply with the capital requirements set by the the legislation of the Russian Federation, (iii) for the Group to comply with the financial covenants set by the terms of securities issued; (iv) to safeguard the Group's ability to continue as a going concern.

The Group considers total capital under management to be equity attributable to shareholders of the Company as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2017 was RR 41,743 million (2016: RR 29,518 million). Compliance with capital adequacy ratios set by the CBRF is monitored daily and submitted to the CBRF monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

The amount of regulatory capital of Tinkoff Bank calculated in accordance with the methodology set by CBRF as at 31 December 2017 was RR 59,640 million, and the equity capital adequacy ratio (N1.0) was 16.27% (2016: RR 27,639 million and 11.13%). Minimum required statutory equity capital adequacy ratio (N1.0) was 8% as at 31 December 2017 (2016: 8%).

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 2017 was RR 56,046 million (2016: RR 30,577 million), the amount of Tier 1 capital as at 31 December 2017 was RR 55,802 million (2016: RR 27,698 million). Total capital adequacy ratio and Tier 1 capital adequacy ratio were 21.10% and 21.00% respectively (2016: 16.34% and 14.81% respectively). The Group and the Bank have complied with all externally imposed capital requirements throughout 2017 and 2016.

The Insurance Company has complied with all capital requirements set by the legislation of the Russian Federation throughout 2017 and 2016.

34 Contingencies and Commitments

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

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

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Notes to the Consolidated Financial Statements (Continued)

34 Contingencies and Commitments (Continued)

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties), if such transactions are not on an arm's length.

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

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. The Company is a tax resident of Cyprus only and full beneficial owner of the Bank and Insurance Company. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate if the CFC is controlled by a legal entity and a rate of 13% if it is controlled by an individual. As a result, management reassessed the Group's tax positions and recognised current tax expense as well as deferred taxes that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes. Refer to Note 29.

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 2017 no material tax risks were identified (2016: same).

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

In millions of RR	2017	2016
Not later than 1 year	305	374
Total operating lease commitments	**305**	**374**

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 2017 and 31 December 2016.

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

34 Contingencies and Commitments (Continued)

Outstanding credit limits and related commitments are as follows:

In millions of RR	2017	2016
Unused limits on credit card loans	78,602	54,498

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 may decide to increase or decrease a credit card limit using a scoring model, which is based on the client's behavior model. Credit related commitments are denominated in RR. Therefore, the fair value of the contractual amount of revocable unused limits on contingencies and commitments is close to zero.

Mandatory cash balances with the CBRF of RR 1,675 million (2016: RR 1,218 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 3.

35 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 periods.

Sale and repurchase transactions. At 31 December 2017, the Group has available for sale securities represented by perpetual corporate bonds of RR 798 million (2016: none) 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 these 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 2017	
In millions of RR	Notes	Carrying amount of the assets	Carrying amount of the associated liabilities
Repurchase receivables	10,14	798	591
Total		**798**	**591**

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Notes to the Consolidated Financial Statements (Continued)

36 Financial Derivatives

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forwards and 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.

	2017		2016	
In millions of RR	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	5,871	7,720	6,049	35
- USD payable on settlement (-)	(25)	(1)	(118)	-
- RR payable on settlement (-)	(3,285)	(7,979)	(3,116)	(56)
- RR receivable on settlement (+)	1,063	1	406	-
- EUR receivable on settlement (+)	3	14	-	19
- EUR payable on settlement (-)	(1,203)	-	(503)	-
- GBP receivable on settlement (+)	-	5	-	2
Net fair value of foreign exchange forwards and swaps	**2,424**	**(240)**	**2,718**	**-**

Included in financial derivatives held by the Group as at 31 December 2017 is one outstanding swap contract with positive fair value of RR 1,217 million, which includes reference to the default of JSC VTB Bank, JSC Gazprom or the Russian Federation (31 December 2016: RR 1,365 million). There are also one outstanding swap contract with total positive fair value of RR 1,207 million and two outstanding swaps contracts with total negative fair value of RR 240 million which include reference to the default of the Bank (31 December 2016: one outstanding swap contract with positive fair value RR 1,348 million).

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

37 Fair Value of Financial Instruments

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

37 Fair Value of Financial Instruments (Continued)

(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 2017				31 December 2016			
In millions of RR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets AT FAIR VALUE								
Financial derivatives	-	2,424	-	2,424	-	2,718	-	2,718
Investment securities available for sale	71,676	-	-	71,676	33,286	-	-	33,286
Repurchase receivables	798	-	-	798	-	-	-	-
Total assets recurring fair value measurements	**72,474**	**2,424**	**-**	**74,898**	**33,286**	**2,718**	**-**	**36,004**
Liabilities AT FAIR VALUE								
Financial derivatives	-	240	-	240	-	-	-	-
Total liabilities recurring fair value measurements	**-**	**240**	**-**	**240**	**-**	**-**	**-**	**-**

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 31 December 2017 are as follows:

In millions of RR	Fair value	Valuation technique	Inputs used
Assets AT FAIR VALUE			
Foreign exchange swaps and forwards	2,424	Discounted cash flows adjusted for counterparty credit risk.	Russian rouble curve. USD Dollar Swaps Curve. CDS quotes assessment of counterparty credit risk or reference entities.
Total recurring fair value measurements at level 2	**2,424**		
Liabilities AT FAIR VALUE			
Foreign exchange swaps and forwards	240	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	**240**		

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Notes to the Consolidated Financial Statements (Continued)

37 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 2017 (2016: none). Level 2 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 2017				31 December 2016			
In millions of RR	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS CARRIED AT AMORTISED COST								
Cash and cash equivalents								
- Cash on hand	2,941	-	-	2,941	26	-	-	26
- Cash balances with the CBRF (other than mandatory reserve deposits)	-	11,201	-	11,201	-	6,178	-	6,178
- Placements with other banks with original maturities of less than three months	-	9,708	-	9,708	-	9,993	-	9,993
Mandatory cash balances with the CBRF	-	1,675	-	1,675	-	1,218	-	1,218
Due from other banks	-	777	-	777	-	347	-	347
Loans and advances to customers	-	-	140,245	140,245	-	-	102,912	102,912
Guarantee deposits with payment systems	-	-	3,660	3,660	-	-	2,924	2,924
Other financial assets								
Settlement of operations with plastic cards receivable	-	10,280	-	10,280	-	6,679	-	6,679
Trade and other receivables	-	235	-	235	-	350	-	350
Other financial assets	-	454	-	454	-	314	-	314
Total financial assets carried at amortised cost	**2,941**	**34,330**	**143,905**	**181,176**	**26**	**25,079**	**105,836**	**130,941**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST								
Due to banks	-	595	-	595	-	489	-	489
Customer accounts								
Individuals								
-Current/demand accounts	-	76,318	-	76,318	-	46,729	-	46,729

37 Fair Value of Financial Instruments (Continued)

	31 December 2017				31 December 2016			
In millions of RR	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
-Term deposits	-	79,694	-	77,377	-	74,904	-	72,018
SME								
-Current/demand accounts	-	23,705	-	23,705	-	4,890	-	4,890
Other legal entities								
-Current/demand accounts	-	533	-	533	-	551	-	551
-Term deposits		1,223	-	1,112		368	-	368
Debt securities in issue								
RR Bonds issued on domestic market	8,213	-	-	8,050	3,052	-	-	2,986
Euro-Commercial Paper	-	2,769	-	2,769	-	-	-	-
Subordinated debt								
Perpetual subordinated bonds	18,389	-	-	17,115	-	-	-	-
Subordinated bonds	5,115	-	-	4,886	13,695	-	-	11,514
Other financial liabilities								
Settlement of operations with plastic cards	-	5,271	-	5,271	-	2,031	-	2,031
Trade payables	-	2,538	-	2,538	-	1,052	-	1,052
Other financial liabilities	-	234	-	234	-	29	-	29
Total financial liabilities carried at amortised cost	31,717	192,880	-	220,503	16,747	131,043	-	142,657

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 (2016: OJSC Moscow Exchange MICEX-RTS and Irish Stock Exchange)

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Notes to the Consolidated Financial Statements (Continued)

37 Fair Value of Financial Instruments (Continued)

Weighted average discount rates used in determining fair value as of 31 December 2017 and 2016 depend on currency:

In % p.a.	2017	2016
Assets		
Cash and cash equivalents	0.0	0.0
Due from other banks	5.6	9.3
Loans and advances to customers	45.5	48.3
Investment securities available for sale	5.8	10.3
Repurchase receivables	10.9	-
Liabilities		
Due to banks	2.5	0.0
Customer accounts	5.3	7.7
Debt securities in issue	8.0	10.1
Subordinated debt	6.7	5.2

38 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 2017:

In millions of RR	Loans and receivables	Held for trading	Assets designated at FVTPL	Available-for-sale assets	Total
Cash and cash equivalents					
- Cash on hand	2,941	-	-	-	2,941
- Cash balances with the CBRF (other than mandatory reserve deposits)	11,201	-	-	-	11,201
- Placements with other banks with original maturities of less than three months	9,708	-	-	-	9,708
Mandatory cash balances with the CBRF	1,675	-	-	-	1,675
Due from other banks	777	-	-	-	777
Loans and advances to customers	140,245	-	-	-	140,245
Financial derivatives	-	2,424	-	-	2,424
Guarantee deposits with payment systems	3,660	-	-	-	3,660
Investment securities available for sale	-	-	-	71,676	71,676

38 Presentation of Financial Instruments by Measurement Category (Continued)

In millions of RR	Loans and receivables	Held for trading	Assets designated at FVTPL	Available-for-sale assets	Total
Repurchase receivables	-	-	-	798	798
Other financial assets					
- Settlement of operations with plastic cards receivable	10,280	-	-	-	10,280
- Trade and other receivables	235	-	-	-	235
- Other financial assets	288	-	166	-	454
TOTAL FINANCIAL ASSETS	**181,010**	**2,424**	**166**	**72,474**	**256,074**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2016:

In millions of RR	Loans and receivables	Held for trading	Assets designated at FVTPL	Available-for-sale assets	Total
Cash and cash equivalents					
- Cash on hand	26	-	-	-	26
- Cash balances with the CBRF (other than mandatory reserve deposits)	6,178	-	-	-	6,178
- Placements with other banks with original maturities of less than three months	9,993	-	-	-	9,993
Mandatory cash balances with the CBRF	1,218	-	-	-	1,218
Due from other banks	347	-	-	-	347
Loans and advances to customers	102,912	-	-	-	102,912
Financial derivatives	-	2,718	-	-	2,718
Guarantee deposits with payment systems	2,924	-	-	-	2,924
Investment securities available for sale	-	-	-	33,286	33,286
Repurchase receivables	-	-	-	-	-
Other financial assets					
- Settlement of operations with plastic cards receivable	6,679	-	-	-	6,679
- Trade and other receivables	350	-	-	-	350
- Other financial assets	150	-	164	-	314
TOTAL FINANCIAL ASSETS	**130,777**	**2,718**	**164**	**33,286**	**166,945**

As of 31 December 2017 and 2016 all of the Group's financial liabilities except derivatives were carried at amortised cost.

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Notes to the Consolidated Financial Statements (Continued)

39 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:

	2017		2016	
In millions of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
ASSETS				
Gross amounts of loans and advances to customers (contractual interest rate: 32.07% (2016: 24.7%))	21	-	20	-
Other financial assets	-	-	-	132
TOTAL ASSETS	**21**	**-**	**20**	**132**
LIABILITIES				
Customer accounts (contractual interest rate: 3.1% p.a. (2016: 8.01% p.a.))	1,387	1,145	938	459
Debt securities in issue (discount: 4%)	-	2,769	-	-
Other non-financial liabilities	705	-	367	-
TOTAL LIABILITIES	**2,092**	**3,914**	**1,305**	**459**
EQUITY				
Share-based payment reserve				
- Management long-term incentive programme	1,143	-	636	-
TOTAL EQUITY	**1,143**	**-**	**636**	**-**

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

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

	2017		2016	
In millions of RR	Key management personnel	Other related parties	Key management personnel	Other related parties
Interest income	4	-	3	33
Interest expense	(77)	(41)	(65)	(36)
Customer acquisition expense	-	-	-	(1,236)
Unrealised foreign exchange translation losses less gains	-	(13)	-	120

39 Related Party Transactions (Continued)

Customer acquisition expense represents a payment made under the sponsorship contract with the Tinkoff Cycling Team ("Team"). The Team was owned by the Group's ultimate controlling party. As at 31 December 2016 the sponsorship contract expired.

Key management compensation is presented below:

In millions of RR	2017	2016
Short-term benefits:		
- Salaries	555	467
- Short-term bonuses	1,147	652
Long-term benefits:		
- Management long-term incentive programme	922	735
- Equity long term incentive plan	-	41
Total	**2,624**	**1,895**

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

On 8 February 2017 the Group granted shares to new participants in MLTIP and also granted additional shares to certain existing participants which resulted in an increase in total shares granted under MLTIP to 5.27% of issued share capital of the Group. For the purpose of the financial statements the grant date for newly added rewards is considered to be 8 February 2017, implementation date is by 31 March 2017.

The total number of GDRs attributable to the Management according to MLTIP is 9,628 thousand as at 31 December 2017 (31 December 2016: 7,504 thousand).

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

The fair value as at recognition date of the equity-settled share-based payments (31 March 2016 and 8 February 2017) is determined on the basis of a market quote.

The delivery dates as of which the GDRs are allowed to be sold by the participants correspond to the vesting dates at 14 April 2016 and each subsequent 31 March until 2022 for participants joining in 2016 and 2023 for participants joining in 2017.

Employee share option plan. In May 2011 the Group introduced ESOP as a long-term incentive and retention tool for the key management of the Bank. On 1 June 2016 all conditions to the third and final vesting in ESOP were fully satisfied and ESOP has satisfied its delivery commitment. Accumulated share based payment reserve was then transferred to Retained earnings.

Equity long-term incentive plan. In January 2011 the Group also introduced a long-term incentive plan (Equity LTIP) for the management of the Bank not participating in ESOP. As at 14 April 2016 after first vesting date of MLTIP, Equity LTIP was cancelled and accelerated expenses have been accrued. Full amount of Share-based payment reserve accumulated was then transferred to Retained earnings.

In 2017 the total remuneration of Directors listed in the Management Report (included in key management personnel compensation above) amounted to RR 16 million (2016: RR 18 million).

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Notes to the Consolidated Financial Statements (Continued)

40 Business Combinations

On 11 October 2017 the Group acquired a 46% shareholding in LLC "CloudPayments", an innovative developer of online payment solutions. Shortly after the Group also invested directly in the share capital of this company bringing its investment to 55% of the share capital, and obtained control through its ability to cast a majority of votes in the general meeting of share-holders. The acquired subsidiary will enable the Group to enhance its merchant acquiring business. The Group paid RR 290 million to acquire its 55% shareholding. The Group has the right to acquire the remaining 45% within two years from the date of purchase.The consideration paid by the Group was based on results of the appraisal of the acquiree's business taken as a whole. In accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable tangible and intangible assets acquired, and liabilities and contingent liabilities assumed.

Details of a 100% share of the assets and liabilities acquired including goodwill arising on acquisition are as follows:

In millions of RR	**Note**	**Attributed fair value**
Cash and cash equivalents		99
Intangible assets	12	395
Net current liabilities		(6)

The acquired subsidiary contributed revenue of RR 32 million and profit of RR 4 million to the Group for the period from the date of acquisition to 31 December 2017. If the acquisition had occurred on 1 January 2017, Group revenue for 2017 would have been RR 96 million higher, and profit for 2017 would have been RR 12 million higher.

41 Events after the End of the Reporting Period

On 9 March 2018 the Board of Directors declared a regular interim dividend in line with the dividend policy of USD 0.31 per share/per GDR with a total amount allocated for dividend payment of around USD 56.6 million.

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TCS Group Holding PLC

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

Contents

Board of Directors and other officers

Board of Directors

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

All served throughout the year ended 2017 and through to the date of these separate 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 2018 on the basis of the composition of the Board at the relevant date.

Company Secretary Caelion Secretarial Limited

25 Spyrou Araouzou,
25 Berengaria, 5th floor,
3036, Limassol, Cyprus

Registered office

25 Spyrou Araouzou,
25 Berengaria, 5th floor,
3036, Limassol, Cyprus

Management Report

1. The Board of Directors presents its report together with the audited separate financial statements of TCS Group Holding PLC (the "Company") for the year ended 31 December 2017.

Principal activities and nature of operations of the Company

2. The principal activities of the Company are holding of investments in Russian Federation subsidiary companies and offering call centre services to customers and potential customers in Russian Federation subsequent to the launch of Cyprus based home call centre. The main subsidiaries are JSC "Tinkoff Bank" (the "Bank"), and JSC "Tinkoff Insurance" (the "Insurance company") (the Company and its subsidiaries collectively the "Group").

3. The Bank specialises in retail banking for individuals and small and medium-sized enterprises (SME) accounts and brokerage services. The Bank which is fully licensed by the CBRF 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.

4. During 2017 the Company acquired a shareholding in LLC "CloudPayments" ("CloudPayments"), an innovative developer of online payment solutions. Together with the Company's subsidiaries, CloudPayments will further develop its leading technology and servicing platforms. The acquisition will enable the Company and its subsidiaries to enhance its merchant acquiring business line as part of its growing SME offering.

5. During 2017 the Group established LLC "Tinkoff Mobile", a mobile virtual network operator ("MVNO"), to provide mobile services for both current Group's customers and others. The MVNO will have its own network code, number range and SIM cards which will be delivered across Russia via Group's courier network.

Review of developments, position and performance of the Company's business and its subsidiaries

6. In 2017 the Company initiated its own home call-centre on Cyprus and plans to develop this business activity in the future both in and outside the Russian Federation. The Company was registered as an employer in Cyprus with the 'Employers' Register of the Social Insurance Services' in Cyprus in 2017.

7. The Bank operates a flexible business model. Its virtual network enables it to increase business or slow down customer acquisition depending on the availability of funding and market conditions. The Bank's primary customer acquisition channels are Internet and Mobile, but it also uses Direct Sales Agents (DSA) and partnerships (co-brands) to acquire new customers. These customer acquisition models, combined with the Bank's virtual network, afford it a geographic reach across all of Russia's regions resulting in a highly diversified portfolio.

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

9. The loss of the Company for the year ended 31 December 2017 was RR 310 million (profit for the year ended 31 December 2016: RR 5,130 million). On 31 December 2017 the total assets of the Company were RR 209,667 million (2016: RR 118,083 million) and the net assets were RR 197,634 million (2016: RR 116,819 million). In 2017 the Company began investing in corporate bonds. The fair value of the bonds amounted to RR 65 million as at 31 December 2017 (2016: RR nil). Loans received grew to RR 7,833 million (2016: RR 772 million) in order to fund the Company's operations. On 20 December 2017 the Company issued USD denominated Euro-Commercial Paper (ECP) with a nominal value of USD 50 million with a discount of 4% maturing on 19 December 2018. During 2017 the Company distributed dividends in accordance with its dividend policy in amount of RR 8,279 million (2016: RR 4,506 million).

Environmental matters

10. As the Group and by extension the Company are primarily online financial institutions, the management of the Company believes none of Company's business relationships, products or services are likely to have any significant actual or potential significant environmental impacts and does not believe its operations are exposed to any material environmental risks. The management, in reaching this view, has taken into account the risk of adverse impacts that may stem from the Group's and Company's own activities as well as its business relationships including its supply and subcontracting chains. This belief is based on continuous scrutiny of the business.

Human resources

11. The Company and the Group whose the Company is the holding entity has a flat organizational culture. We practice delegation of decision making to the levels deep below the management team and we actively promote discussion and idea generation and exchange. We believe in creating an environment where highly talented people are empowered. Empowerment is an important ingredient in the success of our organization. It's also about the workplace environment – having an open leadership style where information can move freely – where ideas are constantly channeled up, down and sideways around the Company. We don't have 'a rule by committee' approach. We utilize all types of forums to promote continual dialogue – using email, various online chat rooms, flash meetings, as well as formalized meeting structures. Anyone can talk to anyone and transparency is promoted. The Company offers a clear far-reaching career path for its employees, unique work environment and fair and a transparent compensation.

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

13. Prior to its IPO in 2013, the Company set up share based long term incentive plans as retention and motivational tools for key and senior managers of the Company's subsidiaries. In March 2016, the Company announced a consolidated long-term management incentive and retention plan, covering around 50 key, senior and middle managers. In February 2017, the Company announced the expansion of the plan. The number of participants increased to over 80. Total size of the MLTIP pool amounts to 5.6% of the Company's current share capital. The plan is designed to align more closely managers' interests with those of shareholders to grow the Company's value. The plan is awarded over four years with each such annual award vesting linearly over the subsequent three years. The Company 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 Bank and other companies of the Group have hired a significant number of new managers to develop and manage new business lines.

Non-Financial Information and Diversity Statement

14. The Company will be publishing its first Non-Financial Information and Diversity Statement of the Group including the Company on the Group's website, www.tinkoff.ru/eng within six months after the balance sheet date.

Principal risks and uncertainties

15. The Company conducts its activities in Russia through its subsidiaries; the Company's business and financial results are impacted by the increased uncertainties and volatility of the Russian economic environment that have been evident throughout recent years but more stable in 2016-2017.

16. The Company's subsidiaries and the Company on its own are subject to a number of principal risks which might adversely impact its performance. The principal activities of the Company through its subsidiaries are banking and insurance operations and so it is within this area that the principal risks occur. Management considers that those principal risks are: financial risks, operational risks and legal risks. Financial risk comprises market risks (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

17. The Board has adopted a formal process to identify, evaluate and manage principal risks and uncertainties faced by the Company. The Company has established risk management programmed that focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. This is overseen by a dedicated Risk Management function, which works directly with the Board of Directors in this area. 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 minimize operational and legal risks of the Group and the Company. Risk management strategy is established so as to identify, assess, monitor and manage the risks arising from Company's and subsidiaries' activities. These risks as well as other risks and uncertainties, which affect the Company and how these are managed, are presented in Note 21 of the separate financial statements.

Management Report (Continued)

Future developments

18. Strategic objective for the Group and by extension to the Company 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. While maintaining high growth rates, profitability and effective data-driven risk management.

19. On 31 January 2018 the Agency for Housing Mortgage Lending ("AHML") and Tinkoff Bank have signed an agreement to set up a joint venture to offer mortgage lending on a special electronic platform. The platform was designed to enable online acquisition of mortgage customers using Tinkoff Bank's technology platform. It will support automated mortgage approvals based on AHML standards, execute loan documentation and issue mortgage loans, enable online registration of property transactions with the Federal Service for State Registration, Cadastre and Cartography, and can be integrated with the systems of other Russian mortgage lenders.

Results

20. The Company's results for the year are set out on page F-106 of the separate financial statements. Information on distribution of profits is presented in Note 19 of the separate financial statements.

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

21. Important events for the Company that have occurred after the end of the financial year are presented in Note 28 of the separate financial statements.

Share capital

22. There were no changes in issued share capital in 2017, except for on 22 November 2017 5,745,145 class B shares were converted to class A shares.

Treasury shares

23. At 31 December 2017 the Company held 6,290,179 (2016: 7,039,437) of its own GDRs that is equivalent of approximately RR 1,587 million (2016: RR 1,473 million) representing 3.4% (2016: 3.9%) of the issued share capital.

24. Treasury shares are GDRs of TCS Group Holding Plc that are held by the EBT, special purpose trust which has been specifically created for the long-term incentive programme for Management of the Company's subsidiaries (MLTIP) (see Note 27 for further information).

25. In 2017 the Company repurchased 602,148 GDRs (2016: 5,659,853 GDRs) at market price for RR 397 million (2016: RR 1,246 million) representing 0.3% (2016: 3.1%) of the issued share capital for the purpose of the MLTIP.

26. During 2017 the Company transferred 1,351,406 GDRs (2016: 3,626,664 GDRs) out of treasury shares upon vesting under the MLTIP (2016: MLTIP and employee share option plan) to revaluation reserve that is equivalent of RR 283 million (2016: RR 101 million) representing 0.7% (2016: 2.0%) of the issued share capital.

Board of Directors

27. The members of the Board of Directors as of 31 December 2017 and at the date of this report are presented above.

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

Branches

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

Independent auditor

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

Corporate Governance Statement

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 JPMorgan Chase Bank N.A. as depositary representing one class A share, are listed on the London Stock Exchange (LSE) 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 or the GDRs are not listed on the Cyprus Stock Exchange, the Cypriot corporate governance regime is not applicable for the Company and accordingly the Company does not monitor its compliance with that regime. The rights of shareholders include the right to vote on the appointment and removal of Directors and to amend the Articles of Association.

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

The Board of Directors

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

The authorities of the members of the Board are specified by the Articles of Association of the Company and by law. The current six strong Board of directors is comprised of three executive directors including the chairman, and three non-executive directors two of whom are independent. There was no change in the composition of the Board in 2017. The board of directors currently contains no Directors B.

The longest serving director Mr Constantinos Economides who became a director in 2008, and later took over the role of Chairman of the Board of directors in June 2015. The names of the people who served on the Board during 2017 are listed in the Introduction Note. The Company has established two Committees of the Board. Specific responsibilities have been delegated to those committees as described below.

The Board is required to undertake a formal and rigorous review annually of its own performance, that of its committees and of its individual directors. That review was carried out, in-house, in relation to 2017, looking at overall performance but focused mainly on late 2016 and 2017. All directors completed detailed questionnaires on the Board's performance. Analysis of the resultant feedback, which was discussed at a meeting of the Board of Directors in early 2018 did not show up any deficiencies in the performance of the Board, its committees or individual directors of a nature that required changes to be made.

Committees of the Board of directors

The Company has established two Committees of the Board of directors: the Audit Committee and the Remuneration Committee and their terms of reference are 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 and considers the appropriateness of additional committees.

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.

Management Report (Continued)

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 Company prepared under IFRS and any formal announcements relating to the Company'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 Company and monitors and assesses the effectiveness of the Company's internal financial controls, risk management systems internal audit function, the independence and qualifications of the independent auditor and the effectiveness of the external audit process. The Audit Committee is required to meet at appropriate times in the reporting and audit cycle but in practice meets more often as required.

Under its terms of reference the Audit Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Audit Committee met this obligation in two main ways, through members participating in the main Board review described above in the second half of 2016 and by arranging a complementary committee review on a rolling basis driven by the audit cycle March to March. After consideration of the Audit Committee's own review, no further changes to those adopted in the preceding year were proposed to the committee's terms of reference. During the second half of 2016 the Audit Committee determined to set a more structured framework around the extensive work it had been doing between its quarterly meetings to review the financial statements by adding at least two additional meetings to its annual schedule, at least one of which would be held at the Bank's head office in Moscow, to consider specific non-financial statement related areas within its terms of reference such as risk management issues including internal audit procedures, and the financial and reputational dimensions of cyber security measures put in place by the Company. Two such meetings were held in 2017 with a further two at least in 2018 planned.

The Audit Committee has developed a risk matrix which constantly evolves to reflect new risks, the perceived impact of, and the Company's appetite for, any given risk and the measures taken to mitigate those risks. This matrix is run in conjunction with the internal audit function.

In 2017 the Company's subsidiaries reorganised its internal audit function, to clarify the demarcation between its internal audit and internal control (CBRF compliance and regulatory) functions while materially increasing the resources overall within the internal audit team.

In addition a new post of chief information security officer was created in 2017 and filled, with additional personnel expert in cyber-security recruited to support the Company's ever-increasing efforts to stay ahead of trends and threats in this sphere.

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 Company's remuneration policies. The objective is to ensure that the executive management of the Company 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 Company. The Remuneration Committee's Terms of Reference include reviewing the design and determining targets for any performance related pay schemes and reviewing the design of all share incentive plans for approval by the Board. The Remuneration Committee is required to meet at least twice a year but in practice meets far more often.

The Remuneration Committee continued work into 2017 on its ongoing review of the operation of the Company's equity based incentive and retention plan for key, senior and middle management (MLTIP) which launched and in considering additional awards to both existing and new participants for this and subsequent years.

Under its terms of reference the Remuneration Committee is required at least once a year to review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary for Board approval. The Remuneration Committee met this obligation through members participating in the main Board review (described above) under which detailed questionnaires were completed by all directors assessing the operation of the Board and both committees. Although earlier reviews had resulted in certain minor changes to the Remuneration Committee's terms of reference to clarify certain procedural matters and to align them more closely with how the committee operated in practice, no further changes were felt required in 2017 and 2018.

Significant direct/indirect holdings

For the significant direct and indirect shareholdings held in the share capital of the Company, please refer to Note 1 of the separate financial statements.

Shareholders' Agreement: additional rights of Minority Shareholders

In October 2013 Tasos Invest & Finance Inc., Tadek Holding & Finance SA, Maitland Commercial Inc, Norman Legal S.A. and Vizer Limited (the Majority Shareholders, controlled by Mr Oleg Tinkov) and the pre IPO investors ELQ Investors II Ltd, Vostok Komi (Cyprus) Limited, Rousse Nominees Limited and Lorimer Ventures Limited (together the Minority Shareholders) entered into a shareholders' agreement (the Shareholders' Agreement) to govern aspects of their relationship after the IPO. The Shareholders' Agreement provided that the Minority Shareholders were entitled to nominate one director to the Board of directors of the Company. The Shareholders' Agreement also contained provisions that required the Majority Shareholders to vote against certain matters unless a majority of the Minority Shareholders approve of such matters. These rights of the Minority Shareholders continue so long as they hold at least 10% of the issued share capital of the Company. The Shareholders' Agreement was automatically terminated when the minority shareholders' aggregate holdings fell below 10%.

Internal control and risk management systems in relation to the financial reporting process

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

Financial reporting process

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

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

Internal Controls and Risk Management

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

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

Diversity policy

The Company is committed to offering equal opportunity to all current and prospective employees, such that no applicant or employee is discriminated in favour of or against on the grounds of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation in recruitment, training, promotion or any other aspect of employment. Recruitment, training and promotion are exclusively based on merit. All the Company's and the Group's employees involved in the recruitment and management of staff are responsible for ensuring the policy is fairly applied within their areas of responsibility. The Company applies this approach throughout, at all levels. This includes its administrative, management and supervisory bodies, including the Board of Directors of the Company.

Management Report (Continued)

The composition and diversity information of the Board of Directors of the Company for the year ended and as at 31 December 2017 is set out below:

Name	Age	Male/Female	Educational/professional background
Constantinos Economides	42	Male	FCA, MSc Management Sciences, experienced in Big 4
Alexios Ioannides	41	Male	FCA, BsC Business Administration, experienced in Big 4
Mary Trimithiotou	39	Female	FCA, Licensed Insolvency practitioner
Philippe Delpal	44	Male	BSc in IT, banking executive experience in banking
Jacques Der Megreditchian	58	Male	Business Administration, stock exchange and finance experience
Martin Robert Cocker	58	Male	BSc in Maths and Economics, ACA, experience in Big 4

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

By Order of the Board

Constantinos Economides

Chairman of the Board
Limassol

21 March 2018

pwc

Independent Auditor's Report

To the Members of TCS Group Holding PLC

Report on the Audit of the Separate Financial Statements

Our opinion

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of parent company TCS Group Holding PLC, (the "Company") as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the separate financial statements which are presented in pages 1 to 37 and comprise:

- the separate statement of financial position as at 31 December 2017;
- the separate statement of profit or loss and other comprehensive income for the year then ended;
- the separate statement of changes in equity for the year then ended;
- the separate statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the separate financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

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

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

Independence

We remained independent of the Company throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the separate financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

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

Materiality	• Overall materiality: RR 987 million, which approximately represents 0.5% of total equity
Key audit matters	We have identified the following key audit matters: • Valuation of investments in subsidiaries.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

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

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

Overall materiality	RR 987 million
How we determined it	Approximately 0.5% of total equity
Rationale for the materiality benchmark applied	The Company elects to measure its investments in subsidiaries at fair value. Therefore, we chose total equity as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users. We chose 0.5%, which in our experience is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RR 99 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investments in subsidiaries	
We focused on this area because management makes judgements over the fair value of investments in subsidiaries. The estimated fair value of investments in subsidiaries recognises that the majority of the value of TCS Group Holding PLC resides in its main operating subsidiaries JSC "Tinkoff Bank" and JSC "Tinkoff Insurance". Thus in estimating the fair value of the subsidiaries the primary input is the market quote of the Company's GDRs which are traded on the London Stock Exchange. Other inputs include the estimated fair value of the assets and liabilities held by the Company other than its investment in the subsidiaries. Note 3, Significant Accounting Policies, Note 4, Critical Accounting Estimates and Judgements in Applying Accounting Policies, Note 9, Investment Securities Available for Sale, and Note 25, Fair Value of Financial Instruments, included in the separate financial statements provide detailed information on the valuation of investments in subsidiaries.	We assessed the reasonableness of the approach followed by management in estimating the fair value of the investments in subsidiaries. We tested the accuracy of the inputs used in the valuation, with the main input being the market quote of the GDRs of the Company. We also assessed the sensitivity of the valuation to the key inputs used. We determined that the estimated valuation is reasonable.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report, including the Corporate Governance Statement, which we obtained prior to the date of this auditor's report, and the Company's complete Annual Report and Non-Financial Information and Diversity Statement, which are expected to be made available to us after that date. Other information does not include the separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Board of Directors and those charged with governance for the Separate Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Company in 2008 by the members of the Company for the audit of the separate financial statements for the year ended 31 December 2007. Our appointment has been renewed annually, since then, by shareholder resolution. In December 2008 the Company listed Euro denominated bonds on the Swedish Stock Exchange (NASDAQ OMX Stockholm) and accordingly the first financial year after the Company qualified as an EU PIE was the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 9 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the separate financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 21 March 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Company and which have not been disclosed in the separate financial statements or the management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the separate financial statements.
- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the separate financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017.

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

Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors
City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus

21 March 2018

Separate Statement of Financial Position

In millions of RR	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	385	168
Loans and deposit placement with related parties	8	581	713
Financial derivatives	24	4	-
Investment securities available for sale	9	207,899	117,202
Repurchase receivables	10	798	-
TOTAL ASSETS		**209,667**	**118,083**
LIABILITIES			
Loans received	11	7,833	772
Debt securities in issue	12	2,769	-
Current income tax liability		1	-
Deferred income tax liability		565	-
Other financial liabilities	13	395	233
Other non-financial liabilities	13	470	259
TOTAL LIABILITIES		**12,033**	**1,264**
EQUITY			
Share capital	14	188	188
Share premium	14	8,623	8,623
Treasury shares	14	(1,587)	(1,473)
Share-based payment reserve	27	1,286	704
Accumulated losses		(8,593)	(4)
Revaluation reserve		197,717	108,781
TOTAL EQUITY		**197,634**	**116,819**
TOTAL LIABILITIES AND EQUITY		**209,667**	**118,083**

Approved for issue and signed on behalf of the Board of Directors on 21 March 2018.

Constantinos Economides

Director

Mary Trimithiotou

Director

The notes set out on pages F-109 to F-142 form an integral part of these separate financial statements.

Separate Statement of Profit or Loss and Other Comprehensive Income

In millions of RR	Note	2017	2016
Interest income	15	141	202
Interest expense	15	(277)	(263)
Net interest expense		**(136)**	**(61)**
(Provision for)/release of loan impairment	8	(52)	116
Net interest (expense)/income after provision for loan impairment		**(188)**	**55**
Dividend income		-	5,668
Net gains from operations with foreign currencies	16	106	130
Administrative and other operating expenses	17	(500)	(438)
Gain on initial recognition of liabilities at rates below market		275	52
(Loss)/Profit before tax		**(307)**	**5,467**
Income tax expense	18	(3)	(337)
(Loss)/Profit for the year		**(310)**	**5,130**
Other comprehensive income/(loss): *Items that may be reclassified to profit or loss*			
Net gains from investment securities available for sale		89,329	75,953
Income tax (charge)/ recovery recorded directly in other comprehensive income		(565)	100
Other comprehensive income for the year		**88,764**	**76,053**
Total comprehensive income for the year		**88,454**	**81,183**

The notes set out on pages F-109 to F-142 form an integral part of these separate financial statements.

Separate Statement of Changes in Equity

In millions of RR	Note	Share capital	Share premium	Revaluation reserve	Share-based pay-ment	Accumulated losses	Treasu-ry shares	Total
Balance at 1 January 2016		**188**	**8,623**	**32,060**	**614**	**(628)**	**(324)**	**40,533**
Profit for the year		-	-	-	-	5,130	-	5,130
Other comprehensive income:								
Income tax charge recorded directly in other comprehensive income		-	-	100	-	-	-	100
Revaluation of Investment securities available for sale		-	-	75,953	-	-	-	75,953
Total comprehensive income for 2016		**-**	**-**	**76,053**	**-**	**5,130**	**-**	**81,183**
GDRs buy-back	14	-	-	-	-	-	(1,246)	(1,246)
Share-based payment reserve	27	-	-	668	90	-	97	855
Dividends	19	-	-	-	-	(4,506)	-	(4,506)
Total transactions with owners		**-**	**-**	**668**	**90**	**(4,506)**	**(1,149)**	**(4,897)**
Balance at 31 December 2016		**188**	**8,623**	**108,781**	**704**	**(4)**	**(1,473)**	**116,819**
Loss for the year		-	-	-	-	(310)	-	(310)
Other comprehensive income:								
Revaluation of Investment securities available for sale and Repurchase receivables	9	-	-	89,329	-	-	-	89,329
Income tax charge recorded directly in other comprehensive income		-	-	(565)	-	-	-	(565)
Total comprehensive income/(loss) for 2017		**-**	**-**	**88,764**	**-**	**(310)**	**-**	**88,454**
GDRs buy-back	14	-	-	-	-	-	(397)	(397)
Share-based payment reserve	27	-	-	172	582	-	283	1,037
Dividends	19	-	-	-	-	(8,279)	-	(8,279)
Total transactions with owners		**-**	**-**	**172**	**582**	**(8,279)**	**(114)**	**(7,639)**
Balance at 31 December 2017		**188**	**8,623**	**197,717**	**1,286**	**(8,593)**	**(1,587)**	**197,634**

The notes set out on pages F-109 to F-142 form an integral part of these separate financial statements.

Separate Statement of Cash Flows

In millions of RR	Note	2017	2016
Cash flows from operating activities			
Interest received		116	209
Interest paid		(225)	(240)
Administrative and other operating expenses paid		(337)	(132)
Income tax paid		(2)	(58)
Cash flows used in operating activities before changes in operating assets and liabilities		**(448)**	**(221)**
Changes in operating assets and liabilities			
Net decrease in loans and deposit placement with related parties		102	1,670
Net decrease in other non-financial liabilities		(29)	-
Net cash (used in)/from operating activities		**(375)**	**2,081**
Cash flows from investing activities			
Acquisition of investments available for sale	9	(11,641)	-
Proceeds from sale and redemption of investments available for sale	9	10,800	-
Acquisition of shareholding in subsidiaries	9	(290)	-
Dividends received net of withholding taxes		-	5,385
Net cash (used in)/from investing activities		**(1,131)**	**5,385**
Cash flows from financing activities			
GDR buy back	14	(397)	(1,246)
Repayment of debt securities in issue	12	-	(1,857)
Proceeds from debt securities in issue	12	2,819	-
Loans received	20	7,301	632
Dividends paid	19	(7,970)	(4,227)
Net cash from/(used in) financing activities		**1,753**	**(7,330)**
Effect of exchange rate changes on cash and cash equivalents		(30)	28
Net increase in cash and cash equivalents		**217**	**164**
Cash and cash equivalents at the beginning of the year	7	**168**	**4**
Cash and cash equivalents at the end of the year	7	**385**	**168**

The notes set out on pages F-109 to F-142 form an integral part of these separate financial statements.

31 DECEMBER 2017

Notes to the Separate Financial Statements

1 Introduction

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2017 for TCS Group Holding PLC (the "Company"), and in accordance with the requirements of the Cyprus Companies Law, Cap.113. The Company has also prepared and issued consolidated financial statements for the year ended 31 December 2017.

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 separate financial statements consists of: Constantinos Economides, Alexios Ioannides, Mary Trimithiotou, Philippe Delpal, Jacques Der Megreditchian and Martin Cocker.

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

At 31 December 2017 and 2016 the share capital of the Company 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 2017 the number of "class A" shares is 96,239,291 and "class B" shares is 86,399,534 (2016: "class A" shares is 90,494,146 and "class B" shares is 92,144,679).

As at 31 December 2017 and 2016 the entities holding either Class A or Class B shares of the Company were:

	Class of shares	31 December 2017	31 December 2016	Country of Incorporation
	Class B	47.31%	50.45%	
Tadek Holding & Finance S.A.	Class A	0.00%	-	British Virgin Islands
Guaranty Nominees Limited (JP Morgan Chase Bank NA)	Class A	50.06%	41.45%	United Kingdom
Rousse Nominees Limited	Class A	0.99%	2.88%	Guernsey
Vostok Emerging Finance Ltd	Class A	1.64%	3.49%	Bermuda
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
Altruco Trustees Limited	Class A	-	1.73%	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 share-based payment plan (ESOP) only.

As at 31 December 2017 and 2016 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. On 24 January 2018 Tadek Holding & Finance SA has transferred its entire holding of B class shares (86,399,458 B class shares) to Altoville Holdings Limited, another legal entity 100% beneficially owned by Mr Tinkov. As at 31 December 2017 and 2016 the ultimate controlling party of the Company is Mr. Oleg Tinkov. Mr. Oleg Tinkov controls 89.98% of the aggregated voting rights attaching to the Class A and B shares as at 31 December 2017 (31 December 2016: 91.1%).

1 Introduction (Continued)

The Company owns 100% of the shares and has 100% of the voting rights of its subsidiary JSC "Tinkoff Bank" ("the Bank") at 31 December 2017 and 2016.

The Company owns 80.08% of shares of JSC "Tinkoff Insurance" ("the Insurance Company") at 31 December 2017 and 2016.

The Company owns 100% of shares of LLC "Microfinance company "T-Finans" at 31 December 2017 and 2016.

The Company owns 99% of shares of Goward Group Limited at 31 December 2017 and 2016.

The Company owns 100% of shares of LLC TCS via subsidiary Goward Group Limited at 31 December 2017 and 2016.

The Company owns 51% of shares of LLC "Phoenix" and 100% of shares of Tinkoff Software DC via the Bank at 31 December 2017 and 2016.

The Company owns 99% of shares of LLC "Tinkoff Mobile" via the Bank at 31 December 2017.

In October 2017 the Company acquired shareholding in LLC "CloudPayments". At 31 December 2017 the Company owns 55% of shares of LLC "CloudPayments".

Principal activity. The Company's principal business activities are holding investments in Russian subsidiary companies and from launch in December 2017 offering Cyprus based home call center services to customers and potential customers outside of Russia. 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 1.4 million per individual in case of the withdrawal of a licence of a bank or a CBRF-imposed moratorium on payments.

The subsidiary JSC "Tinkoff Insurance" provides insurance services.

The subsidiary LLC "Microfinance company "T-Finans" provides micro-finance services to clients.

The subsidiary LLC "TCS" provides printing and distribution services to the Bank.

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

The subsidiary LLC "Tinkoff Mobile" is a mobile virtual network operator set up in 2017 to provide mobile services.

The subsidiary LLC "CloudPayments" is a developer of online payment solutions which core business is online merchant acquiring in Russia.

The subsidiary LLC "Phoenix" is a debt collection agency.

The subsidiary Tinkoff Software DC provides software development services to the Group.

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

Registered address and place of business. The Company's registered address is 25 Spyrou Araouzou, 25 Berengaria, 5th floor, Limassol, Cyprus.

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

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Notes to the Separate Financial Statements (Continued)

2 Operating Environment of the Company

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 22). The Russian economy was growing in 2017 after the economic recession of 2015, 2016 and the significant correction in the value of Russian Rouble against other major currencies at the end of 2014. The economy is also impacted by relatively ongoing political tension in the region and international sanctions against various major Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to maximize the stability 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.

3 Significant Accounting Policies

Basis of preparation. These separate 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.

As of the date of the authorisation of the separate financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2017 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting and IFRS14, "Regulatory Deferral Accounts first time adopters".

The Company has prepared these separate financial statements for compliance with the requirements of the Cyprus Income Tax Law. The Company has also prepared consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law Cap. 113 for the Company and its subsidiaries ("the Group").

The consolidated financial statements can be obtained from 25 Spyrou Araouzou, 25 Berengaria, 5th floor, Limassol, Cyprus and the website of the Company www.tinkoff.ru.

The separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments in subsidiaries carried at fair value. The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

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.

3 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 (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

This is applicable for assets carried at fair value on a recurring basis if the Company: (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 25.

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 separate 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.

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Notes to the Separate Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

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 Company 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 Company uses discounted cash flow valuation techniques to determine the fair value of currency swaps and forward contracts that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. Any such differences are initially recognised within other financial assets or other financial liabilities and are subsequently amortised on a straight line basis over the term of the currency swaps. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or 2 inputs.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company 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 Company evaluates the quality of cash and cash equivalents in the separate 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.

Loans and deposit placement with related parties. Loans and deposit placement with related parties are recorded when the Company advances money to purchase or originate an unquoted non-derivative receivable from related party due on fixed or determinable dates and has no intention of trading the receivable. Loans and deposit placement with related parties 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 Company 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 Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

3 Significant Accounting Policies (Continued)

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

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

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised 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 Company sells impaired loans to third parties. Gains or losses on disposal of impaired loans are recognised in the Statement of Profit or Loss 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.

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 Company does not apply hedge accounting.

Investment securities available for sale. This classification includes investment securities which the Company 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 Company'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.

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Notes to the Separate Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

The Company evaluates the quality of debt investment securities available for sale in the separate 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.

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 separate 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 loans received.

Securities lent to counterparties for a fixed fee are retained in the separate financial statements in their original category in the separate 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.

The Company evaluates the quality of repo agreements in the separate 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.

Investment in subsidiaries. Investments in subsidiaries are carried in accordance with IAS 39 as assets available for sale and are carried at fair value. Dividends on these equity instruments are recognised in profit or loss for the year when the Company'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. 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.

Debt securities in issue. Debt securities are stated at amortised cost. If the Company purchases its own debt securities in issue, they are removed from the separate statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in interest expense.

Loans received. Loans received are non-derivative financial liabilities to corporate entities and are carried at amortised cost.

Other liabilities. Other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Income taxes. Income taxes have been provided for in the separate financial statements in accordance with Cyprus legislation enacted or substantively enacted as of the end of reporting period. The income tax (charge)/credit 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. Taxes other than on income are recorded within administrative and other operating expenses.

3 Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the 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 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 Company controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future. Provision for deferred tax on the undistributed profits of the Company's subsidiaries is made when the dividend payment is probable to be made out of economic resources of the subsidiaries at the balance sheet date and is recognised in other comprehensive income. Withholding taxes incurred on actual dividend distributions by subsidiaries are recognised in profit or loss once the right of dividend income is established.

Uncertain tax positions. The Company'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 Company 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.

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.

Treasury shares. Where the Company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Company until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity. The value of GDRs transferred out of treasury shares for the purposes of the long-term incentive programme for management of the Group are determined based on the weighted average cost. The Company's equity instruments acquired by employee share trust entity are treated as a treasury shares when the Company retains the majority of the risks and rewards relating to the funding arrangement for the trust entity.

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. 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.

Share-based payments. The Company grants equity settled share based payments to employees of its subsidiary. No share-based payment charge is recognised as no employees are providing services to the Company. The Company records a debit to the investment in the subsidiaries as a capital contribution from the parent to the subsidiary and a credit to share-based payment reserve within equity. When the rewards granted under share-based payment programs vest the Company reclassifies accumulated share based payment reserve to revaluation reserve.

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 separate financial statements are authorised for issue, are disclosed in the subsequent events note. The separate financial statements of the Company prepared in accordance with IFRS as adopted by the EU and in accordance with Cyprus Companies Law are the basis of available reserves for distribution. Management considers the Revaluation Reserve to be a distributable reserve.

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Notes to the Separate Financial Statements (Continued)

3 Significant Accounting Policies (Continued)

Income and expense recognition. Interest income and expense are recorded in the separate statement of profit or loss and other comprehensive income for all debt instruments on an accrual 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, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Company to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Company will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

All other fees, commissions and other income and expense items are generally recorded on an accrual 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.

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.

Gain on initial recognition of liabilities at rates below market. Gain on initial recognition of liabilities at rates below market represents the difference between transaction price of instrument received from subsidiary Bank at non market terms and its fair value that is determined as present value of estimated future cash flows discounted at rates which are observable.

Foreign currency translation. The functional currency of the Company is the national currency of the Russian Federation, Russian Rouble ("RR"), as, based on the principles of the International Accounting Standards IAS 21 "The Effects of Changes in Foreign Exchange Rates", this currency reflects the economic substance of the underlying events and circumstances of the Company. The Russian Ruble is also the presentation currency of the Company.

At 31 December 2017 the rate of exchange used for translating foreign currency balances was USD 1 = RR 57.6002 (2016: USD 1 = RR 60.6569), and the average rate of exchange was USD 1 = RR 58.3529 (2016: USD 1 = RR 67.0508).

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the separate 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.

Financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees 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 guarantee. At the end of each reporting period, the guarantees 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 guarantee at the end of each reporting period.

Amendments of the separate financial statements after issue. Any further changes to these separate financial statements require approval of the Company's Board of Directors who authorised these separate financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Company makes estimates and assumptions that affect the amounts recognised in the separate 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 separate financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Investments in subsidiaries. The estimated fair value of investments in subsidiaries recognises that the majority of the value of TCS Group Holding PLC resides in its main operating subsidiaries namely the Bank and the Insurance company. Thus in estimating the fair value of the subsidiaries the primary input is the market quote of the Company's GDRs which are traded on the London Stock Exchange. Other inputs include the estimated fair value of the assets and liabilities held by the Company other than its investment in the subsidiaries. Refer to Note 25.

Initial recognition of related party transactions. In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

Determination of functional currency. The Company follows the guidance of IAS 21 "The Effects and Changes in Foreign Exchange Rates" for the determination of the functional currency of the Company. The Company's functional currency is RR.

Tax legislation. Cypriot and Russian tax, currency and customs legislation are subject to varying interpretations. Refer to Note 22.

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

The following amended standards became effective for the Company from 1 January 2017, but did not have any material impact on the Company:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

In accordance with the amendments to IAS 7 which became effective for the Company from 1 January 2017 the new disclosures are presented in Note 20.

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Notes to the Separate Financial Statements (Continued)

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 2018 or later, and which the Company has not early adopted.

IFRS 9 "Financial Instruments" (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the Management of the Company does not expect significant impact from implementation of this standard on equity of the Company.

The analysis of the contractual cash flow characteristics is expected to result in acquired perpetual bonds previously classified as investment securities available for sale (including those which were sold under sale and repurchase agreements) being reclassified as FVTPL. There will be no impact on carrying value of these bonds as at 1 January 2018 from this reclassification. The Company used the option to classify investments in subsidiaries as FVOCI under IFRS 9.The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*. The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument.

6 New Accounting Pronouncements (Continued)

In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company is currently assessing the impact of the amendments on its financial statements and the impact is not yet known.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate.

Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company is currently assessing the impact of the new standard on its financial statements and the impact is not yet known.

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

- IFRS 14, Regulatory Deferral Accounts first time adopters (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016)*.
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).
- IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB) *.
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018) *.
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018) *.
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

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Notes to the Separate Financial Statements (Continued)

6 New Accounting Pronouncements (Continued)

- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*.
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018) *.
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)*.
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019)*.

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

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

7 Cash and Cash Equivalents

In millions of RR	2017	2016
Placements with other banks with original maturities of less than three months		
- placements with UK Bank (A rated)	377	167
- placements with subsidiary Bank (B+ rated)	6	-
- placements with European bank (B rated)	2	-
- placements with Russian banks (B rated)	-	1
Total cash and cash equivalents	**385**	**168**

Cash and cash equivalents are not impaired and not past due. Refer to Note 25 for the disclosure of the fair value of cash and cash equivalents.

Interest rate, maturity and geographical risk concentration analysis of cash and cash equivalents is disclosed in Note 21. Information on related party balances is disclosed in Note 27.

8 Loans and Deposit Placement with Related Parties

In millions of RR	*2017*	*2016*
Subordinated loans to subsidiary Bank (B+ rated)	450	452
Deposit placements with subsidiary Bank (B+ rated)	131	9
Loans to subsidiary	72	272
Total loans and deposit placement with related parties before impairment	**653**	**733**
Less: Provision for loan impairment	(72)	(20)
Total loans and deposit placement with related parties	**581**	**713**

On 29 May 2012 the Company issued RR denominated subordinated loan with a nominal value of RR 450 million at 14.4% per annum maturing on 29 May 2022.

8 Loans and Deposit Placement with Related Parties (Continued)

At 31 December 2017 the deposit placements with subsidiary Bank with a nominal value of RR 131 million at 13% per annum maturing on 14 September 2019.

As at 31 December 2017 loans to subsidiary had a contractual maturity on 27 May 2018 and nominal interest rate of 0.1% p.a.

Movements in the provision for loan impairment for the year ended 31 December 2017 are as follows:

In millions of RR	As at 31 December 2016	Provision for impairment during the period	As at 31 December 2017
Loans to subsidiary	20	52	72
Total provision for loan impairment	**20**	**52**	**72**

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

In millions of RR	As at 31 December 2015	Recovery of impairment during the period	As at 31 December 2016
Loans to subsidiary	136	(116)	20
Total provision for loan impairment	**136**	**(116)**	**20**

Refer to Note 25 for the estimated fair value of each class of loans and deposit placement with related party. Interest rate analysis of loans and deposit placements with related party is disclosed in Note 21. The information on related party balances is disclosed in Note 27.

9 Investment Securities Available for Sale

In millions of RR	2017	2016
Corporate bonds (B- to B+ rated)	12	-
Perpetual corporate bonds (B- to B+ rated)	53	-
Total debt securities	**65**	**-**
Investments in subsidiaries	207,834	117,202
Total investment securities available for sale	**207,899**	**117,202**

As at 31 December 2017 investment securities available for sale were neither past due nor impaired.

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Notes to the Separate Financial Statements (Continued)

9 Investment Securities Available for Sale (Continued)

The movements in debt investment securities available for sale for the period ended 31 December 2017 are as follows:

In millions of RR	2017
Carrying amount at 1 January	-
Purchases	11,641
Redemption of investment securities available for sale	(6,399)
Disposal of investment securities available for sale	(4,401)
Interest income accrued on investment securities available for sale and Repurchase receivables (Note 15)	36
Interest received	(35)
Reclassification from investment securities available for sale to Repurchase receivables	(798)
Foreign exchange loss on investment securities available for sale in foreign currency	(3)
Revaluation through other comprehensive income	24
Carrying amount at 31 December	**65**

Investments in subsidiaries represent investments in the share capital of the Bank, Insurance company, and LLC "CloudPay-ments".

The Bank is registered in the Russian Federation and was purchased by the Company in November 2006 (Note 1). The Bank is 100% owned and controlled by the Company.

The Insurance Company is registered in the Russian Federation and was purchased by the Company in August 2013 (Note 1). The Company owns 80.08% of share capital of the Insurance Company and controls it.

In October 2017 the Company acquired a 55% shareholding in LLC "CloudPayments" with cash consideration paid of RR 290 million (Note 1). The Company has the right to acquire the remaining 45% within two years from the date of purchase.

Investments in subsidiaries are stated at fair value at the end of each reporting period (Notes 4, 25).

Investments of the Company in LLC "TCS", Goward Group Limited have zero fair value.

The movements in investments in subsidiaries for the period ended 31 December 2017 are as follows:

In millions of RR	2017
Carrying amount at 1 January	117,202
Acquisition of subsidiary	290
Revaluation of investment in subsidiaries	89,305
Share-based payment	1,037
Carrying amount at 31 December	**207,834**

9 Investment Securities Available for Sale (Continued)

The movements in investments in subsidiaries for the period ended 31 December 2016 are as follows:

In millions of RR	2016
Carrying amount at 1 January	40,394
Revaluation of investment in subsidiaries	75,953
Share-based payment	855
Carrying amount at 31 December	**117,202**

Interest rate, maturity and geographical risk concentration analysis of investment securities available for sale are disclosed in Note 21. Refer to Note 25 for the disclosure of the fair value of investments securities available for sale.

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 sale and repurchase agreements are short-term and mature by 10 January 2018.

Analysis by credit quality of debt securities classified as repurchase receivables outstanding at 31 December 2017 is as follows:

In millions of RR	**Available-for-sale securities Perpetual corporate bonds**
Neither past due nor impaired	
B- rated	798
Total neither past due nor impaired debt securities classified as repurchase receivables	**798**

No debt securities were sold under sale and repurchase agreements as at 31 December 2016.

Refer to Note 11 for the related liabilities. Interest rate, maturity and geographical risk concentration analysis of repurchase receivables are disclosed in Note 21.

11 Loans Received

In millions of RR	2017	2016
Loans from subsidiary Bank	6,424	772
Loans from other companies	839	-
Loan from the subsidiary company	570	-
Total loans received	**7,833**	**772**

As at 31 December 2017 loans from subsidiary Bank had a contractual maturity from 26 April 2018 to 20 November 2020 and nominal interest rate from 6.5% to 7% (2016: a contractual maturity 26 April 2018 and nominal interest rate 7%).

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Notes to the Separate Financial Statements (Continued)

11 Loans Received (Continued)

As at 31 December 2017 loans from other companies represent liabilities of RR 591 million from sale and repurchase agreements with Renaissance Securities (Cyprus) Limited and loan from a corporate in the amount of RR 248 million, which has a contractual maturity 20 December 2018 and nominal interest rate 4% (2016: none).

As at 31 December 2017 loan from the subsidiary company has a contractual maturity 15 March 2020 and nominal interest rate 7% (2016: none).

Refer to Note 25 for the disclosure of the fair value of loans received. Interest rate, maturity and geographical risk concentration analyses of loans received is disclosed in Note 21. Information on related party balances is disclosed in Note 27.

12 Debt Securities in Issue

In millions of RR	2017	2016
Euro-Commercial Paper	2,769	-
Total debt securities in issue	**2,769**	**-**

On 20 December 2017 the Company issued USD denominated Euro-Commercial Paper (ECP) with a nominal value of USD 50 million with a discount of 4% maturing on 19 December 2018.

13 Other Financial and Non-financial Liabilities

In millions of RR	2017	2016
Other Financial Liabilities		
Enhanced exclusivity agreement payable	380	220
Accrued audit and accountancy fees	15	13
Total Other Financial Liabilities	**395**	**233**
Other Non-financial Liabilities		
Dividends payable under GDRs repurchased for MLTIP purposes	377	167
Other provision	93	92
Total Other Non-financial Liabilities	**470**	**259**

The enhanced exclusivity agreement payable represents amounts due to the beneficiary shareholder under a Relationship Agreement dated 22 October 2013.

14 Share Capital

In millions of RR except for number of shares	Number of authorised shares	Number of issued shares	Ordinary shares	Share premium	Treasury shares	Total
At 1 January 2016	**190,479,500**	**182,638,825**	**188**	**8,623**	**(324)**	**8,487**
GDRs buy-back	-	-	-	-	(1,246)	(1,246)
GDRs and shares transferred under MLTIP	-	-	-	-	97	97
At 31 December 2016	**190,479,500**	**182,638,825**	**188**	**8,623**	**(1,473)**	**7,338**
GDRs buy-back	-	-	-	-	(397)	(397)
GDRs and shares transferred under MLTIP	-	-	-	-	283	283
At 31 December 2017	**190,479,500**	**182,638,825**	**188**	**8,623**	**(1,587)**	**7,224**

As at 31 December 2017 treasury shares represent GDRs of the Group repurchased from the market for the purposes of MLTIP (2016: for the purposes of MLTIP and ESOP).

During the year ended 31 December 2017 the Group repurchased 602,148 GDRs at market price for RR 397 million (2016: 5,659,853 GDRs at amount of RR 1,246 million at market prices). Refer to Note 27. Information on dividends is disclosed in Note 19.

15 Interest Income and Expense

In millions of RR	2017	2016
Interest income		
Loans and deposit placement with related parties, including:		
Subordinated loans to subsidiary Bank	65	65
Loan to subsidiary	24	14
Deposit placement with subsidiary Bank	9	123
Loan to other related party	7	-
Investment securities available for sale and Repurchase receivables	36	-
Total interest income	**141**	**202**
Interest expense		
Loans from subsidiary Bank	243	140
Loans from subsidiary company	30	-
Euro-Commercial Papers	3	123
Other loans received	1	-
Total interest expense	**277**	**263**
Net interest expense	**(136)**	**(61)**

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Notes to the Separate Financial Statements (Continued)

16 Net Gains from Operations with Foreign Currencies

In millions of RR	2017	2016
Foreign exchange revaluation gains less losses	56	36
Net gains from trading in foreign currencies	46	94
Net gains less losses from derivative revaluation	4	-
Total gains from operations with foreign currencies	**106**	**130**

17 Administrative and Other Operating Expenses

In millions of RR	Note	2017	2016
Enhanced exclusivity agreement expense	13	380	257
Legal and consulting fees		77	72
Audit and accountancy fees		25	23
Taxes other than income tax		15	3
Other provision		-	81
Other administrative expenses		3	2
Total administrative and other operating expenses		**500**	**438**

The total fees charged by the Company's statutory auditor for the statutory audit of the annual consolidated and separate financial statements of the Company for the year ended 31 December 2017 amounted to RR 2.1 million (2016: RR 2.2 million). The total fees charged by the Company's statutory auditor for the year ended 31 December 2017 for other assurance services amounted to RR 3.8 million (2016: RR 4.0 million), for tax advisory services amounted to RR 1.1 million (2016: RR 4.3 million) and for other non-assurance services amounted to RR 1.7 million (2016: nil).

18 Income Taxes

Income tax expense comprises the following:

In millions of RR	2017	2016
Corporation tax	3	54
Overseas tax withheld at source	-	283
Income tax expense for the year	**3**	**337**

18 Income Taxes (Continued)

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

In millions of RR	2017	2016
(Loss)/ Profit before income tax	**(307)**	**5,467**
Theoretical tax credit/(charge) at statutory rate of 12.5% (2016: 12.5%)	38	(683)
Tax effect of expenses not deductible for tax purposes	(41)	(32)
Underprovision of tax for prior year	-	(48)
Tax effect of allowances and income not subject to tax	-	709
Overseas tax withheld at source	-	(283)
Income tax expense for the year	**(3)**	**(337)**

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc.) are exempt from Cyprus income tax. At 31 December 2017 and 2016 the Company had no tax losses carried forward.

19 Dividends

In millions of RR	2017	2016
Dividends payable at 1 January	**167**	-
Dividends declared during the year	8,279	4,506
Dividends paid during the year	(7,970)	(4,227)
Dividends paid under MLTIP after vesting date (31 March 2017)	(29)	-
Foreign exchange gain on dividends payable	(70)	(112)
Dividends payable at 31 December	**377**	**167**
Dividends per share declared during the year (in USD)	0.77	0.38
Dividends per share paid during the year (in USD)	0.77	0.38

On 19 November 2017 the Board of Directors declared a dividend of RR 13.12 (USD 0.22) per share/per GDR amounting to RR 2,396 million (USD 40.2 million). At the same date a special interim dividend of RR 10.73 (USD 0.18) per share/per GDR amounting to RR 1,960 million (USD 32.9) million was declared.

On 28 August 2017 the Board of Directors declared a dividend of RR 11.83 (USD 0.20) per share/per GDR amounting to RR 2,161 million (USD 36.5 million) paid during the three months ended 30 September 2017.

On 29 May 2017 the Board of Directors declared a dividend of RR 9.65 (USD 0.17) per share/per GDR amounting to RR 1,762 million (USD 31.05 million) paid during the three months ended 30 June 2017.

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

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

Dividends were declared and paid in USD throughout the years ended 2016 and 2017. Dividends payable at 31 December 2017 in the amount of RR 377 million are related to treasury shares acquired under MLTIP and included in other non-financial liabilities (2016: RR 167 million).

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Notes to the Separate Financial Statements (Continued)

20 Net Debt Reconciliation

The table below sets out an analysis of the Company's debt and the movements in the Company's debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

		Liabilities from financing activities	
In millions of RR	Debt securities in issue	Loans received	Total
Net debt at 1 January 2016	1,877	195	2,072
			-
Cash flows	(1,857)	632	(1,225)
Foreign exchange adjustments	(20)	-	(20)
Other non-cash movements	-	(55)	(55)
Net debt at 31 December 2016	**-**	**772**	**772**

		Liabilities from financing activities	
In millions of RR	Debt securities in issue	Loans received	Total
Cash flows	2,819	7,301	10,120
Foreign exchange adjustments	(50)	(9)	(59)
Other non-cash movements	-	(231)	(231)
Net debt at 31 December 2017	**2,769**	**7,833**	**10,602**

21 Financial Risk Management

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

Credit risk. The Company 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 repurchase receivables, cash and cash equivalents and Company's lending and other transactions with counterparties giving rise to financial assets.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the separate statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The credit risk is controlled by management of the Company, by approving limits on the level of credit risk by borrowers.

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which are 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.

21 Financial Risk Management (Continued)

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

	At 31 December 2017				At 31 December 2016			
In millions of RR	Non-derivative monetary financial assets	Non-derivative monetary financial liabilities	Derivatives	Net balance sheet position	Non-derivative monetary financial assets	Non-derivative monetary financial liabilities	Derivatives	Net balance sheet position
RR	587	(6,994)	(2,772)	(9,179)	714	(1,003)	-	(289)
US Dollars	1,241	(3,608)	2,776	409	167	-	-	167
EUR	1	(395)	-	(394)	-	(2)	-	(2)
Total	**1,829**	**(10,997)**	**4**	**(9,164)**	**881**	**(1,005)**	**-**	**(124)**

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

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

	At 31 December 2017		At 31 December 2016	
In millions of RR	Pre-tax impact on profit or loss	Impact on equity	Pre-tax impact on profit or loss	Impact on equity
USD strengthening by 20% (2016: by 20%)	82	82	33	33
USD weakening by 20% (2016: by 20%)	(82)	(82)	(33)	(33)
EUR strengthening by 20% (2016: by 20%)	(79)	79	(0)	0
EUR weakening by 20% (2016: by 20%)	79	(79)	0	(0)

Interest rate risk. The Company 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 of unexpected movements. 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 Company's exposure to interest rate risk. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

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Notes to the Separate Financial Statements (Continued)

21 Financial Risk Management (Continued)

In millions of RR	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing financial instruments	Total
31 December 2017						
Total financial assets	389	-	-	1,444	207,834	209,667
Total financial liabilities	(591)	(1,301)	(3,017)	(6,088)	-	(10,997)
Net interest sensitivity gap at 31 December 2017	**(202)**	**(1,301)**	**(3,017)**	**(4,644)**	**207,834**	**198,670**
31 December 2016						
Total financial assets	168	-	-	713	117,202	118,083
Total financial liabilities	-	(233)	-	(772)	-	(1,005)
Net interest sensitivity gap at 31 December 2016	**168**	**(233)**	**-**	**(59)**	**117,202**	**117,078**

At 31 December 2017 if interest rates at that date had been 200 basis points higher/lower (2016: 200 basis points higher/lower), with all other variables held constant, profit and equity would have been RR 179 million higher/lower (2016: RR 2 million higher/lower).

The Company monitors interest rates for its financial instruments. The table below summarises effective interest rates set as at 31 December 2017 and 2016 based on reports reviewed by key management personnel:

	2017		2016	
In % p.a.	RR	USD	RR	USD
Assets				
Cash and cash equivalents	0.0	0.0	0.0	0.0
Loans and deposit placement with related parties				
- Subordinated loan to subsidiary Bank	15.4	-	15.4	-
- Deposit placements with subsidiary Bank	13.0	-	13.0	-
- Loan to subsidiaries	9.3	-	9.3	-
Investment securities available for sale	-	10.2	-	-
Repurchase receivables	-	10.9	-	-
Liabilities				
Loans received	9.4	4.2	13.6	-
Debt securities in issue	-	4.2	-	-

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

21 Financial Risk Management (Continued)

Other price risk. The Company has exposure to equity price risk mainly as a result of a decrease in the fair value of investments in subsidiaries. Sensitivity analysis of investments in subsidiaries is disclosed in Note 25.

Geographical risk concentrations. The geographical concentration of the Company's financial assets and liabilities at 31 December 2017 is set out below:

In millions of RR	Russian Federation	OECD	Other Non-OECD	Total
Financial assets				
Cash and cash equivalents	6	377	2	385
Loans and advances to related parties	581	-	-	581
Financial derivatives	4	-	-	4
Investment securities available for sale	207,887	-	12	207,899
Repurchase receivables	-	-	798	798
Total financial assets	**208,478**	**377**	**812**	**209,667**
Financial liabilities				
Loans received	6,994	-	839	7,833
Debt securities in issue	2,769	-	-	2,769
Other financial liabilities	380	-	15	395
Total financial liabilities	**10,143**	**-**	**854**	**10,997**
Net separate statement of financial position	**198,335**	**377**	**(42)**	**198,670**

The geographical concentration of the Company's financial assets and liabilities at 31 December 2016 is set out below:

In millions of RR	Russian Federation	OECD	Other Non-OECD	Total
Financial assets				
Cash and cash equivalents	1	167	-	168
Loans and deposit placement with related parties	713	-	-	713
Investment in subsidiaries	117,202	-	-	117,202
Total financial assets	**117,916**	**167**	**-**	**118,083**
Financial liabilities				
Loans received	772	-	-	772
Debt securities in issue	-	-	-	-
Other liabilities	231	-	2	233
Total financial liabilities	**1,003**	**-**	**2**	**1,005**
Net separate statement of financial position	**116,913**	**167**	**(2)**	**117,078**

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Notes to the Separate Financial Statements (Continued)

21 Financial Risk Management (Continued)

Assets and liabilities have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which it is physically held.

Other risk concentrations. Most financial assets are due from the subsidiary Bank.

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The table below shows liabilities at 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the separate statement of financial position because the separate statement of financial position amount is based on discounted cash flows.

In millions of RR	On Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Loans received	626	1,123	489	6,771	9,009
Debt securities in issue	10	47	2,825	-	2,882
Financial derivatives	2,772	-	-	-	2,772
Other financial liabilities	-	395	-	-	395
Total potential future payments for financial obligations	**3,408**	**1,565**	**3,314**	**6,771**	**15,058**

The maturity analysis of financial liabilities at 31 December 2016 is as follows:

In millions of RR	On Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Loans received	1	22	27	789	839
Other financial liabilities	-	233	-	-	233
Total potential future payments for financial obligations	**1**	**255**	**27**	**789**	**1,072**

22 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Company 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 any current or potential claims and accordingly no provision has been made in these separate financial statements.

Taxation. Cypriot tax legislation is subject to varying interpretations. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. The Company is incorporated outside Russia. Tax liabilities of the Company are determined on the assumption that it is not subject to Russian profits tax because it does not have a permanent establishment in Russia. The Company is a tax resident of Cyprus only and full beneficial owner of the Bank and Insurance Company. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Company.

23 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 periods.

Sale and repurchase transactions. At 31 December 2017, the Group has available for sale securities represented by perpetual corporate bonds of RR 798 million (2016: none) that are subject to obligation to repurchase the securities for a fixed pre-determined price. Refer to Note 11 for the carrying value of obligations from these 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 2017	
In millions of RR	Notes	Carrying amount of the assets	Carrying amount of the associated liabilities
Repurchase receivables	10,11	798	591
Total		**798**	**591**

24 Financial Derivatives

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Company. 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.

	2017		2016	
In millions of RR	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	2,776	-	-	-
- RR payable on settlement (-)	(2,772)	-	-	-
Net fair value of foreign exchange forwards	**4**	**-**	**-**	**-**

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Notes to the Separate Financial Statements (Continued)

25 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are 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 observable market data (that is, unobservable inputs). Management applies 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 separate statement of financial position at the end of each reporting period.

The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2017				31 December 2016			
In millions of RR	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
Financial derivatives	-	4	-	4	-	-	-	-
Investment securities available for sale	65	207,834	-	207,899	-	117,202	-	117,202
Repurchase receivables	798	-	-	798	-	-	-	-
Total assets recurring fair value measurements	**863**	**207,838**	**-**	**208,701**	**-**	**117,202**	**-**	**117,202**

Investments in subsidiary Bank and Insurance company are stated at fair value based on market valuation (2016: same).

25 Fair Value of Financial Instruments (Continued)

The valuation technique and inputs used in the fair value measurement for level 2 measurements are as follows as at 31 December 2017

In millions of RR	**Fair value**	**Valuation technique**	**Inputs used**
Assets AT FAIR VALUE			
Investments in subsidiaries	207,834	The estimated fair value of investments in subsidiaries recognises that the majority of the value of TCS Group holding plc resides in its main operating subsidiaries namely the Bank and the Insurance company. Thus in estimating the fair value of the subsidiaries the primary input is the market quote of the Company's GDRs which are traded on the London Stock Exchange. Other inputs include the estimated fair value of the assets and liabilities held by the Company other than its investment in the subsidiaries.	Market quote of USD 18.85 for 1 share at 31 December 2017; Market interest rates.
Foreign exchange forwards	4	Discounted cash flows adjusted for counterparty credit risk.	EUR curve. USD Dollar Swaps Curve. CDS quotes for assessment of counterparty credit risk or credit risk of reference entities.
Total recurring fair value measurements at level 2	**207,838**		

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Notes to the Separate Financial Statements (Continued)

25 Fair Value of Financial Instruments (Continued)

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

In millions of RR	Fair value	Valuation technique	Inputs used
Assets AT FAIR VALUE			
Investments in subsidiaries	117,202	The estimated fair value of investments in subsidiaries recognises that the majority of the value of TCS Group holding plc resides in its main operating subsidiaries namely the Bank and the Insurance company. Thus in estimating the fair value of the subsidiaries the primary input is the market quote of the Company's GDRs which are traded on the London Stock Exchange. Other inputs include the estimated fair value of the assets and liabilities held by the Company other than its investment in the subsidiaries.	Market quote of USD 10.55 for 1 share at 31 December 2016; Market interest rates.
Total recurring fair value measurements at level 2	**117,202**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2017 (2016: none).

At 31 December 2017 if market quote of GDR of the Company at that date had been 54% higher/lower (2016: 80% higher/lower), with all other variables held constant, the fair value of the investment in subsidiaries would have been RR 107,083 million higher/lower (2016: RR 93,826 million higher/lower).

25 Fair Value of Financial Instruments (Continued)

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

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

	31 December 2017				31 December 2016			
In millions of RR	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS CARRIED AT AMORTISED COST								
Cash and cash equivalents								
Placement with Russian and UK banks	-	377	-	377	-	168	-	168
Placement with subsidiary bank	-	6	-	6	-	-	-	-
Placements with European banks	-	2	-	2	-	-	-	-
Loans and deposit placement with related parties								
Subordinated loan to subsidiary Bank	-	-	573	450	-	-	543	452
Deposit placement with subsidiary Bank	-	-	162	131	-	-	9	9
Loan to subsidiary	-	-	-	-	-	-	250	252
Total financial assets carried at amortised cost	**-**	**385**	**735**	**966**	**-**	**168**	**802**	**881**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST								
Loans received	-	-	7,317	7,833	-	-	794	772
Debt securities in issue	-	2,769	-	2,769	-	-	-	-
Other financial liabilities	-	395	-	395	-	-	233	233
Total financial liabilities carried at amortised cost	**-**	**3,164**	**7,317**	**10,997**	**-**	**-**	**1,027**	**1,005**

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Notes to the Separate Financial Statements (Continued)

25 Fair Value of Financial Instruments (Continued)

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

In % p.a.	2017	2016
Assets		
Cash and cash equivalents	-	-
Loans and advances to customers		
- Subordinated loan to subsidiary Bank	7.6	10.1
- Deposit placement with subsidiary Bank	7.6	13.0
- Loan to subsidiaries	7.6	10.1
Investment securities available for sale	10.2	-
Repurchase receivables	10.9	-
Liabilities		
Loans received	8.0	10.8
Debt securities in issue	4.2	-

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. 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.

26 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 ("AFS"); (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 2017:

In millions of RR	Loans and receivables	Held for trading	Available-for-sale assets	Total
Cash and cash equivalents	385	-	-	385
Loans and deposit placement with related parties:				
Subordinated loan to subsidiary Bank	450	-	-	450
Deposit placement with subsidiary Bank	131	-	-	131
Loan to subsidiary	-	-	-	-
FINANCIAL ASSETS CARRIED AT FAIR VALUE				
Financial derivatives	-	4	-	4
Investment securities available for sale	-	-	207,899	207,899
Repurchase receivables	-	-	798	798
Total financial assets	**966**	**4**	**208,697**	**209,667**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2016:

In millions of RR	Loans and receivables	Held for trading	Available-for-sale assets	Total
Cash and cash equivalents	168	-	-	168
Loans and deposit placement with related parties:				
Subordinated loan to subsidiary Bank	452	-	-	452
Deposit placement with subsidiary Bank	9	-	-	9
Loan to subsidiaries	252	-	-	252
FINANCIAL ASSETS CARRIED AT FAIR VALUE				
Investment in subsidiaries	-	-	117,202	117,202
Total financial assets	**881**	**-**	**117,202**	**118,083**

As of 31 December 2017 and 31 December 2016 all of the Company's financial liabilities were carried at amortised cost.

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Notes to the Separate Financial Statements (Continued)

27 Related Party Transactions

Parties are generally considered to be related if they 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:

	31 December 2017		31 December 2016	
In millions of RR	Subsidiaries	Other related parties	Subsidiaries	Other related parties
ASSETS				
Cash and cash equivalents	6	-	-	-
Loans and deposit placement with related parties (contractual interest rate 2017: from 0.1% to 14.4%, 2016: from 0.1% to 14.4%)	581	-	713	-
Financial derivatives	4	-	-	-
Investments in subsidiaries	207,834	-	117,202	-
LIABILITIES				
Loans from related parties (contractual interest rate 2017: from 4% to 7%, 2016: 7% p.a.)	6,994	248	772	-
Debt securities in issue (discount: 4%)	-	2,769	-	-
Other financial liabilities	-	380	-	220

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

Income, expenses and other comprehensive income with related parties for 2017 and 2016 are as follows:

	2017		2016	
In millions of RR	Subsidiaries	Other related parties	Subsidiaries	Other related parties
Interest income	98	7	202	-
Interest expense	(273)	(4)	(140)	-
Enhanced exclusivity agreement expense	-	(380)	-	(257)
(Provision for)/release of loan impairment	(52)	-	116	-
Dividend income	-	-	5,668	-
Gain on initial recognition of liabilities at rates below market	275	-	52	-
Net gains from operations with foreign currencies	106	-	75	-
Other comprehensive income:				
Revaluation of investments in subsidiaries	89,305	-	75,953	-

27 Related Party Transactions (Continued)

In 2017 the total remuneration of Directors listed in the Management Report amounted to RR 16 million (2016: RR 18 million).

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

On 8 February 2017 the Company granted shares to new participants in MLTIP and also granted additional shares to certain existing participants which resulted in an increase in total shares granted under MLTIP to 5.27% of issued share capital of the Company. For the purpose of the financial statements the grant date for newly added rewards is considered to be 8 February 2017, implementation date is by 31 March 2017.

The total number of GDRs attributable to the Management according to MLTIP is 9,628 thousand as at 31 December 2017 (31 December 2016: 7,504 thousand).

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

The fair value as at recognition date of the equity-settled share-based payments (31 March 2016 and 8 February 2017) is determined on the basis of a market quote.

The delivery dates as of which the GDRs are allowed to be sold by the participants correspond to the vesting dates at 14 April 2016 and each subsequent 31 March until 2022 for participants joining in 2016 and 2023 for participants joining in 2017.

Employee share option plan. In May 2011 the Company introduced ESOP as a long-term incentive and retention tool for the key management of the Bank. On 1 June 2016 all conditions to the third and final vesting in ESOP were fully satisfied and ESOP has satisfied its delivery commitment. Accumulated share based payment reserve was then transferred to Retained earnings.

Equity long-term incentive plan. In January 2011 the Company also introduced a long-term incentive plan (Equity LTIP) for the management of the Bank not participating in ESOP. As at 14 April 2016 after first vesting date of MLTIP, Equity LTIP was cancelled and accelerated expenses have been accrued. Full amount of Share-based payment reserve accumulated was then transferred to Retained earnings.

28 Events after the End of the Reporting Period

On 9 March 2018 the Board of Directors declared a regular interim dividend in line with the dividend policy of USD 0.31 per share/per GDR with a total amount allocated for dividend payment of around USD 56.6 million.

GLOSSARY

Anti-money laundering	AML	Laws regulating money laundering and terrorist financing
Average cost of funding	n/a	Interest expense / Average IEL
Average interest rate on loans	n/a	Core revenue on loans / Average net loan portfolio
Capital adequacy ratio	CAR	Capital/RWA
CBRF	CBRF	Central Bank of the Russian Federation
Charge-off rate	n/a	Loan charge-off / Average gross loans
Charge-offs	n/a	Loans written off the balance
Class A share	n/a	One share in TCSGH PLC having one vote
Class B share	n/a	One share in TCSGH PLC having ten votes
Compound Annnual Growth Rate	CAGR	n/a
Compulsory car insurance programme	OSAGO	n/a
Corporate social responsibility	CSR	n/a
Cost of borrowing	n/a	Interest expense/interest bearing liabilities
Cost of risk	n/a	Loan loss provision / Average gross loans
Cost to income ratio	C/I	Operating and acquisition expense / Core revenue
Cost to income ratio (excl. acquisition costs)	n/a	Operating expense / Core revenue
Country by Country Reporting	CbCR	
CRM	n/a	Online customer relationship management system
Cyprus Securities and Exchange Commission	CySec	Cyprus regulator of financial markets
Days past due	dpd	n/a
Financial Conduct Authority	FCA	UK regulator of financial markets
GIBDD	GIBDD	Law enforcement agency responsible for traffic
Global depositary receipt	GDR	One TCS Group Holding PLC GDR represents an interest in one class A share
Gross portfolio yield	n/a	Core revenue on loans /Average gross loan portfolio
Interest-earning assets	IEA	Gross loans + interbank loans and accounts + securities + interest earning cash equivalents
Interest-earning liabilities	IEL	Deposits + interbank + debt securities + subordinated loans + syndicated loan
International financial reporting standards	IFRS	n/a
IPO	n/a	Initial public offering, in the case of TCSGH plc with listing on the London Stock Exchange in October 2013
KASKO	KASKO	Voluntary car insurance programme
Key performance indicators	KPI	n/a
Loan loss provision	LLP	Allowance for bad loans
London Stock Exchange	LSE	n/a
Management report/consolidated management report	MR/CMR	n/a
Mobile virtual network operator	MVNO	n/a
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 IEA
Net Promoter Score	NPS	n/a
NFC	NFC	Near Field Communication
Non-financial statement/consolidated non-financial statement	NFS/CFNS	n/a
Non-performing loans	NPLs	Loans 90+ days overdue
NPV	NPV	Net present value
Person discharging managerial responsibilities	PDMR	n/a
PIE	Public interest entity	n/a
Revenue	n/a	Operating income
Return on average assets	ROAA	Net income / Average assets
Return on average equity	ROAE	Net income / Average equity
Risk-adjusted net interest margin	Risk-adjusted NIM	(Net interest income - PL provisions) / Average IEA
Risk-weighted assets	RWA	Assets weighted by risk as per the CBRF methodology
Russian accounting standards	RAS	n/a
Smart Couriers	n/a	The Group's courier network, completing KYC and delivering cards to customers
SMEs	n/a	Small and medium enterprises
The Group's management long term incentive plan	MLTIP	n/a
Treasury portfolio	n/a	Investment securities and repos

INVESTOR INFORMATION

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

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