

## **IMPORTANT NOTICE**

**IMPORTANT:** You must read this electronic transmission and the below disclaimer carefully before continuing on to access, read or make use of the document following this page (the “Prospectus”). In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from Goldman Sachs International, SIB (Cyprus) Limited and Morgan Stanley & Co. International plc (together, the “JGCs”), J.P. Morgan Securities plc and Renaissance Securities (Cyprus) Limited (together, the “JBRs”) or TCS Group Holding PLC (the “Issuer”), as a result of such access. You acknowledge that this electronic transmission and the delivery of the Prospectus is confidential and intended for you only **and agree that you will not forward, reproduce or publish this electronic transmission or the Prospectus to any other person.**

**NOTHING IN THE PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” (“QIB”) WITHIN THE MEANING OF RULE 144A OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.**

**THE PROSPECTUS AND THE OFFER WHEN MADE ARE ONLY ADDRESSED TO AND DIRECTED AT PERSONS OUTSIDE THE EUROPEAN ECONOMIC AREA (THE “EEA”), OR THOSE WHO, IF LOCATED IN MEMBER STATES OF THE EEA, ARE “QUALIFIED INVESTORS” WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE, (DIRECTIVE 2003/71/EC AND AMENDMENTS THERETO, INCLUDING DIRECTIVE 2010/73/EU, TO THE EXTENT IMPLEMENTED IN THE RELEVANT MEMBER STATE) (“QUALIFIED INVESTORS”). AS REGARDS PERSONS LOCATED IN THE UNITED KINGDOM, THE PROSPECTUS IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT, QUALIFIED INVESTORS (I) WHO ARE INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “ORDER”) OR (II) WHO ARE HIGH NET WORTH ENTITIES FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER AND (III) OTHER PERSONS TO WHOM IT MAY OTHERWISE LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THE PROSPECTUS MUST NOT BE ACTED ON OR RELIED UPON (I) IN THE UNITED KINGDOM, BY PERSONS WHO ARE NOT RELEVANT PERSONS, AND (II) IN ANY MEMBER STATE OF THE EEA OTHER THAN THE UNITED KINGDOM, BY PERSONS WHO ARE NOT QUALIFIED INVESTORS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE PROSPECTUS RELATES IS AVAILABLE ONLY TO (I) IN THE UNITED KINGDOM, RELEVANT PERSONS, AND (II) IN ANY MEMBER STATE OF THE EEA OTHER THAN THE UNITED KINGDOM, QUALIFIED INVESTORS, AND WILL BE ENGAGED IN ONLY WITH SUCH PERSONS.**

**YOU ARE NOT AUTHORISED TO AND MAY NOT FORWARD OR DISTRIBUTE THE PROSPECTUS, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH PROSPECTUS IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

**THE PROSPECTUS DOES NOT CONSTITUTE INVESTMENT ADVICE OR ANY OTHER PERSONALISED RECOMMENDATION, RECOMMENDATION OR MARKETING COMMUNICATION WHATSOEVER UNDER CYPRUS LAW, NOR DOES IT CONSTITUTE AN OFFER OR ADVERTISEMENT OF SECURITIES IN CYPRUS, IT IS NOT INTENDED TO BE AND MUST NOT BE DISTRIBUTED VIA INFORMATION DISTRIBUTION CHANNELS OR TO THE PUBLIC IN CYPRUS, NOR (WHEN DISTRIBUTED BY A DULY LICENSED INVESTMENT FIRM ESTABLISHED OR OPERATING THROUGH A BRANCH IN CYPRUS) TO ANY PERSON IN CYPRUS OTHER THAN A “PROFESSIONAL CLIENT” AS DEFINED IN THE LAW ON INVESTMENT SERVICES AND ACTIVITIES AND REGULATED MARKETS (LAW NO. 144 (I) 2007).**

**THE PROSPECTUS MAY NOT BE USED FOR ANY INVITATION OR SOLICITATION PURPOSES FOR OR IN CONNECTION WITH THE SALE, MARKETING, OFFERING OR ACQUISITION OF THE GDRs IN CIRCUMSTANCES UNDER WHICH IT IS UNLAWFUL UNDER CYPRUS LAWS TO MAKE SUCH AN INVITATION OR SOLICITATION.** This Prospectus and the information contained herein does not constitute a public offer or advertisement of the GDRs in the Russian Federation and is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer any GDRs to or for the benefit of any persons or entities in the Russian Federation. Neither the Class A Shares, the Class B Shares (in each case, as defined in the Prospectus), the GDRs nor this Prospectus or other documents relating to them have been or are intended to be registered in Russia, with the Central Bank of the Russian Federation or with any other state authorities that may from time to time be responsible for such registration, and the GDRs are not intended for “placement” or “circulation” in the Russian Federation (as defined under Russian law), unless otherwise permitted under Russian law. Any information relating to the GDRs in this Prospectus is intended for, and addressed only to persons outside of the Russian Federation. The GDRs are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

The Prospectus may only be provided to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

The materials relating to the Offering (as defined in the Prospectus) do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by any of the Issuer, the JGCs or the JBRs that would or is intended to, permit a public offering of the GDRs, or possession or distribution of the Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the GDRs, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and the JGCs or the JBRs or any affiliate of the JGCs or the JBRs is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the JGCs or the JBRs or such affiliate on behalf of the Issuer in such jurisdiction.

**Restrictions:** Nothing in the Prospectus constitutes an offer of securities for sale to persons other than specified QIBs or Qualified Investors to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you gain access to the Prospectus contrary to the foregoing restrictions, you will be unable to subscribe for or purchase any of the securities described therein.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver the Prospectus, electronically or otherwise, to any other person. If you receive the Prospectus by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected. If you receive the Prospectus in electronic format by e-mail, your use of such Prospectus in electronic format and email is at your own risk and it is your responsibility to take precautions to ensure that each is free from viruses and other items of a destructive nature.

The Prospectus has been sent to you in an electronic format and you are reminded that documents transmitted via this media may be altered or changed during the process of transmission and, consequently, none of the Issuer, the JGCs or the JBRs, their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Issuer, the JGCs or the JBRs or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the Prospectus distributed to you in electronic format and the hard-copy version available to you on request from the Issuer, the JGCs or the JBRs.

**Confirmation of your representation:** This Prospectus is delivered to you on the basis that you are deemed to have represented to the Issuer, the JGCs and the JBRs that you: (i) are (a) a QIB, or acting on behalf of a QIB or (b) outside the United States; (ii) if you are in the United Kingdom, are a relevant person, and/or a relevant person who is acting on behalf of relevant persons in the United Kingdom and/or Qualified Investors to the extent you are acting on behalf of persons or entities in the United Kingdom and/or the EEA; (iii) if you are in any member state of the EEA other than the United Kingdom, are a Qualified Investor and/or a Qualified Investor acting on behalf of Qualified Investors or relevant persons, to the extent that you are acting on behalf of persons or entities in the EEA and/or the United Kingdom; (iv) are an institutional investor that is eligible to receive the Prospectus; and (v) consent to delivery by electronic transmission.



**Tinkoff**  
Credit Systems

**TCS GROUP HOLDING PLC**  
(a public company incorporated under the laws of the Republic of Cyprus)  
**Offering of 62,111,802 Class A Shares**  
**in the form of 62,111,802 Global Depositary Receipts**  
**with one Global Depositary Receipt representing an interest in one Class A Share**  
**Offer Price of US\$17.50 per Global Depositary Receipt**

This document has been approved by the United Kingdom Financial Conduct Authority (the “FCA”), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) and relevant implementing measures in the United Kingdom, as a prospectus (the “**Prospectus**”) in accordance with the prospectus rules of the FCA (the “**Prospectus Rules**”) made under section 73A of the Financial Services and Markets Act 2000, as amended (the “**FSMA**”). A copy of this Prospectus has been filed with the FCA and made available to the public as required by Rule 3.2 of the Prospectus Rules.

This Prospectus comprises a prospectus relating to TCS Group Holding PLC (the “**Issuer**”) and its consolidated subsidiaries, including “Tinkoff Credit Systems” Bank (Closed Joint-Stock Company) (“**TCS Bank**”) (together, “**TCS**”), prepared in accordance with the Prospectus Rules. This Prospectus has been prepared solely in connection with the applications for the admission of global depositary receipts (the “**GDRs**”) to the official list maintained by the FCA (the “**Official List**”) and to trading on the main market for listed securities of the London Stock Exchange plc (the “**London Stock Exchange**”), which is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive).

This Prospectus relates to an offering (the “**Offering**”) by the Issuer of 10,000,000 Class A shares of the Issuer (“**Class A Shares**”), each fully paid with a nominal value of US\$0.04 per share and carrying one vote, and 52,111,802 Class A Shares held indirectly by Mr Oleg Tinkov (“**Mr Tinkov**”) (by way of Tadek Holding & Finance S.A. and Tasos Invest & Finance Inc., which are wholly-owned by Mr Tinkov), The Goldman Sachs Group, Inc. (by way of its wholly-owned subsidiary, ELQ Investors II Ltd), the limited partnerships comprising Baring Vostok Private Equity Fund IV (together, “**Baring Vostok**”) (by way of a nominee company, Rousse Nominees Limited, which holds the beneficial interest in its shares in the Issuer on trust for Baring Vostok), Vostok Nafta Investment Limited (“**Vostok Nafta**”) (by way of its wholly-owned subsidiary, Vostok Komi (Cyprus) Limited) and Emerging Europe Growth Fund II, L.P. (managed by its general partner Horizon Capital GP II, LLC) (together, “**Horizon Capital**”) (by way of its wholly-owned subsidiary Lorimer Ventures Limited) and Altruco Trustees Limited (as trustee in relation to the employee share ownership plan (the “**ESOP**”) for certain key managers of TCS and trustee for the amended long-term incentive plan for certain key and middle managers of TCS (the “**Equity LTIP**”)) (the “**Selling Shareholders**”), in the form of GDRs, with one GDR representing an interest in one Class A Share at an offer price of US\$17.50 per GDR (“**Offer Price**”). For more information, see “*Principal and Selling Shareholders*”. Application has been made (A) to the FCA acting in its capacity as competent authority under the FSMA (the “**United Kingdom Listing Authority**”) or the “**UKLA**”) for a listing of (i) up to 62,111,802 GDRs to be issued on 25 October 2013 (the “**Closing Date**”), (ii) up to 9,316,770 GDRs in connection with the Over-allotment Option (as defined below) and (iii) up to 109,760,503 additional GDRs to be issued from time to time against the deposit of up to 109,760,503 Class A Shares (to the extent permitted by law) with HSBC Bank plc acting by way of its Athens branch, HSBC Bank plc (Greece) via its department, HSBC Securities Services, Greece, 109-111, Messoghion Ave., 115 26 Athens, Greece (the “**Custodian**”), as custodian for JPMorgan Chase Bank, N.A. (the “**Depository**”), as depository, to be admitted to the Official List, and (B) to the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities through its International Order Book (“**IOB**”).

In addition to Class A Shares, as at the date of this Prospectus, the Issuer’s share capital comprises 92,144,679 Class B shares (“**Class B Shares**”), each fully paid with a nominal value of US\$0.04 per share and carrying 10 votes. For a description of the rights attaching to the Class B Shares, including enhanced voting rights, see “*Description of Share Capital*”. Such Class B Shares will not be represented by the GDRs.

Approval of the FCA has not been sought in relation to the Class A Shares or Class B Shares and no such shares will be admitted to listing on the Official List or admitted to trading on the London Stock Exchange.

In addition, Rousse Nominees Limited, Vostok Komi (Cyprus) Limited and Lorimer Ventures Limited (together, the “**Over-allotment Selling Shareholders**”) have granted Goldman Sachs International, Morgan Stanley & Co. International plc and SIB (Cyprus) Limited (the “**Joint Global Co-ordinators**”) or “**JGCs**”) and J.P. Morgan Securities plc and Renaissance Securities (Cyprus) Limited (the “**Joint Bookrunners**”) or “**JBRs**”) an option exercisable within 30 calendar days of the announcement of the Offer Price to purchase up to 9,316,770 additional GDRs at the Offer Price, solely to cover over-allotments, if any, in connection with the Offering (the “**Over-allotment Option**”). Pareto Securities AB will be acting as selling agent (“**Selling Agent**”) for the purposes of the Offering. Conditional trading in the GDRs on the London Stock Exchange through its IOB is expected to commence on an if-and-when-issued basis on 22 October 2013. Admission to the Official List and unconditional trading on the London Stock Exchange (“**Admission**”) is expected to take place on 25 October 2013. All dealings in the GDRs prior to the commencement of unconditional trading will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned. The GDRs are expected to be traded on the London Stock Exchange under the symbol “TCS”.

**Investing in the GDRs involves a high degree of risk. See “Risk Factors” beginning on page 23 for a discussion of certain matters that investors should consider prior to making an investment in the GDRs.**

The GDRs subject to the Offering are being offered in the United States to certain qualified institutional buyers (“**QIBs**”) as defined in, and in reliance on, Rule 144A (“**Rule 144A**”) under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), or another exemption from the registration requirements of the Securities Act, and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S under the Securities Act (“**Regulation S**”). The GDRs have not been and will not be registered under the Securities Act and may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers are hereby notified that the sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act. The GDRs are subject to selling and transfer restrictions in certain jurisdictions. See “*Selling Restrictions*” and “*Transfer Restrictions*”. The Offering does not constitute an offer to sell, or solicitation of an offer to buy, GDRs, Class A Shares or Class B Shares in any other jurisdiction in which such offer or solicitation would be unlawful. For a description of these and certain further restrictions on offers, sales and transfers of the GDRs and the distribution of this Prospectus, see “*The Offering*”, “*Plan of Distribution*”, “*Terms and Conditions of the Global Depositary Receipts*” and “*Selling Restrictions*”.

The GDRs will be issued in global form. The GDRs offered and sold in the United States (the “**Rule 144A GDRs**”) will be evidenced by a Master Rule 144A Global Depositary Receipt (the “**Master Rule 144A GDR**”) held by JP Morgan Chase Bank N.A., as custodian for, and registered in the name of Cede & Co., as nominee for, The Depository Trust Company (“**DTC**”), and the GDRs offered and sold outside the United States (the “**Regulation S GDRs**”) will be evidenced by a Master Regulation S Global Depositary Receipt (the “**Master Regulation S GDR**”) and, together with the Master Rule 144A GDR, the “**Master GDRs**”) registered in the name of BNP Paribas Securities Services, Luxembourg branch, as nominee and common depository for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through the records of DTC with respect to the Rule 144A GDRs and Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs. It is expected that delivery of the GDRs will be made against payment therefor in U.S. dollars in same day funds through the facilities of DTC, Euroclear and Clearstream, Luxembourg on or about the Closing Date.

**Joint Global Co-ordinators**

**GOLDMAN SACHS  
INTERNATIONAL**

**MORGAN STANLEY**

**SBERBANK CIB**

**Joint Bookrunners**

**J.P. MORGAN**

**RENAISSANCE CAPITAL**

**Selling Agent**

**PARETO SECURITIES**

The date of this Prospectus is 22 October 2013.

## IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Each investor, by accepting delivery of this Prospectus, agrees that this Prospectus is being furnished by the Issuer solely for the purpose of enabling investors to consider the purchase of the GDRs which are subject to the Offering only. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

This Prospectus, including the financial information included herein, is in compliance with the Prospectus Rules, which comply with the provisions of the Prospectus Directive for the purpose of giving information with regard to TCS, the Selling Shareholders and the GDRs. The Issuer accepts responsibility for the information contained in this Prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its import.

None of the JGCs, the JBRs or the Selling Agent make any representation or warranty, express or implied, nor accept any responsibility, with respect to the accuracy or completeness or verification of any of the information in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Selling Shareholders, the JGCs, the JBRs or the Selling Agent that any recipient of this Prospectus should subscribe for or purchase the GDRs. Each subscriber for or purchaser of GDRs should determine for itself the relevance of the information contained in this Prospectus, and its subscription for or purchase of GDRs should be based upon such investigation, as it deems necessary, including the assessment of risks involved and its own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such investor in connection with the subscription for or purchase of the GDRs.

**This Prospectus does not constitute an offer to the public generally to subscribe for or purchase or otherwise acquire the GDRs. In making an investment decision regarding the GDRs, an investor must rely on its own examination of TCS and the terms of the Offering, including the merits and risks involved. Investors should rely only on the information contained in this Prospectus. None of the Issuer, the Selling Shareholders, the JGCs, the JBRs or the Selling Agent has authorised any other person to provide investors with different information. If anyone provides any investor with different or inconsistent information, such investor should not rely on it. Investors should assume that the information appearing in this Prospectus is accurate only as of its date. TCS's business, financial condition, results of operations, prospects and the information set forth in this Prospectus may have changed since the date of this Prospectus.**

The contents of the website of the Issuer, or the website of any other member of TCS, do not form any part of this Prospectus.

This Prospectus refers to Russia's sovereign credit ratings which have been rated by the credit rating agencies Standard & Poor's Financial Services LLC, part of McGraw Hill Financial ("S&P"), Moody's Investor Service, Inc. ("Moody's") and Fitch Ratings Limited ("Fitch"). Each of S&P, Moody's and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009, as amended (the "CRA Regulation"). Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority ("ESMA") on its website in accordance with the CRA Regulation. Moody's and S&P are not established in the European Union, have not applied for registration under the CRA Regulation and are not included in the list of registered credit rating agencies published on the website of ESMA.

Investors should not consider any information in this Prospectus to be investment, legal or tax advice. An investor should consult its own legal counsel, financial adviser, accountant and other advisors for legal, tax, business, financial and related advice regarding subscribing for and purchasing the GDRs. None of the Issuer, the Selling Shareholders, the JGCs, the JBRs or the Selling Agent makes any representation to any offeree or purchaser of or subscriber for the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser or subscriber under appropriate investment or similar laws.

The JGCs, the JBRs or the Selling Agent are acting exclusively for TCS and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering. Apart from the responsibilities and liabilities, if any, which may be imposed on any of the JGCs, the JBRs or the Selling Agent by the FSMA or the regulatory regime established thereunder, none of the JGCs, the JBRs or the Selling Agent accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it or any of them or on its or their behalf in connection with TCS or the GDRs. Each of the JGCs, the JBRs or the Selling Agent



accordingly disclaims, to the fullest extent permitted by applicable law, all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

In connection with the Offering, the JGCs, the JBRs or the Selling Agent and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for or purchase the GDRs and, in that capacity, may retain, subscribe for, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of TCS or other related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the JGCs, the JBRs or the Selling Agent or any of their respective affiliates acting as an investor for its or their own account(s). The JGCs, the JBRs and the Selling Agent do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Issuer and the Selling Shareholders may withdraw the Offering at any time prior to Admission, and the Issuer, the Selling Shareholders, the JGCs, the JBRs and the Selling Agent reserve the right to reject any offer to subscribe for or purchase the GDRs, in whole or in part, and to sell to any investor less than the full amount of the GDRs sought by such investor.

This Prospectus does not constitute or form part of an offer to sell, or a solicitation of an offer to subscribe for or purchase, any security other than the GDRs. The distribution of this Prospectus and the offer and sale of the GDRs may be restricted by law in certain jurisdictions. Any investor must inform themselves about, and observe any such restrictions. See “*Terms and Conditions of the Global Depositary Receipts*” and “*Transfer Restrictions*” elsewhere in this Prospectus. Investors must comply with all applicable laws and regulations in force in any jurisdiction in which it subscribes for, purchases, offers or sells the GDRs or possesses or distributes this Prospectus and must obtain any consent, approval or permission required for its subscription for, purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction to which such investor is subject or in which such investor makes such subscriptions, purchases, offers or sales. None of the Issuer, the Selling Shareholders, the JGCs, the JBRs or the Selling Agent is making an offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted or accepts any legal responsibility for any violation by any person, whether or not an investor, or applicable restrictions.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except to persons reasonably believed to be QIBs or outside the United States in offshore transactions in reliance on Regulation S. Investors are hereby notified that sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the GDRs in other jurisdictions, see “*Terms and Conditions of the Global Depositary Receipts*” and “*Transfer Restrictions*”.

In connection with the Offering, Goldman Sachs International (the “**Stabilising Manager**”) (or persons acting on behalf of any Stabilising Manager) may (but will be under no obligation to), to the extent permitted by applicable law, over-allot GDRs by exercising the Over-allotment Option or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on the date of adequate public disclosure of the Offer Price of the GDRs and, if begun, may be ended at any time but must end no later than 30 calendar days thereafter (the “**Stabilisation Period**”). Any stabilisation action must be undertaken in accordance with applicable laws and regulations. Save as required by law or regulation, the Stabilising Manager does not intend to disclose the extent of any over-allotments made and/or stabilisation transactions concluded in relation to the Offering.

For the purposes of this Prospectus, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in each relevant member state of the European Economic Area (the “**EEA**”)), and includes any relevant implementing measure in each relevant member state of the EEA and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

## NOTICE TO UNITED STATES INVESTORS

Until 40 days after the commencement of the Offering, an offer or sale of GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

**THE GDRs HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE “SEC”) OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THE OFFERING OR THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.**

## NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY INVESTOR, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## NOTICE TO UNITED KINGDOM AND OTHER EUROPEAN ECONOMIC AREA INVESTORS

This Prospectus and the Offering are only addressed to and directed at persons in member states of the EEA, who are “qualified investors” (“**Qualified Investors**”) within the meaning of Article 2(1)(e) of the Prospectus Directive (including any relevant implementing measure in each relevant member state of the EEA). In addition, in the United Kingdom, this Prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “**relevant persons**”). The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This Prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This Prospectus has been prepared on the basis that all offers of the GDRs following approval by the FCA will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the EEA, from the requirement to produce a Prospectus for offers of the GDRs. Accordingly, any person making or intending to make any offer within the EEA of the GDRs should only do so in circumstances in which no obligation arises for the Issuer, the Selling Shareholders, any of the JGCs, the JBRs or the Selling Agent to produce a Prospectus for such offer. None of the Issuer, the Selling Shareholders, the JGCs, the JBRs or the Selling Agent has authorised or authorises the making of any offer of the GDRs through any financial intermediary, other than offers made by the JGCs, the JBRs or the Selling Agent which constitute the final placement of the GDRs contemplated in this Prospectus.

## NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

This Prospectus should not be considered as a public offer or advertisement of the GDRs in the Russian Federation and is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer any GDRs to any persons in the Russian Federation. Neither the GDRs, the Class A Shares, the Class B Shares nor this Prospectus or other documents relating to them have been or are intended to be registered in Russia, with the Central Bank of the Russian Federation (the “**CBR**”) or with any other state bodies that may from time to time be responsible for such registration, and the GDRs are not intended for “placement” or “circulation” in the Russian Federation (as defined under Russian law), unless otherwise permitted under Russian law. Any information on the GDRs in this Prospectus is intended for, and addressed only, to persons outside of the Russian Federation. The GDRs are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

## NOTICE TO INVESTORS IN JAPAN

The GDRs have not been and will not be registered under the Final Instruments and Exchange Law, as amended (the “**FIEL**”). This Prospectus is not an offer of securities for sale, directly or indirectly, in Japan or to or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exception from the registration requirements under the FIEL, and otherwise in compliance with, the FIEL and other relevant laws and otherwise in compliance with such law and any other applicable laws, regulations or ministerial guidelines of Japan.

## NOTICE TO INVESTORS IN AUSTRALIA

No prospectus or other disclosure document has been lodged with, or registered by the Australian Securities and Investments Commission in relation to the offering of the GDRs. This Prospectus does not constitute a prospectus or other disclosure document under the Corporations Act 2001 (the “**Corporations Act**”) and does not purport to include the information required for a prospectus or other disclosure document under the Corporations Act.

This Prospectus is being distributed in Australia by the JGCs and the JBRs to persons (the “**Exempt Investors**”) who are “sophisticated investors” (within the meaning of section 708(8) of the Corporations Act, to “professional investors” (within the meaning of section 708(11) of the Corporations Act) and/or otherwise pursuant to one of more exemptions contained in section 708 of the Corporations Act. The entity receiving this document represents and warrants that if it is in Australia, it is either a professional or a sophisticated investor or a person to whom it is lawful to offer the GDRs without disclosure to investors under Chapter 6D of the Corporations Act and that it will not distribute this document to any other person.

Any GDRs applied for by Exempt Investors in Australia must not be offered for sale in Australia for 12 months from the date of issue, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 or 708A of the Corporations Act. This Prospectus is not supplied in connection with any offering or proposed offering of securities or financial products that require disclosure in accordance with Chapter 6D or Part 7.9 of the Corporations Act. Chapters 6D and 7 of the Corporations Act are complex. Any person acquiring the GDRs must observe such Australian on-sale restrictions and if in any doubt as to the application or effect of this legislation, should confer with its professional advisors.

## NOTICE TO INVESTORS IN CERTAIN OTHER COUNTRIES

For information to investors in certain other countries, see “*Plan of Distribution*” and “*Selling Restrictions*”.

## AVAILABLE INFORMATION

For so long as any Rule 144A GDRs are “**restricted securities**” within the meaning of Rule 144(a)(3) under the Securities Act, TCS will, during any period in which the Issuer is neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Rule 144A GDRs or to any purchaser of such restricted Rule 144A GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer's and the Selling Shareholders' presence outside the United States and the United Kingdom may limit an investor's legal recourse against the Issuer and the Selling Shareholders. The Issuer is incorporated under the laws of Cyprus. The Selling Shareholders are incorporated under the laws of England and Wales, the British Virgin Islands and Guernsey, respectively. A majority of the directors and executive officers named in this Prospectus reside outside the United States and the United Kingdom, principally in the Republic of Cyprus and the Russian Federation. The majority of the assets and almost all of the assets of the directors and executive officers are located outside the United States and the United Kingdom, principally in the Republic of Cyprus and the Russian Federation. As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon the Issuer, the Selling Shareholders or their respective directors and executive officers or to enforce U.S. or UK court judgments obtained against the Issuer, the Selling Shareholders or their respective directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or UK securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country in which the judgment is rendered, and/or a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

There is currently no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. However, the Issuer is aware of at least two instances in which Russian courts have recognised and enforced a foreign court judgment (an English court judgment in one instance and a Dutch court judgment in the other instance), on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation, and both The Netherlands and the Russian Federation, respectively, are parties. The courts determined that such treaties, as well as comity between nations constituted grounds for the recognition and enforcement of the relevant foreign court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce a foreign court judgment on these grounds. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. These limitations may deprive an investor in the GDRs of effective legal recourse for claims related to its investment in the GDRs. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including limited experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, Russian courts' inability to enforce such orders and corruption. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment.



## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

This Prospectus contains:

- The Issuer's audited consolidated financial statements as of and for the years ended 31 December 2010, 2011 and 2012 (the "**Annual Financial Statements**") prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union; and
- The Issuer's unaudited consolidated condensed interim financial information as of and for the six months ended 30 June 2013 prepared in accordance with IFRS as adopted by the European Union applicable to interim reporting (International Accounting Standard 34 "Interim Financial Reporting") (the "**Unaudited Interim Financial Statements**" and, together with the Annual Financial Statements, the "**Financial Statements**").

### Market Data

Market data used in this Prospectus, including statistics in respect of TCS's market share, have been extracted from official and industry sources and other sources the Issuer believes to be reliable. This information appears throughout this Prospectus including, without limitation, in the sections headed "*Risk Factors*", "*Operating and Financial Review*", "*Business*" and "*The Banking Sector in Russia*" and is sourced in the text or in footnotes where it appears. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In particular, TCS has cited the following sources of market data in relation to the Russian Federation: (i) official data of Russian governmental agencies from the CBR website, the Federal State Statistics Service of the Russian Federation (Rosstat) website, the Federal Financial Markets Service (the "**FSFM**") website and from CBR reports entitled "The Review of the Banking Sector of the Russian Federation. Analytical Data" Nos. 116 (June 2012), 129 (July 2013) and 130 (August 2013); (ii) data from other third party sources including www.banki.ru website and third party reports including Frank Research Group report entitled "Russian consumer lending: 2006-2012", J'Son and Partners Consulting report entitled "Assessment of e-wallet services in Russia" dated August 2013, Economist Intelligence Unit report entitled "Country report—Russia" dated July 2013 and Economist Intelligence Unit report entitled "Russia: 5-year forecast table" dated August 2013.

TCS has also cited the following sources of market data in relation to other countries: the International Monetary Fund (the "**IMF**") website, the Euromonitor International (Euromonitor) website, the World Cellular Information Service (WCIS) report entitled "Smartphone Connections" dated February 2013, SwissRe Sigma's report entitled "World insurance in 2012—Progressing on the long and winding road to recovery" dated May 2013, the 2013 Human Development Report entitled "The Rise of the South: Human Progress in a Diverse World" dated March 2013 and IMF's World Economic Outlook dated April 2013.

TCS confirms that this information has been accurately reproduced and that, as far as TCS is aware and is able to ascertain from information published by these public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. TCS notes that neither these independent sources, the JGCs, the JBRs nor the Selling Agent accept liability for the accuracy of any such information, and investors are advised to consider such information with caution. TCS has relied on the accuracy of this information without independent verification.

Some of the market data contained in this Prospectus has been derived from the official data of Russian government agencies, including the CBR, Rosstat and the FSFM. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussions of matters relating to Russia in this Prospectus are, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable.

### Average Balance Sheet and Interest Rate Data

This Prospectus includes average balances of assets and liabilities for TCS for the six months periods ended 30 June 2013 and 2012 and for the years ended 31 December 2012, 2011 and 2010 that were calculated on a quarterly basis. The average balance of TCS's assets and liabilities in the six months ended 30 June 2013 represents the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013, and the average balance of TCS's assets and liabilities in the six months ended 30 June 2012 represents the average of the balances as of 31 December 2011, 31 March 2012 and 30 June 2012. The average balance of TCS's assets

and liabilities in 2012 represents the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012; the average balance of TCS's assets and liabilities in 2011 represents the average of the balances as of 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011; and the average balance of TCS's assets and liabilities in 2010 represents the average of the balances as of 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010. The quarterly information for TCS has neither been audited nor reviewed. The annual information for TCS was extracted without material adjustment from its Annual Financial Statements.

The results of the analysis for TCS would likely be different if alternative or more frequent averaging methods were used and such differences could be material. Investors are cautioned that the average balances and related data presented in this Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities.

The average interest rates disclosed in this Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item for the relevant period by the average balance for the same item for the applicable period. Average interest rates are distinct from the effective interest rates presented in the Financial Statements and referred to elsewhere in this Prospectus. 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 re-pricing 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. See "*Notes to the Consolidated Financial Statements—Summary of Significant Accounting Policies*" in the Annual Financial Statements.

IFRS requires that effective interest rates be used in the preparation of IFRS financial statements. TCS utilises both the effective interest rate and the average interest rate for its management's monitoring of operational results and effectiveness.

The average interest rate measures are not defined under IFRS or other generally accepted accounting principles, nor should they be considered as substitutes for the information contained in the Financial Statements.

### **Financial Ratios and Other Non-IFRS Measures**

TCS also presents net interest margin, cost to income ratio, return on equity, return on assets, cost of risk ratio, credit card loan portfolio growth rate, equity to total assets ratio, debt to equity ratio, provision for impairment of loans as a percentage of gross loans, non-performing loans as a percentage of gross loans and provision for impairment of loans as a percentage of non-performing loans which are not specifically defined under IFRS. These measures may not be comparable to other similarly titled measures of other banks and are not measurements under IFRS or other generally accepted accounting principles, and they should not be considered as substitutes for the information contained in the Financial Statements.

### **Currency**

In this Prospectus, the following currency terms are used:

- **"RUB", "RR"** (used in the Financial Statements only), **"rouble", "roubles"** or **"Russian Rouble"** means the lawful currency of the Russian Federation;
- **"US\$", "USD"** (used in the Financial Statements only), **"U.S. dollar"** or **"U.S. dollars"** means the lawful currency of the United States;
- **"EUR" or "euro"** means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty on the Functioning of the European Union, as amended from time to time; and
- **"SEK" or "Swedish krona"** means the lawful currency of the Kingdom of Sweden.

### **Exchange Rate Information**

The functional currency of each of TCS's consolidated entities is the rouble, which is the currency of the primary economic environment in which each such entity operates. The Issuer selected U.S. dollar as a presentation currency of the Financial Statements to enable investors to compare Financial Statements with other issuers of debt securities denominated in foreign currencies.

The following table sets forth, for the periods indicated, the high, low, average and year end official rates set by the CBR in each case for the purchase of roubles, all expressed per U.S. dollar. These translations should not be construed as representations that rouble amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as at any of the dates mentioned in this Prospectus or at all.

	<u>High</u>	<u>Low</u>	<u>Average<sup>(1)</sup></u>	<u>Period End</u>
	<i>(roubles per U.S. dollar)</i>			
2013 (up to and including 22 October 2013) . . . . .	33.47	29.93	31.66	31.90
2012 . . . . .	34.04	28.95	31.07	30.37
2011 . . . . .	32.68	27.26	29.29	32.20
2010 . . . . .	31.78	28.93	30.38	30.48
2009 . . . . .	36.43	28.67	31.76	30.24
2008 . . . . .	29.68	23.19	24.98	29.38

(1) The average of the exchange rates on the last calendar day of each month for the relevant annual period, and on each calendar day for any other period.

Monetary assets and liabilities denominated in U.S. dollars are translated into roubles at the rate of RUB 32.7090 per US\$1.00 as of 30 June 2013, RUB 30.3727 per US\$1.00 as of 31 December 2012, RUB 32.1961 per US\$1.00 as of 31 December 2011 and RUB 30.4769 per US\$1.00 as of 31 December 2010 for all figures in the Financial Statements.

### **Rounding**

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are “**forward-looking**” within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). Forward-looking statements include statements concerning plans, objectives, goals, strategies, economic and regulatory conditions affecting TCS, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this Prospectus including, without limitation, under the headings “*Operating and Financial Review*”, “*Risk Factors*” and “*Business*”, and include, but are not limited to, statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to new products and acquisitions;
- future revenues and performance;
- integration of TCS’s businesses, including recently acquired businesses;
- liquidity, capital adequacy, capital resources and capital expenditures;
- economic outlook and industry trends;
- developments in markets in which TCS operates;
- the impact of regulatory initiatives;
- TCS’s competitive strengths and weaknesses; and
- the strengths of TCS’s competitors.

The forward-looking statements in this Prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management’s examination of historical operating trends, data contained in its records and other data available from third parties. Although TCS believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond its control, and TCS may not achieve or accomplish these expectations, beliefs or projections. The occurrence or non-occurrence of an assumption could cause TCS’s actual financial condition and results to differ from or fail to meet expectations expressed or implied by, such forward-looking statements. In addition to these important factors and matters discussed elsewhere herein, important factors that, in TCS’s view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- instability of the global and Russian financial sectors;
- significant increases in TCS’s provisions for loan impairment and in the proportion of non-performing loans in its gross loan portfolio, as well as reductions of its collections and recoveries rates as a result of any deterioration in the economic conditions in Russia;
- TCS’s failure to accurately assess customer credit risk;
- increase in consumer activity challenging certain terms of consumer loans and regulatory activity aimed at strengthening consumer protection;
- changes in applicable consumer protection or banking legislation or their interpretation by courts and regulators imposing greater compliance requirements on TCS;
- TCS Bank’s inability to comply with capital adequacy requirements;
- changes in customers’ personal consumption and income levels as well as in their understanding of loan products;
- TCS’s inability to access domestic and international capital markets of the Russian interbank loan market;
- TCS’s inability to receive sufficient funding from retail deposits or withdrawal of a large proportion of such deposits;



- TCS's inability to maintain its banking licences or a breach of any of their terms or other applicable banking regulations; and
- The deterioration of the commercial soundness and/or the perceived soundness of other financial institutions, which could result in systemic liquidity problems.

This list of important factors is not exhaustive. When reviewing forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which TCS operates. Such forward-looking statements speak only as of the date on which they are made and are not intended to give any assurances as to future results. To the extent required by the listing rules of the FCA (the “**Listing Rules**”), the Prospectus Rules and the disclosure and transparency rules of the FCA (the “**Disclosure and Transparency Rules**”), and other applicable regulations, TCS will update or revise the information in this Prospectus. Otherwise TCS undertakes no obligation to update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise and TCS assumes no other obligation to publish additional information. None of TCS, its management, the JGCs, the JBRs or the Selling Agent can give any assurance regarding the future accuracy of the opinions set forth herein or as to the actual occurrence of any predicted developments. Accordingly, investors in the GDRs should not rely on the forward-looking statements in this Prospectus and are strongly advised to read this Prospectus in its entirety.

All subsequent written or oral forward-looking statements attributable to TCS, or persons acting on TCS's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, investors in the GDRs should not place reliance on these forward-looking statements and should specifically consider the factors identified in this Prospectus that could cause actual results to differ.

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## SUMMARY INFORMATION

*Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7).*

*This summary contains all the Elements required to be included in a summary for this type of securities and Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.*

*Even though an Element may be required to be inserted in the summary because of the type of securities and Issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of “not applicable.”*

<b>Section A—Introduction and warnings</b>		
<b>A.1</b>	<i>Warning</i>	This summary should be read as an introduction to the prospectus (the “ <b>Prospectus</b> ”); any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor; where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
<b>A.2</b>	<i>Consent by the issuer or person responsible for drawing up the prospectus to the use of the prospectus for subsequent resale or final placement of securities by financial intermediaries</i>	Not applicable. TCS Group Holding PLC (the “ <b>Issuer</b> ”) has not consented to the use of the Prospectus for subsequent resale or final placement of securities by financial intermediaries.

<b>Section B—Issuer</b>		
<b>B.31</b>	<b>Information about the issuer of the underlying shares</b>	
<b>B.31/B.1</b>	<i>The legal and commercial name of the issuer</i>	The Issuer’s legal and commercial name is TCS Group Holding PLC.
<b>B.31/B.2</b>	<i>The domicile and legal form of the issuer, the legislation under which the issuer operates and its country of incorporation</i>	The Issuer is a public company incorporated under the laws of the Republic of Cyprus. The principal legislation under which the Issuer operates is the Companies Law, Cap. 113 of Cyprus (as amended) (the “ <b>Companies Law</b> ”).

<b>B.31/B.3</b>	<i>A description of, and key factors relating to, the nature of the issuer's current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes</i>	<p>The Issuer and its consolidated subsidiaries, including “Tinkoff Credit Systems” Bank (Closed Joint-Stock Company) (“<b>TCS Bank</b>”), are known collectively as “<b>TCS</b>”.</p> <p>TCS is an innovative provider of online retail financial services operating in Russia through a high-tech branchless platform. Since its inception in 2006, TCS has grown into a leader in credit cards and has developed a successful online retail deposits programme. While credit cards and online retail deposits are the mainstay of TCS’s business, it is broadening its product offering to bring other online products and services to Russian consumers.</p> <p>Leveraging its high-tech branchless platform, core strength in credit cards and online retail deposit programme, TCS has been expanding into new products and services, which the Issuer expects will provide it with additional revenue upside and more diversified income. TCS’s recently introduced products include Tinkoff ALL Airlines rewards programme targeting the mass affluent segment of the credit card market in Russia, point-of-sale lending to customers making online purchases through Internet retailers, cash loans for existing customers, sales of third-party insurance products through its Internet site, as well as stand-alone debit cards and prepaid cards in partnerships with Yandex.Money and Money@Mail.ru. TCS is currently preparing to roll out a slate of additional innovative financial products in the fast emerging mobile payments and electronic wallet segments, as well as in the insurance segment.</p>
<b>B.31/B.4a</b>	<i>A description of the most significant recent trends affecting the issuer and the industries in which it operates</i>	<p><b><i>Russia’s Economic Conditions</i></b></p> <p>Substantially all of TCS’s assets and clients are located in Russia. As a result, TCS is affected by Russian economic conditions. In contrast with 2009, the real wages and real disposable money income of the Russian population increased in each of 2010, 2011 and 2012. Real wages increased by five per cent. in 2010, three per cent. in 2011 and eight per cent. in 2012, while real disposable money income increased by 5.9 per cent. in 2010, 0.5 per cent. in 2011 and 4.4 per cent. in 2012, thus creating conditions for increased demand for financial products and services in Russia.</p> <p><b><i>Fast Growth of the Credit Card Loan Portfolio</i></b></p> <p>TCS’s lending strategy focuses on increasing its share of the Russian credit card market through rapid growth of its credit card loan portfolio. The growth in its credit card loan portfolio allowed TCS to significantly increase its share of the Russian credit card market. According to data from the Central Bank of the Russian Federation (the “<b>CBR</b>”), TCS’s market share of the Russian credit card market increased from 2.5 per cent. at the beginning of the period under review (1 January 2010) to 4.2 per cent. as of 1 January 2011, 5.8 per cent. as of 1 January</p>



		<p>2012, 7.2 per cent. as of 1 January 2013 and 7.7 per cent. as of 1 July 2013. According to the CBR, as of 1 July 2013, TCS had the third largest credit card loan portfolio in Russia after Sberbank and Russian Standard Bank, up from being the ninth as of 1 January 2010.</p> <p><b><i>Change in the Mix of Distribution Channels</i></b></p> <p>Until 2011, the direct mail distribution channel was the principal channel for the acquisition of new customers for TCS. Beginning in 2011, TCS's online customer acquisition platform (combining the Internet, mobile and telesales) has become the predominant mode for attracting new customers. In the six months ended 30 June 2013, 90 per cent. of new credit card issuances were accounted for by this distribution channel. The Issuer believes that TCS is currently the number one online credit card originator in Russia by the number of credit cards issued. The transition from direct mail to the online customer acquisition platform as the principal channel for attracting new customers allowed TCS to lower the ratio of customer acquisition costs to net interest income and decrease the time lag between the initial investment into marketing campaigns and the issuance of new cards and significantly expanded the target audience for TCS's marketing efforts, thus providing a strong foundation for rapid growth in its credit card loan portfolio and interest income in 2011, 2012 and the six months ended 30 June 2013.</p> <p><b><i>Fluctuation of Interest Rates Earned on Loans and Advances to Customers and Incurred on Certain Liabilities of TCS and Declining Interest Margins</i></b></p> <p>Although TCS continues to benefit from relatively high interest rates on credit card loans, increased competition in the consumer banking market, as well as new regulations, may result in reductions in interest rates charged by TCS on its credit card loans in the future. The Issuer expects that TCS's credit card rates will also come down gradually over time, as the cost of risk and cost of funding decrease and rates are reduced for existing, long-standing customers in order to retain them. Further, the Issuer expects TCS's customers to gradually become more disciplined over time, which should help TCS to improve its portfolio risk profile but would also exert downward pressure on the effective interest rates and margins.</p> <p><b><i>Decreasing Cost/Income Ratio</i></b></p> <p>TCS's high-tech online customer acquisition and service platform allows TCS to have low operating and customer acquisition costs, which tend to decrease further as a proportion of net interest income due to economy of scale effects arising from the rapid growth in the size of TCS's credit card loan portfolio. The absence of an expensive branch network and the benefits of increasing proportion of customers who have been acquired and are serviced online (resulting, for example, in no or decreased need for account statements and</p>
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		<p>smaller number of calls per account) helped to decrease TCS's cost/income ratio, calculated as the sum of administrative and other operating expenses and customer acquisition expenses divided by net interest income from 64.9 per cent. in 2010 to 48.9 per cent. in 2011, 41.5 per cent. in 2012 and 38.5 per cent. in the six months ended 30 June 2013.</p>
<b>B.31/B.4b</b>	<p><i>A description of any known trends affecting the issuer and the industries in which it operates</i></p>	<p><b><i>Russia's Economic Conditions</i></b></p> <p>Substantially all of TCS's assets and clients are located in Russia. As a result, TCS is affected by Russian economic conditions. In contrast with 2009, the real wages and real disposable money income of the Russian population increased in each of 2010, 2011 and 2012. Real wages increased by five per cent. in 2010, three per cent. in 2011 and eight per cent. in 2012, while real disposable money income increased by 5.9 per cent. in 2010, 0.5 per cent. in 2011 and 4.4 per cent. in 2012, thus creating conditions for increased demand for financial products and services in Russia.</p> <p><b><i>Fast Growth of the Credit Card Loan Portfolio</i></b></p> <p>TCS's lending strategy focuses on increasing its share of the Russian credit card market through rapid growth of its credit card loan portfolio. The growth in its credit card loan portfolio allowed TCS to significantly increase its share of the Russian credit card market. According to the CBR's data, TCS's market share of the Russian credit card market increased from 2.5 per cent. at the beginning of the period under review (1 January 2010) to 4.2 per cent. as of 1 January 2011, 5.8 per cent. as of 1 January 2012, 7.2 per cent. as of 1 January 2013 and 7.7 per cent. as of 1 July 2013. As of 1 July 2013, TCS had the third largest credit card loan portfolio in Russia after Sberbank and Russian Standard Bank, up from being the ninth as of 1 January 2010.</p> <p><b><i>Change in the Mix of Distribution Channels</i></b></p> <p>Until 2011, the direct mail distribution channel was the principal channel for the acquisition of new customers for TCS. Beginning in 2011, TCS's online customer acquisition platform (combining the Internet, mobile and telesales) has become the predominant mode for attracting new customers. In the six months ended 30 June 2013, 90 per cent. of new credit card issuances were accounted for by this distribution channel. The Issuer believes that TCS is currently the number one online credit card originator in Russia by the number of credit cards issued. The transition from direct mail to the online customer acquisition platform as the principal channel for attracting new customers allowed TCS to lower the ratio of customer acquisition costs to net interest income and decrease the time lag between the initial investment into marketing campaigns and the issuance of new cards and significantly expanded the target audience for TCS's marketing efforts, thus</p>

		<p>providing a strong foundation for rapid growth in its credit card loan portfolio and interest income in 2011, 2012 and the six months ended 30 June 2013.</p> <p><b><i>Fluctuation of Interest Rates Earned on Loans and Advances to Customers and Incurred on Certain Liabilities of TCS and Declining Interest Margins</i></b></p> <p>Although TCS continues to benefit from relatively high interest rates on credit card loans, increased competition in the consumer banking market, as well as new regulations, may result in reductions in interest rates charged by TCS on its credit card loans in the future. The Issuer expects that TCS's credit card rates will also come down gradually over time, as the cost of risk and cost of funding decrease and rates are reduced for existing, long-standing customers in order to retain them. Further, the Issuer expects TCS's customers to gradually become more disciplined over time, which should help TCS to improve its portfolio risk profile but would also exert downward pressure on the effective interest rates and margins.</p> <p><b><i>Decreasing Cost/Income Ratio</i></b></p> <p>TCS's high-tech online customer acquisition and service platform allows TCS to have low operating and customer acquisition costs, which tend to decrease further as a proportion of net interest income due to economy of scale effects arising from the rapid growth in the size of TCS's credit card loan portfolio. The absence of an expensive branch network and the benefits of increasing proportion of customers who have been acquired and are serviced online (resulting, for example, in no or decreased need for account statements and smaller number of calls per account) helped to decrease TCS's cost/income ratio, calculated as the sum of administrative and other operating expenses and customer acquisition expenses divided by net interest income from 64.9 per cent. in 2010 to 48.9 per cent. in 2011, 41.5 per cent. in 2012 and 38.5 per cent. in the six months ended 30 June 2013.</p>
<b>B.31/B.5</b>	<i>If the issuer is part of a group, a description of the group and the issuer's position within the group</i>	<p>The Issuer is a parent company of a banking group that comprises the Issuer and its consolidated subsidiaries, including TCS Bank. These companies undertake various types of activities including banking and other finance activities. TCS has, on occasion, acquired companies operating in specific areas of the financial services sector which then became centres for launching its new business products.</p>

**B.31/B.6**

*In so far as is known, the name of any person who, directly or indirectly, has an interest in the issuer's capital or voting rights which is notifiable under the issuer's national law, together with the amount of each such person's interest. Whether the issuer's major shareholders have different voting rights if any. To the extent known to the issuer, state whether the issuer is directly or indirectly owned by controlled and by whom and describe the nature of such control*

Mr Oleg Tinkov ("**Mr Tinkov**") is the principal shareholder of the Issuer, indirectly holding 60.5 per cent. of the Issuer's issued share capital (by way of Tadek Holding & Finance S.A., Tasos Invest & Finance Inc., Vizer Limited, Maitland Commercial Inc. and Norman Legal S.A., which directly hold 54.33 per cent., 6.17 per cent., less than 0.01 per cent., less than 0.01 per cent. and less than 0.01 per cent. of the Issuer's issued share capital, respectively, and are wholly-owned by Mr Tinkov) and 100 per cent. of the Class B Shares, as of the date of the Prospectus. ELQ Investors II Ltd, Vostok Komi (Cyprus) Limited, Rousse Nominees Limited, Lorimer Ventures Limited and Altruco Trustees Limited, as trustee for the employee share ownership plan (the "**ESOP**") for certain key managers of TCS and trustee for the amended long-term incentive plan for certain key and middle managers of TCS (the "**Equity LTIP**"), are the Issuer's minority shareholders directly holding 12.28 per cent., 13.18 per cent., 7.92 per cent., 3.96 per cent. and 2.16 per cent. of the Issuer's issued share capital, respectively, as of the date of the Prospectus.

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

(a) on a vote at a general meeting or at a separate meeting of the holders of a class which is held on a show of hands ("**Hands Vote**"), to one vote per Class A Share; and (b) on a vote at a general meeting or at a separate meeting of the holders of shares of a class which is held on a poll (a "**Poll Vote**"), to one vote per Class A Share.

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 Share; and (b) on a Poll Vote, to 10 votes per Class B Share.

The Class B Shares also carry the right to appoint one or more Directors B to the Issuer's board of directors. There is no limit on the number of Directors B that can be appointed to the Issuer's board of directors in the Issuer's articles of association ("**Articles of Association**"), subject to the maximum number of all directors on the Issuer's board of directors being seven.

"**Director B**" means a director appointed or deemed to have been appointed by the shareholders which hold all the Class B Shares or the Class B shareholders together holding or representing Class B Shares which constitute or represent in aggregate over 50 per cent. in the nominal capital paid up on the Class B Shares in accordance with the Articles of Association. Currently there is no Director B appointed or proposed to be appointed.



**B.31/B.7**

*Selected historical key financial information regarding the issuer, presented for each financial year of the period covered by the historical financial information, and any subsequent interim financial period accompanied by comparative data from the same period in the prior financial year except that the requirement for comparative balance sheet information is satisfied by presenting the year-end balance sheet information. This should be accompanied by a narrative description of significant change to the issuer's financial condition and operating results during or subsequent to the period covered by the historical key financial information*

The financial information set forth below as of and for the six months ended 30 June 2013 and 2012 and for the years ended 31 December 2012, 2011 and 2010 has been extracted from the Annual Financial Statements as of and for the years ended 31 December 2010, 2011 and 2012 and the Unaudited Interim Financial Statements as of and for the six months ended 30 June 2013 included in the Prospectus.

**TCS's Consolidated Statement of Comprehensive Income Data**

	Six months ended 30 June		Year ended 31 December		
	2013	2012	2012	2011	2010
(in thousands of U.S. dollars, except as stated otherwise)					
Interest income .....	519,551	271,458	657,836	331,935	138,693
Interest expense .....	(125,983)	(63,982)	(157,601)	(78,246)	(43,110)
<b>Net interest income .....</b>	<b>393,568</b>	<b>207,476</b>	<b>500,235</b>	<b>253,689</b>	<b>95,583</b>
Provision for loan impairment .....	(140,396)	(37,927)	(124,378)	(41,924)	(27,965)
<b>Net interest income after provision for loan impairment .....</b>	<b>253,172</b>	<b>169,549</b>	<b>375,857</b>	<b>211,765</b>	<b>67,618</b>
Customer acquisition expense .....	(68,906)	(46,745)	(85,258)	(54,516)	(21,991)
Fee and commission expense .....	(5,181)	(3,397)	(7,417)	(6,328)	(2,726)
(Losses less gains)/gains less losses from operations with foreign currencies .....	(1,531)	(3,463)	(8,321)	(191)	6,240
Gain from sale of bad debts .....	6,711	809	5,103	2,651	2,268
Insurance agency fee .....	1,086	—	306	—	—
Other operating income .....	207	325	219	248	187
Administrative and other operating expenses .....	(82,663)	(49,557)	(122,527)	(69,654)	(40,084)
Release of provision for liabilities and charges ..	—	—	—	4,923	1,786
Gains/(losses) on repurchase of debt securities in issue .....	—	—	116	(182)	(359)
<b>Profit before tax .....</b>	<b>102,895</b>	<b>67,521</b>	<b>158,078</b>	<b>88,716</b>	<b>12,939</b>
Income tax expense .....	(23,563)	(15,262)	(36,164)	(20,322)	(3,814)
<b>Profit for the period or year .....</b>	<b>79,332</b>	<b>52,259</b>	<b>121,914</b>	<b>68,394</b>	<b>9,125</b>
Other comprehensive income/(loss):					
Exchange differences on translation to presentation currency ..	(24,328)	(7,687)	10,773	(10,169)	(300)
<b>Other comprehensive income/(loss) for the period or year .....</b>	<b>(24,328)</b>	<b>(7,687)</b>	<b>10,773</b>	<b>(10,169)</b>	<b>(300)</b>
<b>Total comprehensive income for the period or year .....</b>	<b>55,004</b>	<b>44,572</b>	<b>132,687</b>	<b>58,225</b>	<b>8,825</b>
<b>Earning per share for profit attributable to the owners (US\$ per share) .....</b>	<b>11.84</b>	<b>8.18</b>	<b>18.63</b>	<b>10.87</b>	<b>1.54</b>
<b>Earnings per share for profit attributable to the owners, diluted (US\$ per share) .....</b>	<b>11.59</b>	<b>8.08</b>	<b>18.32</b>	<b>10.77</b>	<b>1.54</b>

Consolidated Statement of Financial Position Data					
	As of 30 June 2013	As of 31 December			
		2012	2011	2010	
	(in thousands of U.S. dollars)				
ASSETS					
Cash and cash equivalents . . . . .	279,908	457,382	163,191	50,892	
Mandatory cash balances with the CBR . . . . .	27,424	22,560	6,975	2,463	
Due from banks . . . . .	—	—	2,236	—	
Loans and advances to customers . . . . .	1,951,609	1,573,266	663,413	316,418	
Financial derivatives . . . . .	22,222	826	15,271	—	
Current income tax assets . . . . .	2,030	—	—	409	
Deferred income tax assets . . . . .	11,722	11,370	1,356	529	
Guarantee deposits with payment systems . . . . .	48,196	33,592	24,030	12,555	
Fixed assets . . . . .	22,128	17,952	4,511	4,427	
Intangible assets . . . . .	12,889	13,460	7,695	4,646	
Other financial assets . . . . .	39,847	38,995	21,963	10,501	
Other non-financial assets . . . . .	829	4,068	4,482	2,296	
TOTAL ASSETS . . . . .	2,418,804	2,173,471	915,123	405,136	
LIABILITIES AND EQUITY					
LIABILITIES					
Due to banks . . . . .	16,602	16,930	—	—	
Customer accounts . . . . .	977,293	878,146	361,664	174,149	
Debt securities in issue . . . . .	806,273	762,414	412,875	143,591	
Subordinated debt . . . . .	198,354	123,897	—	—	
Syndicated loan . . . . .	—	—	—	31,378	
Provisions for liabilities and charges . . . . .	—	—	—	4,747	
Financial derivatives . . . . .	921	11,927	—	—	
Current income tax liabilities . . . . .	—	2,779	4,950	—	
Other financial liabilities . . . . .	52,362	70,570	13,687	6,424	
Other non-financial liabilities . . . . .	11,136	8,541	4,857	982	
TOTAL LIABILITIES . . . . .	2,062,941	1,875,204	798,033	361,271	
EQUITY					
Share capital . . . . .	6,835	6,777	6,370	6,283	
Share premium . . . . .	118,724	118,724	81,631	66,641	
Treasury shares . . . . .	(135)	(77)	(77)	—	
Share-based payment . . . . .	13,582	10,990	—	—	
Retained earnings/ (accumulated deficit) . . . . .	249,260	169,928	48,014	(20,380)	
Accumulated loss on translation . . . . .	(32,403)	(8,075)	(18,848)	(8,679)	
TOTAL EQUITY . . . . .	355,863	298,267	117,090	43,865	
TOTAL LIABILITIES AND EQUITY . . . . .	2,418,804	2,173,471	915,123	405,136	
Selected Non-IFRS Financial Ratios and Other Non-IFRS Measures					
	Six months ended 30 June		Year ended 31 December		
	2013	2012	2012	2011	2010
	(in %)				
Profitability					
Net interest margin <sup>(1)</sup> . . . . .	37.1	41.2	37.3	44.0	37.1
Cost/income ratio <sup>(2)</sup> . . . . .	38.5	46.4	41.5	48.9	64.9
Return on equity <sup>(3)</sup> . . . . .	48.7	66.6	59.7	83.9	23.4
Return on assets <sup>(4)</sup> . . . . .	6.8	9.3	8.3	10.5	3.2
Asset quality					
Cost of risk ratio <sup>(5)</sup> . . . . .	14.4	8.2	10.5	7.7	11.1

		<p>(1) Net interest margin is defined as a ratio of net interest income to the average balance of total interest-earning assets (multiplied by two for the six months ended 30 June 2013 and 2012 to annualise the ratio). The average balance of TCS's assets in the six months ended 30 June 2013 represents the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013, and the average balance of TCS's assets in the six months ended 30 June 2012 represents the average of the balances as of 31 December 2011, 31 March 2012 and 30 June 2012. The average balance of TCS's assets in 2012 represents the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012; the average balance of TCS's assets in 2011 represents the average of the balances as of 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011; and the average balance of TCS's assets in 2010 represents the average of the balances as of 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010.</p> <p>(2) The cost/income ratio is calculated as the sum of TCS's administrative and other operating expenses and its customer acquisition expenses divided by its net interest income.</p> <p>(3) Return on equity is defined as profit for the period or profit for the year, as applicable, divided by the average balance of TCS's total equity (multiplied by two for the six months ended 30 June 2013 and 2012 to annualise the ratio). The average balance of TCS's total equity in the six months ended 30 June 2013 represents the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013, and the average balance of TCS's total equity in the six months ended 30 June 2012 represents the average of the balances as of 31 December 2011, 31 March 2012 and 30 June 2012. The average balance of TCS's total equity in 2012 represents the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012; the average balance of TCS's total equity in 2011 represents the average of the balances as of 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011; and the average balance of TCS's total equity in 2010 represents the average of the balances as of 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010.</p> <p>(4) Return on assets is defined as profit for the period or profit for the year, as applicable, divided by the average balance of TCS's total assets (multiplied by two for the six months ended 30 June 2013 and 2012 to annualise the ratio). The average balance of TCS's total assets in the six months ended 30 June 2013 represents the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013, and the average balance of TCS's total assets in the six months ended 30 June 2012 represents the average of the balances as of 31 December 2011, 31 March 2012 and 30 June 2012. The average balance of TCS's total assets in 2012 represents the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012; the average balance of TCS's total assets in 2011 represents the average of the balances as of 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011; and the average balance of TCS's total assets in 2010 represents the average of the balances as of 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010.</p> <p>(5) The cost of risk ratio represents total provision for loan impairment charge divided by the average balance of gross loans and advances to customers in the same period or year, as applicable (multiplied by two for the six months ended 30 June 2013 and 2012 to annualise the ratio). The average balance of TCS's gross loans and advances to customers in the six months ended 30 June 2013 represents the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013, and the average balance of TCS's gross loans and advances to customers in the six months ended 30 June 2012 represents the average of the balances as of 31 December 2011, 31 March 2012 and 30 June 2012. The average balance of TCS's gross loans and advances to customers in 2012 represents the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012.</p>
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31 December 2012; the average balance of TCS's gross loans and advances to customers in 2011 represents the average of the balances as of 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011; and the average balance of TCS's gross loans and advances to customers in 2010 represents the average of the balances as of 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010.

	<i>As of or for the six months ended 30 June 2013</i>	<i>As of or for the year ended 31 December</i>		
		<u>2012</u>	<u>2011</u>	<u>2010</u>
Credit card loan portfolio growth rate <sup>(1)</sup> . . . . .	25.9%	140.3%	109.5%	76.6%
Equity to total assets ratio <sup>(2)</sup> . . . . .	14.7%	13.7%	12.8%	10.8%
Debt to equity ratio <sup>(3)</sup> . . .	5.62	5.97	6.61	7.96
<b>Asset quality</b>				
Provision for impairment of loans as a percentage of gross loans . . . . .	10.0%	8.1%	6.5%	7.4%
Non-performing loans as a percentage of gross loans . . . . .	6.0%	4.7%	3.7%	4.0%
Provision for impairment of loans as a percentage of non-performing loans . . . . .	164.9%	174.2%	178.0%	185.5%
<b>Capital adequacy</b>				
Tier I capital ratio <sup>(4)</sup> . . . .	15.0%	14.0%	12.1%	8.4%
Total capital ratio <sup>(4)</sup> . . . .	22.0%	20.1%	12.1%	8.4%
N1 capital adequacy ratio calculated in accordance with the CBR requirements <sup>(5)</sup> . .	17.14%	17.41%	14.04%	13.55%

- (1) Credit card loan portfolio growth rate is defined as the change between gross credit card loan portfolio closing and opening balances of the respective reporting period or year, as applicable, divided by gross credit card loan portfolio opening balance of the respective reporting period or year, as applicable.
- (2) Equity to total assets ratio is defined as the closing balance of total equity divided by the closing balance of total assets of the respective reporting period or year, as applicable.
- (3) Debt to equity ratio is defined as the closing balance of total debt (sum of due to banks, customer accounts, debt securities in issue, subordinated debt and syndicated loan) divided by the closing balance of total equity of the respective reporting period.
- (4) TCS's capital adequacy ratio ("CAR") is calculated on a consolidated basis under the methodology set by the Basel Committee on Banking Regulations and Supervisory Practices (the "Basel Committee") with capital adjustments as set out in Basel III. TCS's Tier I capital is represented by net assets of TCS and decreased by intangible assets. TCS's Tier II capital is represented by subordinated loans, up to a limit of 50 per cent. of Tier I capital.
- (5) N1 capital adequacy ratio is calculated in accordance with the rules of the CBR and is based on TCS Bank's unconsolidated RAS accounts that are materially different from IFRS. The CBR has increased risk-weighting coefficients on unsecured high interest rate consumer loans with effect from 1 July 2013 and has proposed even higher risk-weighting coefficients for such loans recently.

From 1 July 2013, pursuant to CBR Instruction No. 139-I “On the Banks’ Mandatory Economic Ratios” dated 3 December 2012 (the “**Mandatory Economic Ratios Instruction**”), Russian banks are required to increase risk weightings for new loans with an annual effective interest rate above 25 per cent. for the purpose of calculating such banks’ risk-weighted assets under the CBR’s mandatory economic ratios. The risk weightings (all of which were previously set at 100 per cent.) for new loans granted after 1 July 2013 have increased to (i) 110 per cent. for loans with annual effective interest rates ranging from above 25 per cent. to 35 per cent., (ii) to 140 per cent. for loans with annual effective interest rates ranging from above 35 per cent. to 45 per cent., (iii) to 170 per cent. for loans with annual effective interest rates ranging from above 45 per cent. to 60 per cent. and (iv) to 200 per cent. for loans with annual effective interest rates over 60 per cent. (in each case at the time the loan is provided).

In September 2013, the CBR published a draft of amendments to the Mandatory Economic Ratios Instruction which, among other things, included a further increase in the risk-weighting coefficients to be applied to higher rate consumer loans for the purpose of calculating the relevant bank’s risk-weighted assets under the CBR’s economic ratios. In particular, the CBR proposed to increase the risk-weighting coefficients for new loans granted after 1 January 2014 to (i) 160 per cent. (from 140 per cent.) for loans with annual effective interest rates ranging from 35 per cent. to 45 per cent., (ii) to 300 per cent. (from 170 per cent.) for loans with annual effective interest rates ranging from 45 per cent. to 60 per cent. and (iii) to 600 per cent. (from 200 per cent.) for loans with annual effective interest rates over 60 per cent. The annual effective interest rate must be determined at the time the loan is provided. These proposed amendments reflect the CBR’s rising concern regarding the scale of consumer lending growth in recent years and the adverse impact of such rapid growth on creditworthiness of retail customers. There remains some uncertainty regarding the final form of the amendments to the Mandatory Economic Ratios Instruction as the CBR has been collecting comments to the draft amendments from market participants until 27 September 2013 and may potentially revise the amendments based on such feedback.

If the CBR’s proposed risk-weighting coefficients are implemented in the form of the currently published amendments, TCS may have to reduce the rate of growth of its loan portfolio, seek to raise additional capital or do both in order to maintain sufficient capital. The Issuer does not currently expect to pay dividends in the nearest years as it accumulates additional capital to maintain its N1 capital adequacy ratio above the levels required by TCS’s financing arrangements.

While the Issuer believes that these potential new rules on risk-weighting coefficients will cause some pressure on its profit margins, particularly in the near term, it also believes that TCS may potentially benefit from these new rules, as implementation of such rules is likely to make the Russian consumer finance business less competitive and eventually reduce the cost of risk, thus potentially allowing TCS to attract better quality customers at a lower acquisition cost in the future.



		Except as described above, there has been no significant change in the financial or trading position of TCS since 30 June 2013, the end of the last financial period for which financial information has been published.
<b>B.31/B.9</b>	<i>Where a profit forecast or estimate is made, state the figure</i>	Not applicable. The Prospectus does not include a profit forecast or estimate by the Issuer.
<b>B.31/B.10</b>	<i>A description of the nature of any qualifications in the audit report on the historical financial information</i>	Not applicable. There are no qualifications in the audit reports on the historical financial information.
<b>B.32</b>	<i>Information about the issuer of the depositary receipts. Name and registered office of the issuer of the depositary receipts. Legislation under which the issuer of the depositary receipts operates and legal form which it has adopted under the legislation</i>	JPMorgan Chase Bank, N.A. (the “ <b>Depository</b> ”) is a national banking association, organised and existing under the laws of the United States of America and with its main office in Columbus, Ohio, United States of America. JPMorgan Chase Bank, N.A. is the principal banking subsidiary of JPMorgan Chase & Co.. The Depository was organised as a national banking association under the National Bank Act on 13 November 2004. Previously, it had been a New York State-chartered bank incorporated under the Banking Law of New York. The Depository is subject to the regulation of, and supervision by, the Office of the Comptroller of the Currency, a bureau of the U.S. Department of the Treasury. The registered office of the Depository is located at 1111 Polaris Parkway, Columbus, Ohio 43240, United States of America.

### Section C—Securities

<b>C.13</b>	<b>Information about the underlying shares</b>	
<b>C.13/C.1</b>	<i>A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number</i>	The Prospectus relates to an offering (the “ <b>Offering</b> ”) of Class A Shares, each fully paid with a nominal value of US\$0.04 per share and carrying one vote in a general meeting of shareholders, by the Issuer of 10,000,000 Class A Shares and by Mr Tinkov (by way of Tadek Holding & Finance S.A. and Tasos Invest & Finance Inc., which are wholly-owned by Mr Tinkov), The Goldman Sachs Group, Inc. (by way of its wholly-owned subsidiary, ELQ Investors II Ltd), the limited partnerships comprising Baring Vostok Private Equity Fund IV (“ <b>Baring Vostok</b> ”) (by way of a nominee company, Rouse Nominees Limited, which holds the beneficial interest in its shares in the Issuer on trust for Baring Vostok), Vostok Nafta Investment Limited (by way of its wholly-owned subsidiary, Vostok Komi (Cyprus) Limited) and Emerging Europe Growth Fund II, L.P. (managed by its general partner Horizon Capital GP II, LLC) (together, “ <b>Horizon Capital</b> ”) (by way of its wholly-owned subsidiary Lorimer Ventures Limited) and Altruco Trustees Limited (as trustee in relation to the ESOP and the Equity LTIP) (the “ <b>Selling Shareholders</b> ”) of 52,111,802 Class A Shares, in the form of global depositary receipts (“ <b>GDRs</b> ”), with one GDR representing an interest in one Class A Share at an offer price of US\$17.50 per GDR (“ <b>Offer Price</b> ”) and application has been made to the London Stock Exchange plc (the “ <b>London Stock Exchange</b> ”) for such

		<p>GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities through its International Order Book ("IOB").</p> <p>In addition to Class A Shares, the Issuer's share capital also comprises 92,144,679 Class B Shares, each fully paid with a nominal value of US\$0.04 per share and carrying 10 votes in a general meeting of shareholders, all of which are currently indirectly held by Mr Tinkov. The Class B Shares will not form part of the Offering.</p> <p>The Class A Shares and Class B Shares are not, and are not expected to be, listed on any stock exchange.</p> <p>The security code numbers and trading symbols of the GDRs are as follows:</p> <p>Rule 144A GDR Common Code: 097456585</p> <p>Rule 144A GDR ISIN: US87238U1043</p> <p>Rule 144A GDR CUSIP: 87238U104</p> <p>Rule 144A GDR SEDOL: BF233R9</p> <p>Regulation S GDR Common Code: 097457107</p> <p>Regulation S GDR ISIN: US87238U2033</p> <p>Regulation S GDR CUSIP: 87238U203</p> <p>Regulation S GDR SEDOL: BF233S0</p> <p>London Stock Exchange GDR trading symbol: TCS</p>
<b>C.13/C.2</b>	<i>Currency of the securities issue</i>	The currency of the Class A Shares will be U.S. dollars.
<b>C.13/C.3</b>	<i>The number of shares issued and fully paid and issued but not fully paid. The par value per share, or that the shares have no par value</i>	As at the date of the Prospectus, the Issuer's issued share capital is US\$6,847,563 divided into 79,044,396 Class A Shares (including shares to be issued to the Equity LTIP on or prior to the date of this Prospectus), with a par value of US\$0.04 per share and which are fully paid, and 92,144,679 Class B Shares, with a par value of US\$0.04 per share and which are fully paid.
<b>C.13/C.4</b>	<i>A description of the rights attached to the securities</i>	<p>The Class A Shares carry the right to one vote per Class A Share and confer on the Class A shareholders the right:</p> <p>(a) on a Hands Vote, to one vote per Class A Share; and</p> <p>(b) on a Poll Vote, to one vote per Class A Share.</p> <p>The Class B Shares carry the right to 10 votes per Class B Share and confer on the Class B shareholders the right:</p> <p>(a) on a Hands Vote, to 10 votes per Class B Share; and</p> <p>(b) on a Poll Vote, to 10 votes per Class B Share.</p> <p>Special rights of the Class A Shares versus the Class B Shares:</p> <p>1. Class B Shares carry or confer enhanced voting rights (10 votes per Class B Share) as opposed to Class A Shares (one vote per Class A Share).</p>

		<p>2. The Class A holders and Class B holders shall be entitled to receive notice of, attend and speak at, every general meeting of the shareholders and separate meetings of the holders of shares of any class at which they are respectively entitled to vote.</p> <p>3. The Class B Shares carry or confer the right to require the board of directors to convene an extraordinary general meeting of the Issuer or a separate meeting of the Class B holders, on the requisition of any Class B holders.</p> <p>4. The Class A Shares carry or confer the right to require the board of directors to convene a separate meeting of the Class A holders on the requisition of a Class A holder or holders 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.</p> <p>5. The holders of Class B Shares constituting or representing in aggregate over 50 per cent. in nominal capital paid up on the Class B Shares carry or confer the rights to appoint and remove one or more Directors B. There is no limit on the number of Directors B that can be appointed to the Issuer's board of directors in the Articles of Association, subject to the maximum number of all directors on the Issuer's board of directors being seven.</p> <p>6. The Class A Shares and Class B Shares are subject to conversion in certain circumstances.</p> <p>Subject to the above, the Class A Shares and Class B Shares rank <i>pari passu</i> in all other respects.</p>
<b>C.13/C.5</b>	<i>A description of any restrictions on the free transferability of the securities</i>	The Class A Shares which are being sold in the Offering, which the GDRs will represent, are freely transferable subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom and the European Economic Area (the “EEA”) and other jurisdictions, and contractual lock-ups for certain shareholders and the Issuer.
<b>C.13/C.6</b>	<i>An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded</i>	The Class A Shares underlying the GDRs are not and will not be admitted to trading on any regulated market in the EEA.
<b>C.13/C.7</b>	<i>A description of dividend policy</i>	Pursuant to the Articles of Association, the Issuer may pay dividends out of its profits. To the extent that the Issuer declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Class A Shares underlying the GDRs, subject to the terms of an

		<p>agreement between the Issuer and the Depositary dated on or about the date of the Prospectus (the “<b>Deposit Agreement</b>”). The Issuer expects to pay dividends, if at all, in U.S. dollars.</p> <p>Payments of dividends by the Issuer is based on a policy established by the Issuer’s board of directors whereby dividends would be paid only if TCS Bank’s current and projected N1 capital adequacy ratio would remain (after payment of dividends) at or above a target level considered optimal by the management, i.e. within two to four per cent. above the highest levels required by the relevant covenants in any of TCS’s financing arrangements (currently 13 per cent.).</p> <p>Taking into account the various factors potentially affecting TCS Bank’s N1 capital adequacy ratio, including, among others, the recently published proposed amendments to the risk-weighting coefficients set by the CBR in relation to unsecured high interest rate consumer loans, the Issuer does not currently expect to pay dividends in the nearest years as it accumulates additional capital to maintain its N1 capital adequacy ratio above the levels required by TCS’s financing arrangements.</p> <p>In addition, payment of any such dividend will be subject to any restrictions under applicable law and regulations, the Articles of Association, available cash flow, dividends from the Issuer’s subsidiaries and TCS’s capital investment requirements, as well as the approval of the dividend by the general meeting of shareholders of the Issuer on the recommendation of the Issuer’s board of directors, based on the audited stand-alone and consolidated financial statements of the Issuer for the relevant financial year. Interim dividends will be declared and approved at the discretion of the Issuer’s board of directors. The Issuer’s dividend policy is subject to modification from time to time as the Issuer’s board of directors may deem appropriate, including as a result of changes in applicable laws and regulations or the Articles of Association, or to reflect changes in the circumstances in which the Issuer operates.</p> <p>The Class A Shares and Class B Shares have the right to an equal share in any dividend or other distribution paid by the Issuer, and any dividend or other distribution may only be declared and paid by the Issuer to the holder of the Class A Shares and Class B Shares together and each such share shall be treated (notwithstanding its classification or class designation) equally for such purposes.</p> <p>The Issuer is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to it in accordance with applicable corporate law and contractual restrictions in shareholder and joint venture agreements.</p>
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C.14	Information about the global depository receipts	
C.14/C.1	<p><i>A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number</i></p>	<p>The Offering comprises a listing on the official list maintained by the United Kingdom Financial Conduct Authority (“<b>Official List</b>”) and an admission to trading on the regulated market of London Stock Exchange through its IOB of up to 62,111,802 GDRs to be issued on or about 8:00 a.m. on 25 October 2013 (the “<b>Closing Date</b>”) and up to 109,760,503 additional GDRs to be issued from time to time against the deposit of up to 109,760,503 Class A Shares (to the extent permitted by law) with HSBC Bank plc acting by way of its Athens branch, HSBC Bank plc (Greece) via its department, HSBC Securities Services, Greece, 109-111, Messoghion Ave., 115 26 Athens, Greece (the “<b>Custodian</b>”), as custodian for the Depositary.</p> <p>The GDRs will be issued pursuant to the Deposit Agreement.</p> <p>Class B Shares will not be represented by the GDRs.</p> <p>In addition, Rouse Nominees Limited, Vostok Komi (Cyprus) Limited and Lorimer Ventures Limited have granted Goldman Sachs International, Morgan Stanley &amp; Co. International plc and SIB (Cyprus) Limited (the “<b>Joint Global Co-ordinators</b>” or “<b>JGCs</b>”) and J.P. Morgan Securities plc and Renaissance Securities (Cyprus) Limited (the “<b>Joint Bookrunners</b>” or “<b>JBRs</b>”) an option exercisable within 30 calendar days of the announcement of the Offer Price to purchase up to 9,316,770 additional GDRs at the Offer Price, solely to cover over-allotments, if any, in connection with the Offering (the “<b>Over-allotment Option</b>”). Pareto Securities AB will be acting as selling agent for the purposes of the Offering.</p> <p>Conditional trading in the GDRs on the London Stock Exchange is expected to commence on an if-and-when-issued basis on or around 8:00 a.m. on 22 October 2013. Admission to the Official List and unconditional trading on the London Stock Exchange through its IOB (“<b>Admission</b>”) is expected to take place on or about 8:00 a.m. on 25 October 2013. All dealings in the GDRs prior to the commencement of unconditional tradings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.</p> <p>The security code numbers and trading symbols of the GDRs are as follows:</p> <p>Rule 144A GDR Common Code: 097456585</p> <p>Rule 144A GDR ISIN: US87238U1043</p> <p>Rule 144A GDR CUSIP: 87238U104</p> <p>Rule 144A GDR SEDOL: BF233R9</p> <p>Regulation S GDR Common Code: 097457107</p> <p>Regulation S GDR ISIN: US87238U2033</p> <p>Regulation S GDR CUSIP: 87238U203</p> <p>Regulation S GDR SEDOL: BF233S0</p> <p>London Stock Exchange GDR trading symbol: TCS</p>



<b>C.14/ C.2</b>	<i>Currency of the securities issue</i>	The GDRs are issued in U.S. dollars.
<b>C.14/ C.4</b>	<i>A description of the rights attached to the securities</i>	Pursuant to the Deposit Agreement and terms and conditions for the issuance of the GDRs, holders of GDRs (“ <b>Holder</b> ” is the person registered as Holder on the books of the Depositary maintained for such purpose) will, amongst other things, be entitled to payments of cash dividends and other amounts (including cash distributions) in relation to the GDRs which will be made by the Depositary through The Depositary Trust Company (“ <b>DTC</b> ”) or Euroclear Bank S.A./N.V. (“ <b>Euroclear</b> ”) and Clearstream Banking, société anonyme (“ <b>Clearstream, Luxembourg</b> ”), as the case may be, on behalf of persons entitled thereto, upon receipt of funds therefor from the Issuer, net of the Depositary’s fees, taxes, duties and charges. A free distribution or rights issue of Class A Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by a master Regulation S global depositary receipt or a master Rule 144A global depositary receipt, as the case may be. Holders of GDRs will be entitled to receive copies of the Issuer’s notices and certain information and reports on the Issuer. Holders will have voting rights with respect to the Class A Shares deposited with the Depositary, subject to and in accordance with any applicable Cypriot law.
<b>C.14/ C.5</b>	<i>A description of any restrictions on the free transferability of the securities</i>	The GDRs will be subject to certain transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee, including the United States, the United Kingdom, the EEA and other jurisdictions.
<b>C.14</b>	<i>Describe the exercise of and benefit from the rights attaching to the underlying shares, in particular voting rights, the conditions on which the issuer of the depositary receipts may exercise such rights, and measures envisaged to obtain the instructions of the depositary receipt holders—and the right to share in profits and any liquidations surplus which are not to be passed on to the holder of the depositary receipt. Description of the bank or other guarantee attached to the depositary receipt and intended to underwrite the issuer’s obligations</i>	<p>Under the Deposit Agreement, one GDR carries the right to instruct the Depositary to vote one Class A Share, subject to the provisions of applicable Cypriot law.</p> <p>As soon as practicable after receipt from the Issuer of notice of any meeting at which the holders of Class A Shares are entitled to vote, or of solicitation of consents or proxies from holders of Class A Shares and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Class A Shares deposited with Custodian, the “<b>Deposited Property</b>”), the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy, distribute to Holders (i) such notice of meeting or solicitation of consent or proxy, (ii) a statement that the Holders at the close of business in New York on the specified record date will be entitled, subject to any applicable law or regulation, the provisions of the Deposit Agreement, the constitutive documents and the provisions of or governing the Deposited Property, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Class A Shares or other Deposited Property represented by such Holder’s GDRs, and (iii) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Class A Shares or other Deposited Property.</p>

		<p>Upon the timely receipt from a Holder of GDRs of voting instructions in the manner specified by the Depositary, the Depositary shall endeavour, insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreement, the constitutive documents and the provisions of the Deposited Property, to vote or cause the Custodian to vote the shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions. Notwithstanding anything contained in the Deposit Agreement or any GDR, the Depositary may, to the extent not prohibited by law or regulations, in lieu of distribution of the materials provided to the Depositary in connection with any meeting of, or solicitation of consents or proxies from, holders of Deposited Property, distribute to the Holders a notice that provides Holders with, or otherwise publicises to Holders, instructions on how to retrieve such materials or receive such materials upon request (i.e., by reference to a website containing the materials for retrieval or a contact for requesting copies of the materials).</p> <p>If the Depositary receives voting instructions from a Holder which fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depositary is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depositary from the Holder shall not be voted.</p> <p>A Holder of GDRs also has the right to share in profits of the Issuer and to receive the proceeds of any liquidation surplus. Payments of cash dividends and other amounts (including cash distributions) in relation to the GDRs will be made by the Depositary through DTC or Euroclear and Clearstream, Luxembourg, as the case may be, on behalf of persons entitled thereto, upon receipt of funds therefor from the Issuer, net of the Depositary's fees, taxes, duties and charges.</p> <p>No bank or other guarantee is attached to the GDRs.</p>
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#### ***Section D—Risks***

<b>B.31/D.4/D.2</b>	<i>Key information on the key risks that are specific to the issuer</i>	<ul style="list-style-type: none"> <li>• The instability of the global and Russian financial sectors could adversely affect TCS's access to capital and, more generally, TCS's business, results of operations, financial condition and prospects.</li> <li>• Deterioration in the economic conditions in Russia may result in significant increases in provisions for loan impairment and in the proportion of non-performing loans in TCS's gross loan portfolio and/or in reductions of TCS's collections and recoveries rates which may have a material adverse effect on TCS's business, results of operations, financial condition and prospects.</li> </ul>
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		<ul style="list-style-type: none"> <li>• Failure by TCS to accurately assess customer credit risk could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.</li> <li>• Significant increase in consumer activity challenging certain terms of consumer loans and regulatory activity aimed at strengthening consumer protection in recent years.</li> <li>• Changes in applicable consumer protection or banking legislation or their interpretation by courts and regulators may impose greater compliance requirements on TCS and adversely affect its profitability.</li> <li>• TCS Bank's inability to comply with capital adequacy requirements may have a negative effect on TCS's business, results of operations, financial condition and prospects and lead to a need for additional capital.</li> <li>• TCS's performance depends on customers' personal consumption and income levels as well as their understanding of loan products, which are factors that are beyond TCS's control.</li> <li>• TCS's inability to access domestic and international capital markets or the Russian interbank loan market may adversely affect TCS's business, results of operations, financial condition and prospects.</li> <li>• TCS's inability to receive sufficient funding from retail deposits or withdrawal of a large proportion of such deposits could adversely affect TCS's business, results of operations, financial condition and prospects.</li> <li>• TCS operates in a highly regulated environment, and an inability to maintain its banking licences or a breach of any of their terms or of other applicable banking regulations could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.</li> <li>• TCS could be adversely affected by the deterioration of the commercial soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties which could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.</li> <li>• The insolvency, default or a significant decrease in the credit rating of a major Russian consumer lending bank could affect consumer confidence in all Russian consumer lending institutions and lead to increased levels of regulation of TCS and adversely affect its profitability.</li> </ul>
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		<ul style="list-style-type: none"> <li>• The CBR regulations phasing in Basel III in Russia could have an adverse effect on TCS Bank, its capital ratios and its regulatory capital.</li> <li>• Increased competition in the Russian retail banking market may result in a decrease in TCS's market share or profitability.</li> <li>• TCS is dependent on credit card lending being its principal product. If TCS is unsuccessful in implementing its strategy of further developing its credit card business or demand for credit cards decreases, or if credit card lending is disrupted for any reason, in the absence of another major source of income, TCS revenues could dramatically decrease, which may have a material adverse effect on TCS's business, results of operations, financial condition and prospects.</li> <li>• Ongoing shifts in distribution channel mix and demographic characteristics of TCS's customers may result in deterioration of quality or profitability of TCS's loan portfolio which may have a material adverse effect on TCS's business, results of operations, financial condition and prospects.</li> <li>• The Issuer's dual share capital structure, combined with the concentration of voting rights, will result in the control of the Issuer by Mr Tinkov, whose interests may conflict with those of holders of GDRs. The Issuer's Class A Shares represented by GDRs are each entitled to one vote per share at shareholders' meeting, whereas the Issuer's Class B Shares ultimately controlled by Mr Tinkov are entitled to 10 votes per share at shareholders' meetings. Accordingly, Mr Tinkov, will control the Issuer for the foreseeable future, including having the power to appoint and dismiss the Issuer's board of directors and to approve significant transactions that may not be in the best interests of minority shareholders. As the interests of Mr Tinkov may, in some circumstances, conflict with the interests of the holders of the GDRs, such divergence of interests may have a material adverse effect on their investment in the GDRs. The voting power of Mr Tinkov will be substantially greater than his economic interest in the Issuer, and the ability of GDR holders to influence the conduct of the Issuer will be limited.</li> </ul>
<b>D.5/D.3</b>	<i>Key information on the key risks that are specific to the securities</i>	<ul style="list-style-type: none"> <li>• GDR holders have no direct voting rights with respect to the Class A Shares represented by the GDRs. Voting rights with respect to the Class A Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Cypriot law.</li> <li>• Sales of additional GDRs or Class A Shares (or Class B Shares once converted to Class A Shares) may result in a decline in the price of the GDRs. As a result, investors who purchase GDRs could lose all or part of their investment in such GDRs.</li> </ul>

		<ul style="list-style-type: none"> <li>• The Issuer is not subject to the same takeover protection as a company incorporated in the United Kingdom. Consequently, a prospective bidder acquiring GDRs may gain control of the Issuer in circumstances in which no requirement for a mandatory offer is triggered in respect of the Issuer under the takeover protection regime applicable to it.</li> <li>• Holders of GDRs may not be able to exercise their pre-emptive rights in relation to future issues of Class A Shares and, as a result, their percentage ownership interest in the Issuer would be reduced.</li> <li>• The price of the GDRs may be highly volatile. If an active trading market for the GDRs does not develop, investors may not be able to sell the GDRs they purchased at or above the price at which they acquired them or at all. As a result, investors could lose all or part of their investment in the GDRs.</li> <li>• The Class A Shares underlying the GDRs are not listed and are illiquid and will remain illiquid.</li> <li>• Investors in the Offering will experience immediate and substantial dilution in net tangible book value per Class A Share.</li> </ul>
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#### *Section E—Offer*

<b>E.1</b>	<i>The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the issuer or the offeror</i>	The net proceeds that the Issuer will receive from the Offering by virtue of the sale of the GDRs and after deduction of underwriting commissions, fees and expenses incurred by the Issuer in connection with the Offering of up to approximately US\$8.6 million, will be approximately US\$166.4 million.
<b>E.2a</b>	<i>Reasons for the offer, use of proceeds, estimated net amount of the proceeds</i>	TCS Bank will not receive any proceeds directly from the Offering. Following the completion of the Offering, the Issuer will deposit the proceeds it receives from the Offering in an account of its wholly-owned subsidiary, TCS Bank. The Issuer intends to use such proceeds to acquire new ordinary shares in the share capital of TCS Bank (the “ <b>New TCS Bank Shares</b> ”) through a closed subscription for the New TCS Bank Shares (the “ <b>Closed Subscription</b> ”) as soon as possible, although the process may take several months. The Closed Subscription was approved by the written resolution of the Issuer, in its capacity as TCS Bank’s sole shareholder, on 27 August 2013 and subsequently registered by the CBR on 16 September 2013. Such acquisition of the New TCS Bank Shares will require the prior permission of the CBR which the Issuer shall apply for promptly following the completion of the Offering. After completion of the Offering and once the required permission of the CBR has been received, the Issuer will acquire the New TCS Bank Shares in full and pay the relevant funds to TCS Bank as consideration for the New TCS Bank Shares. The Issuer’s holding in TCS Bank will not be altered as a result of the Closed Subscription. The Issuer will remain the sole shareholder of TCS Bank.



		Over three quarters of proceeds of the subscription for the New TCS Bank Shares will be used by TCS Bank to enhance its capital position, which would allow it to further grow its retail lending business (mainly comprising credit cards), with the remaining proceeds to be allocated to support the future development of TCS's other lines of business including insurance and payment solutions.
<b>E.3</b>	<i>A description of the terms and conditions of the offer</i>	<p>All GDRs will be sold at the Offer Price.</p> <p>The GDRs subject to the Offering are being offered in the United States to certain qualified institutional buyers as defined in, and in reliance on, Rule 144A (“<b>Rule 144A</b>”) under the U.S. Securities Act of 1933, as amended (the “<b>Securities Act</b>”), or another exemption from the registration requirements of the Securities Act, and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S (“<b>Regulation S</b>”) under the Securities Act.</p>
<b>E.4</b>	<i>A description of any interest that is material to the issue/offer including conflicting interests.</i>	There are no interests, including conflicting interests, that are material to the Offering.
<b>E.5</b>	<i>Name of the person or entity offering to sell the security. Lock-up agreements: the parties involved; and indication of the period of the lock-up</i>	<p>For a 180-day lock-up period, the Issuer will not issue or dispose of any GDRs, Class A Shares, Class B Shares or securities convertible or exchangeable into or exercisable therefor. Tasos Invest &amp; Finance Inc., Tadek Holding &amp; Finance S.A., Maitland Commercial Inc., Vizer Limited and Norman Legal S.A., the entities owned by Mr Tinkov, and Altruco Trustees Limited are subject to a 365-day lock-up period during which neither will sell any directly or indirectly held GDRs, Class A Shares, Class B Shares or securities convertible or exchangeable into or exercisable therefor. ELQ Investors II Ltd, Lorimer Ventures Limited, Rousse Nominees Limited and Vostok Komi (Cyprus) Limited are subject to a 180-day lock-up period during which they will not sell, directly or indirectly, any GDRs, Class A Shares, Class B Shares or securities convertible or exchangeable into or exercisable therefor.</p> <p>All lock-up arrangements are subject to certain customary exceptions.</p>
<b>E.6</b>	<i>The amount and percentage of immediate dilution resulting from the offer. In the case of a subscription offer to existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer</i>	10,000,000 Class A Shares will be issued pursuant to the Offering. The number of such new Class A Shares as a percentage of the enlarged issued share capital of the Issuer (that consists of both Class A Shares and Class B Shares) will be equal to approximately 5.5 per cent..
<b>E.7</b>	<i>Estimated expenses charged to the investor by the issuer or offeror</i>	Not applicable. No commissions, fees or expenses in connection with the Offering will be charged to investors by the Issuer. As described in the terms and conditions of the GDRs, the Depositary will be entitled to charge certain fees to the holders of GDRs.

## RISK FACTORS

*Investment in the GDRs involves a high degree of risk. Investors may lose the value of their entire investment or part of it and should carefully review this Prospectus in its entirety. Investors should be aware that the value of the GDRs and any income from them may go down as well as up and that investors may not be able to realise their initial investment. These risk factors, individually or together, could have a material adverse effect on TCS, its business, results of operations, financial condition, liquidity, cash flows, prospects and/or the rights under the GDRs of the holders of such GDRs.*

*Investors should note that the risks described below are not the only risks TCS faces. These are the risks the Issuer currently considers to be material. There may be additional risks that the Issuer currently considers to be immaterial or of which it is currently unaware, and any of these risks could have similar effects to those set forth below.*

### **Risks Related to TCS's Business and the Russian Financial Sector**

#### ***Instability of the global and Russian financial sectors***

The volatility and market disruption in the global financial sector has continued since the onset of the global financial and economic crisis of 2008-2009. In particular, global financial markets have experienced increased volatility since the second half of 2011, a period which has seen the sovereign rating downgrades of, among others, the United States, France, Austria, Greece, Ireland, Portugal, Spain and Italy and continued concerns over the stability of the European monetary system and the stability of certain European economies, notably Greece, Ireland, Portugal, Spain, Italy and Cyprus (where the EU bailout carried out in March 2013 required the restructuring of Cyprus' two largest banks). No assurance can be given that a further economic downturn or financial crisis will not occur, or that measures to support the financial system, if taken to overcome a crisis, will be sufficient to restore stability in the global financial sector and markets in the short-term or beyond.

Russia's economy was adversely affected by the global financial and economic crisis of 2008-2009. In particular, the disruptions in the global financial markets have from time to time severely impacted the liquidity of Russian banks and other financial institutions, as well as the availability of credit and the terms and cost of domestic and external funding for Russian banks. Russian banks and banking groups, including TCS, have from time to time experienced increased costs of, and reduction in the availability of, financing in the short-term interbank funding market, as well as in the longer-term capital markets and through bank finance instruments. The Russian securitisation market has also been largely inaccessible as a result of the financial crisis. Although the liquidity position in the Russian financial sector has generally improved after the global financial and economic crisis, with both retail and corporate deposits flowing back into the banking system, should the economic and capital markets situation worsen again in Russia or globally, there can be no assurance that a liquidity crunch, similar to the one experienced in the Russian financial system during the height of the global financial and economic crisis will not occur again. Russia is currently experiencing a slowdown of economic growth. Gross domestic product ("GDP") growth fell from 4.5 per cent. in 2010 to 3.4 per cent. in 2012 and 1.6 per cent. in the first quarter of 2013 (as compared to the first quarter of 2012), according to Rosstat, leading to concerns that Russia may be in a period of stagnation and could potentially enter a recession. Any further deterioration in the economic situation or turmoil in the global or Russian financial sectors could adversely affect TCS's business, results of operations, financial condition and prospects as a result of decreases in the demand for TCS's products, its growth outlook and/or income, as well as more constrained funding and significantly increased loan provision charges and write-offs.

These developments, as well as adverse changes arising from systemic risks in the global financial system, including any tightening of the credit environment, or a decline in oil, gas or other commodities prices (such as, for example, steel or precious metals) could slow or disrupt the Russian economy and adversely affect TCS's access to capital and, more generally, TCS's business, results of operations, financial condition and prospects.

***TCS may experience significant increases in its provisions for loan impairment and in the proportion of non-performing loans in its gross loan portfolio and/or reductions of its collections and recoveries rates as a result of any deterioration in the economic conditions in Russia***

TCS is subject to risks related to the credit quality of loans to customers. Changes in the creditworthiness of TCS's borrowers, or in their behaviour, or arising from systemic risks in the Russian or global financial systems, could result in significant increases in provisions for loan impairment and in the proportion of non-performing loans in TCS's gross loan portfolio.

Customers of TCS were affected by the global financial and economic crisis of 2008-2009, which impacted the ability of many of them to service and/or repay their loans. For example, the proportion of non-performing loans as a percentage of TCS's gross loans reached 7.4 per cent. as of 31 December 2009 (as compared to 4.0 per cent.

as of 31 December 2010, 3.7 per cent. as of 31 December 2011 and 4.7 per cent. as of 31 December 2012). Moreover, as Russia has emerged from the global financial and economic crisis, consumer lending has almost doubled from US\$134 billion in retail bank loans in 2010 to US\$254.7 billion in retail bank loans in 2012 according to the CBR, of which approximately US\$8 billion consisted of unsecured credit card debt in 2010 (approximately six per cent. of total retail debt) compared to US\$25.8 billion in 2012 (approximately 10 per cent. of total retail debt), according to the Frank Research Group. The significant growth in consumer lending is occurring against a backdrop of weakening macro-economic factors in Russia over the same period. For example, GDP growth fell from 4.5 per cent. in 2010 to 3.4 per cent. in 2012 and 1.6 per cent. in the first quarter of 2013 (as compared to the first quarter of 2012), according to Rosstat, leading to concerns that Russia may be in a period of stagnation and potentially could enter a recession. Further, according to a public statement from the CBR, the number of retail loans overdue by more than 90 days in Russia grew during the first half of 2013 at double the rate of 2012. All of which has led the CBR and others in the financial press and lending industry to express concern that the consumer lending market in Russia is becoming overextended and that the overall quality of the nation's consumer loan base is weakening significantly. Specifically, TCS has experienced an increase in the proportion of non-performing loans as a percentage of its gross loans to 6.0 per cent. as of 30 June 2013 from 4.7 per cent. as of 31 December 2012. There can be no guarantee that TCS's risk management policies will ensure that TCS adequately prices the customer credit risk that it takes, or protect TCS from increased provisions for loan impairment and/or increased levels of non-performing loans in the future, especially if economic conditions in Russia deteriorate significantly again, all of which may have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***TCS could fail to accurately assess customer credit risk***

The scoring techniques and checks used by TCS to evaluate the creditworthiness of applicants for its credit cards and other loan products, may not always present a complete and accurate picture of each customer's financial condition or be able to accurately evaluate the impact of various changes, including changes in the Russian macroeconomic situation, which could significantly and quickly alter a customer's financial condition. For example, even though TCS uses a highly adaptable scoring model and regularly accesses data from credit bureaus to assess the credit quality of its potential and current customers, TCS cannot always accurately ascertain what the current indebtedness of any particular current or potential customer may be as the credit bureau databases in Russia are still in a developmental stage. Additionally, TCS has no way of preventing its customers from taking an additional loan from other financial institutions or otherwise taking steps that heighten the risk that a customer may default on a loan from TCS. As a result, TCS may not always be able to correctly evaluate the current financial condition of each prospective customer and accurately determine the ability of its customers to repay their loans.

Furthermore, while TCS was able to collect overdue amounts before they became more than 90 days overdue on 93.03 per cent. of the total number of overdue loans for the year ended 31 December 2010, 93.40 per cent. for the year ended 31 December 2011, 90.86 per cent. for the year ended 31 December 2012, and 88.40 per cent. for the six months ended 30 June 2013, there can be no assurance that such collection rates can be maintained in the future. There can also be no guarantee that TCS's policies for dealing with non-performing loans will result in recovery of all or any of the amounts due on these loans. Failure by TCS to accurately assess customer credit risk could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

In addition, TCS takes no security for its loans. As a result, in the event of defaults by a significant number of its borrowers, TCS may be unable to recover all or a significant proportion of the balance of such loans, which may have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***In recent years, consumer activity challenging certain terms of consumer loans and regulatory activity aimed at strengthening consumer protection have increased significantly***

In recent years, there has been a significant increase in consumer activity in Russia aimed at challenging certain terms of consumer loans (including, among others, a lender's right to charge various commissions for mobile banking services, the inclusion of the borrower in an insurance programme, cash withdrawals from automatic teller machines, a lender's right to charge interest on accrued interest, a lender's right to amend the terms of the consumer loan agreement and applicable tariffs without specific consent of the borrower, a lender's right to assign loans to non-banking organisations, including collection agencies, and the resolution of disputes only at the location of the lender), some of which are or were previously present in TCS's standard consumer lending documentation. In addition to consumers, the Consumer Protection Agency of the Russian Federation ("Rospotrebnadzor") regularly initiates administrative proceedings against Russian banks for violating consumer rights, which sometimes result in fines and the invalidation of certain terms of consumer loans by the Russian courts on the basis that such terms contradict the provisions of the Federal Law No. 2300-1 "On Consumer Protection" dated 7 February 1992, as amended (the "**Consumer Protection Law**"). Banks operating

in the consumer lending business in Russia have in the past faced sanctions and financial consequences as a result of regulators' and customers' activities, including, among others, administrative fines, refunds of fees and commissions charged historically under particular provisions of the loan documentation that were declared invalid by courts.

Due to the nature of its business, TCS Bank may, from time to time, be involved in litigation with customers, Rospotrebnadzor or the Federal Antimonopoly Service (the "FAS") or be subject to administrative proceedings. In the past, such customers and/or regulatory authorities tried to challenge certain provisions of TCS Bank's standard consumer lending documentation. In addition, in order to be consistent with the prevailing court practice, TCS Bank had to amend its standard documentation including changes allowing customers to choose whether they want to accept the terms of the insurance programme and dispute resolution at the borrower's place of residence. For example, recently, the Nizhny Novgorod division of Rospotrebnadzor ruled that TCS Bank cannot charge commission on cash advances, which administrative ruling is currently being appealed by TCS Bank in a Russian court. These court cases and administrative proceedings could result in bad publicity, the need to amend standard consumer lending documentation, administrative fines, lost revenue streams and losses from returning fees or commissions, all of which could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

Moreover, such Russian authorities as the CBR and Rospotrebnadzor have the power to apply statutory sanctions against TCS Bank for the lack of transparent disclosure of fees and interest on loan products to customers. Similar sanctions have been applied to Russian banks in the past. According to the Federal Law No. 395-1 "On Banks and Banking Activity" dated 2 December 1990, as amended (the "**Banking Law**"), banks have an obligation to provide transparent, true and complete information on loan interest and fees in agreements with retail customers. If a bank fails to fulfil this obligation, Rospotrebnadzor may impose an administrative fine of up to RUB 40,000 on the bank, and up to RUB 20,000 on its officers. Furthermore, according to the Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)" dated 10 July 2002, as amended (the "**CBR Law**"), the CBR has the authority to demand that a bank remedy violations that are identified and to impose a fine of up to RUB 300,000 and/or suspend certain operations of the bank for up to six months. For systematic violations the CBR may impose a fine of up to RUB 3,000,000 on the bank, require that the management of the bank be changed, suspend the bank's operations for up to one year and revoke the banking licence.

A draft law No. 173930-6 increasing the penalties for violation of the consumer protection legislation was submitted to the Russian parliament in November 2012. The bill envisages raising the maximum amount of the fine that can be imposed by Rospotrebnadzor to RUB 300,000 on a bank and RUB 10,000 on its officers, and for systematic violations—to RUB 1,000,000 on a bank and RUB 50,000 on its officers, or suspension of the bank's operations for up to 30 days and/or professional disqualification of the bank's officers for up to one year. However, since the draft law has yet to be considered by the Russian parliament, it is impossible to predict whether it will be adopted or not and, if it is passed, whether or not it will be revised in any way prior to being enacted.

The Issuer believes that TCS discloses information on fees and interest on loan products to customers in accordance with the relevant laws and regulations. However, if in spite of TCS's best efforts to comply with regulatory authorities' requirements, either the CBR or Rospotrebnadzor were to rule that TCS has violated such requirements or consumer protection legislation in general and apply statutory sanctions to TCS, this could have a material adverse effect on TCS's image or TCS's business, results of operations, financial condition and prospects.

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

As of the date of this Prospectus, there is no legal framework in Russia dedicated specifically to consumer lending. Therefore, Russian courts have over time extended the scope of the Consumer Protection Law, which provides general protection for consumers, to consumer lending.

After years of discussions between representatives of the Russian government and respective ministries, a draft law on consumer lending was submitted to the Russian parliament and passed the first hearing in April 2013. However, it is not clear whether any further amendments will be made to the document before the Russian parliament approves it in the second and third readings. There can be no assurance that the final draft, if adopted, or new legislation, will not contain any provisions that would negatively affect Russian banks, including TCS, or impose additional requirements or restrictions that TCS would have to respond to by adapting its business practices, products offered to customers and standard consumer lending documentation in order to comply with the applicable legislation. Such measures could have an adverse effect on TCS's business, results of operations, financial condition and prospects.



Another draft law (draft law No. 134365-6 on amendments to certain laws of the Russian Federation with respect to usurious lending terms) submitted to the Russian parliament in September 2012 suggests that the full cost of the loan provided to an individual (including all additional fees and commissions charged in connection with the loan) may not exceed double the amount of the average full cost of loans of the respective kind calculated by the CBR in respect of the immediately preceding calendar quarter. The draft law further envisages that if the loan violates such requirement, the borrower would be entitled to seek a reduction of the full cost of the loan in court. Although the Russian government has previously issued an official statement that it does not support this draft law in its current form, the status and prospects of this draft law or any potential legislative initiatives that would be similar are not entirely clear. Moreover, if such a law was ultimately adopted, the CBR would first need to develop supporting regulations to determine how the average full loan cost for particular kinds of loan is calculated thereby prescribing the applicable maximum rate of interest. Furthermore, as the CBR has publicly expressed increasing concern with respect to the growing size of the consumer lending base in Russia as well as increasing consumer loan defaults, it has publicly announced that it is considering implementing further initiatives to slow growth in consumer lending and to protect consumer borrowers which may take one of many forms, including increasing capital adequacy requirements, introducing borrowing or repayment limits based on debt to income ratios or limiting the level of interest and fees that may be charged on consumer loans. For example, a proposal contemplating limitation of interest rates on consumer loans was submitted by the CBR to the Russian Ministry of Finance in September 2013. According to these initiatives, interest rates on consumer loans may not exceed 30 per cent. of the average market interest rate determined by the regulatory authorities. If the above-mentioned draft law No. 134365-6 and/or the CBR's initiatives are adopted and become effective, TCS Bank would have to limit the maximum rates charged on the loans that it grants to customers. As a result of this, the interest margin of TCS Bank could be negatively impacted. If these measures or measures similar to the above regulatory initiatives are introduced into Russian law or otherwise mandated by a governmental agency, such as the CBR, TCS could be required to reconsider its existing practices to ensure compliance with the new law and regulations, as a result of which it may need to reduce the growth of its loan portfolio and/or lower the effective interest rate it charges to individual customers on its loans, which, in turn, could have an adverse effect on its revenue and profitability.

Major amendments to the consumer lending regulations, shifts in existing court practice relating to cases in which TCS is or may become involved or the regulator's interpretation of the laws resulting in investigations or court and administrative proceedings against market participants, such as TCS, and greater activity of borrowers spread across different regions of Russia in which TCS operates in filing claims against TCS to protect their rights as consumers could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***TCS Bank's inability to comply with capital adequacy requirements may have a negative effect on TCS's business, results of operations, financial condition and prospects and lead to a need for additional capital***

TCS's business depends on the availability of adequate capital, both for compliance with applicable capital adequacy requirements and for the effective conduct of its business. Under CBR requirements, which apply a methodology based on accounting records prepared in accordance with Russian accounting standards ("RAS"), TCS Bank's N1 capital adequacy ratio must be at least 10 per cent. If TCS Bank's capital position declines, its ability to implement its business strategy may be adversely affected, and if TCS Bank's capital adequacy ratio calculated pursuant to the CBR requirements were repeatedly to fall below 10 per cent., this could lead to the introduction of punitive measures or the loss of one or more of TCS Bank's licences, which in turn could have a material adverse effect on TCS's business, results of operations, financial condition and prospects. In addition, if TCS Bank's N1 capital adequacy ratio calculated pursuant to the CBR requirements were to repeatedly fall below 11 per cent., it would be at risk of being excluded from membership in the Russian retail deposit insurance system and, therefore, prohibited from taking deposits from retail customers, which, in turn, would deprive it of a substantial portion of its funding base and could lead to its insolvency. Finally, TCS is contractually obligated under the terms of certain agreements related to the issuance of loan participation notes to maintain an N1 capital adequacy ratio of at least 13 per cent. Any violation of these covenants could result in a default under such indebtedness, which could result in a cross default of a substantial portion of TCS's indebtedness. As of 1 July 2013, TCS Bank's N1 capital adequacy ratio calculated in accordance with the CBR requirements was 17.14 per cent., as compared to 17.41 per cent. as of 1 January 2013, 14.04 per cent. as of 1 January 2012 and 13.55 per cent. as of 1 January 2011.

From 1 July 2013, pursuant to CBR Instruction No. 139-I "On the Banks' Mandatory Economic Ratios" dated 3 December 2012 (the "**Mandatory Economic Ratios Instruction**"), Russian banks are required to increase risk weightings for new loans with an annual effective interest rate above 25 per cent. for the purpose of calculating such banks' risk-weighted assets under the CBR's mandatory economic ratios. The risk weightings (all of which were previously set at 100 per cent.) for new loans granted after 1 July 2013 have increased to (i) 110 per cent.

for loans with annual effective interest rates ranging from above 25 per cent. to 35 per cent., (ii) to 140 per cent. for loans with annual effective interest rates ranging from above 35 per cent. to 45 per cent., (iii) to 170 per cent. for loans with annual effective interest rates ranging from above 45 per cent. to 60 per cent. and (iv) to 200 per cent. for loans with annual effective interest rates over 60 per cent. (in each case at the time the loan is provided). The implementation of these capital requirements is expected to further increase the amount of capital that TCS is required to hold to comply with the CBR's mandatory economic ratios. In part as a result of the Mandatory Economic Ratios Instruction becoming effective on 1 July 2013 (but also due to TCS's annual recalculation of operational risk charge which increased due to higher revenues and changes in the way the CBR calculates market risk on long-term swaps), TCS Bank's N1 capital adequacy ratio decreased to 15.28 per cent. as of 1 August 2013 as compared to 17.14 per cent. as of 1 July 2013 (calculated under the previous regime).

In September 2013, the CBR published a draft of amendments to the Mandatory Economic Ratios Instruction which, among other things, included a further increase in the risk-weighting coefficients to be applied to higher rate consumer loans for the purpose of calculating the relevant bank's risk-weighted assets under the CBR's mandatory economic ratios. In particular, the CBR proposed to increase the risk-weighting coefficients for new loans granted after 1 January 2014 to (i) 160 per cent. (from 140 per cent.) for loans with annual effective interest rates ranging from above 35 per cent. to 45 per cent., (ii) to 300 per cent. (from 170 per cent.) for loans with annual effective interest rates ranging from above 45 per cent. to 60 per cent. and (iii) to 600 per cent. (from 200 per cent.) for loans with annual effective interest rates over 60 per cent. The annual effective interest rate must be determined at the time the loan is provided. See "*Business—Recent Developments—Changes in Risk-Weighting Coefficients on Higher Rate Loans*". These proposed amendments reflect the CBR's rising concern regarding the scale of consumer lending growth in recent years and the adverse impact of such rapid growth on creditworthiness of retail customers. There remains some uncertainty regarding the final form of the amendments to the Mandatory Economic Ratios Instruction as the CBR has been collecting comments to the draft amendments from market participants until 27 September 2013 and may potentially revise the amendments based on such feedback.

If the CBR's proposed risk-weighting coefficients are implemented in the form of the currently published amendments, TCS may have to reduce the rate of growth of its loan portfolio, seek to raise additional capital or do both in order to maintain sufficient capital. The Issuer does not currently expect to pay dividends in the nearest years as it accumulates additional capital to maintain its N1 capital adequacy ratio above the levels required by TCS's financing arrangements.

Growth in TCS's loan portfolio may require further equity capital to strengthen TCS's capital base. TCS's loans and advances to customers (after provision for loan impairment) ("**loans and advances to customers**" or "**net loans and advances to customers**") increased by 24.0 per cent. between 31 December 2012 and 30 June 2013, by 137.1 per cent. in 2012 and by 109.7 per cent. in 2011, and the Issuer believes that the strong growth of its loan portfolio will continue in the near future. Increased levels of foreign currency-denominated debt financing from financial institutions and through the capital markets may also require TCS to raise additional capital to meet the required capital adequacy levels. Failure to increase or maintain TCS's capital levels in order to comply with the CBR requirements or with capital adequacy-related covenants in TCS's financing obligations could require TCS to reduce the growth of its loan portfolio, which could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

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

Performance in, and development of, the retail financial services market in the Russian Federation are highly dependent on the country's economic growth, as well as levels of disposable income and consumer spending, making TCS dependent on those factors. A substantial portion of TCS's customer base has limited experience of financial services, including credit cards and other financial products. TCS's growth depends on increasing consumer adoption of financial products. At the same time, the fact that customers will become more sophisticated with financial products in the future is likely to negatively impact TCS's yields and margins.

The global financial and economic crisis of 2008-2009 and increased volatility in the global financial markets in the second half of 2011 and the first half of 2012 associated with sovereign rating downgrades and concerns over the stability of the European monetary system adversely impacted the demand for consumer goods, as well as credit, savings, payments processing or insurance products. If the state of the Russian and/or the global economy were to deteriorate, this may lead to a reduction in levels of personal income, individual purchasing power or consumer confidence, weakening consumer spending and savings and increased insolvencies. As a result, the size of TCS's operations, and specifically the size of its loan portfolio, may grow at a slower rate or even decrease, resulting in a slowdown or decrease in TCS's income; funding costs for TCS may increase, leading to an increase



in interest expense and decreasing margins; TCS may be unable to sufficiently reduce its operating expenses, especially fixed expenses, in response to a shrinking of its business, which could lead to lower profitability; the quality of TCS's loan portfolio could deteriorate; and/or TCS could face increased loan losses and may be required to make greater provisions in respect of its loan portfolio, any of which could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***TCS's inability to access domestic and international capital markets or the Russian interbank loan market may adversely affect TCS's business, results of operations, financial condition and prospects***

TCS is exposed to liquidity risk arising out of mismatches between the maturities of TCS's assets and liabilities, which may result in TCS being unable to meet its obligations in a timely manner. See "Asset, Liability and Risk Management—Liquidity Risk".

TCS's wholesale funding has been sourced from the Russian interbank loan market and domestic and international capital markets through the issuance of rouble-denominated domestic bonds, U.S. dollar, Swedish krona- and euro-denominated Eurobonds and U.S. dollar-denominated euro commercial paper, as well as syndicated loans, including funding from certain of its shareholders—Mr Tinkov, Vostok Nafta and ELQ Investors II Ltd. TCS's ability to continue to access international and domestic capital markets to satisfy its funding needs, including the refinancing of outstanding debt, may be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian and the global financial systems. Any dislocation in the international financial markets and tightening of credit conditions could create a liquidity problem for TCS, restrict its access to funding in the international and domestic capital markets or significantly increase its borrowing costs.

Any change in the extent and/or the terms of TCS's ability to access the domestic and/or international debt capital markets, as well as a potential increase in TCS's borrowing costs, or maturity mismatches between TCS's assets and liabilities may, in combination or separately, have a material adverse effect on TCS's net interest margin, or, more generally, on TCS's business, results of operations, financial condition and prospects. Any deterioration in TCS Bank's credit ratings could undermine confidence in TCS and limit its access to capital markets, which could require TCS to seek alternative, more expensive sources of funding in order to maintain market share or grow TCS's business, thereby affecting TCS's competitiveness and financial condition.

Any significant impediment to TCS's ability to access international and/or domestic capital markets and/or the Russian interbank loan market to refinance outstanding debt as it falls due may have a material adverse effect on TCS's ability to repay its indebtedness or, more generally, on TCS's business, results of operations, financial condition and prospects.

***TCS's inability to receive sufficient funding from retail deposits or withdrawal of a large proportion of such deposits could adversely affect TCS's business, results of operations, financial condition and prospects***

Since the second quarter of 2010, a significant proportion of TCS's funding comes from its retail deposits. Although still one of the smallest in the Russian consumer lending industry as a percentage of total liabilities (as compared to some of TCS's principal competitors such as Russian Standard Bank, Home Credit & Finance Bank and Renaissance Credit based on their published financial information), TCS's portfolio of retail deposits amounted to US\$169.5 million as of 31 December 2010, US\$354.8 million as of 31 December 2011, US\$842.8 million as of 31 December 2012 and US\$939.6 million as of 30 June 2013. Due to regulatory supervision over deposit rates and certain legislative initiatives (see "Risk Factors—Risks Related to TCS's Business and the Russian Financial Sector—TCS operates in a highly regulated environment, and an inability to maintain its banking licences or a breach of any of their terms or of other applicable banking regulations could have a material adverse effect on TCS's business, results of operations, financial condition and prospects"), TCS may be required to offer lower interest rates on deposits causing a decrease in demand for such products from its customers. On the other hand, consumers may be drawn by higher rates on deposits offered by TCS's competitors. As a result of either of these factors, TCS may be unable to receive sufficient funding from its retail deposits. Furthermore, withdrawals of term deposits by individuals, who are entitled under Russian legislation to withdraw such deposits at any time, could lead to liquidity gaps that TCS would have to cover at the cost of incurring additional expenses, if it were able to do so at all. TCS's policy is to maintain the proportion of deposits in its total liabilities within the range of 40 to 60 per cent. In addition, in terms of the maturity of customer deposits (always subject to the right of individual depositors to withdraw their "term" deposits at any time), a significant proportion of such deposits (82.5 per cent. as of 31 December 2010, 77.7 per cent. as of 31 December 2011, 89.1 per cent. as of 31 December 2012 and 90.7 per cent. as at 30 June 2013) were short-term in nature (12 months or less), which increases the potential volatility of TCS's funding base. Should a large proportion of TCS's customers simultaneously withdraw their deposits, this may have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

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

All banking and various related operations in Russia require licences from the CBR. TCS Bank has obtained licences with respect to banking operations with individuals, legal entities and for banking operations involving foreign currencies, as well as other licences necessary in connection with its banking operations. Although TCS Bank has been successful in obtaining CBR licences, there is no assurance that it will be able to obtain or maintain such licences in the future. In the event that TCS Bank were to lose a CBR licence, applying for a new CBR licence would be costly and time consuming. The CBR may, at its discretion, impose additional requirements or deny any request by TCS Bank for licences, which could have a material adverse effect on TCS's business, results of operations, financial condition and prospects. The loss of TCS Bank's banking licences would result in an inability to perform any banking operations and the introduction of either insolvency or liquidation proceedings in respect of TCS Bank, as the case may be. The CBR periodically inspects TCS Bank to ensure compliance with anti-money laundering laws and other regulatory requirements. In the past, the CBR issued instructions to TCS Bank with respect to TCS Bank's internal anti-money laundering policies, proportion of retail deposits in its funding base, interest rates on deposits, assignment of loans to collection agencies and the use of social networks in relation to the debt collection process, all of which were adequately addressed in a timely manner by TCS.

Furthermore, in order to offer retail deposit services to its customers, TCS Bank must maintain its membership in the mandatory Russian retail deposit insurance system. The loss of a CBR licence, any breach of the terms of a CBR licence by TCS, any delay or failure to obtain any CBR licence in the future, a breach of the minimum capital adequacy ratio established by the CBR's regulations or the discontinuation of its membership in the Russian mandatory system of insurance of retail deposits could result in TCS being unable to continue some or all of its banking activities. Penalties may also be imposed on TCS by the CBR for breaches of the terms of its licences. Any such failure could, in turn, affect TCS's ability to fulfil its payment obligations and could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

In addition, the CBR strongly recommends that in setting the rates paid on deposits, Russian banks do not exceed the average maximum interest rate on deposits (calculated by reference to the average of the maximum interest rates for rouble deposits among the top 10 banks) by more than two per cent. In the past, TCS, along with other banks in Russia taking deposits, has had to reduce its interest rates on deposits to comply with the CBR's recommendations. A further reduction of TCS's interest rates on deposits could result in a decrease in the volumes of collected deposits or withdrawals of existing deposits if and when interest rates on such deposits are lowered. In addition, the Ministry of Economic Development of Russia has recently prepared a draft law on amendments to the Federal Law on Retail Deposit Insurance dated 23 December 2003, as amended (the "**Retail Deposit Insurance Law**") and the CBR Law, which contemplates significant changes to the system of mandatory insurance of retail deposits. The draft introduces, among other things, a concept of differentiated rates for banks participating in the system. If the draft amendments are signed into law, banks that offer annual margins on retail deposits over two per cent. above the base yield amount as calculated monthly by the CBR will be required to make additional payments into the deposit insurance fund making deposit insurance more expensive and thus reducing profitability. The amount of such additional payments will depend on the actual annual margin offered by the relevant bank and will vary from 40 per cent. to 200 per cent. of the base rate (as defined in the Retail Deposit Insurance Law).

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

During the global financial and economic crisis of 2008-2009, the international and Russian inter-bank lending markets experienced a lack of liquidity and high cost of funds unprecedented in recent history. As a result, TCS has become increasingly subject to the risk of deterioration of the actual or perceived commercial soundness of other financial institutions within and outside Russia. Financial institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as banks, payment acceptance service providers, clearing agencies, clearing houses, securities firms and exchanges with which TCS interacts on a frequent basis, all of which could have an adverse effect on TCS.

TCS routinely executes a high volume of transactions with counterparties in the financial services industry, including commercial banks, payment acceptance service providers and other financial institutions. As a result, TCS is exposed to a significant counterparty risk. A default by, or concerns about the stability of, one or more

financial institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could result in losses for TCS (for example of funds deposited with other financial institutions) and thus have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

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

TCS is exposed to the risk that a major Russian retail lending bank may become insolvent, declare bankruptcy or default on its debt or suffer a significant decrease in its credit rating, any one of which could impair consumer confidence in all major Russian retail lending institutions including TCS. Certain Russian banks have in the past experienced difficulties that have caused them to become insolvent and have their licences revoked, such as the International Industrial Bank, or to recognise large loan impairment provision losses that required steps to replenish their capital, as in the case of the Bank of Moscow. Similar problems at other Russian banks may cause doubts among investors or depositors about the effectiveness of banking supervision in Russia and the reliability of bank financial statements. This could result in investors or depositors, as the case may be, reducing their exposure to Russian equities, debt or bank deposits, including those of TCS.

In addition, the CBR has recently introduced new regulations requiring Russian banks involved in unsecured retail lending to increase risk weightings for new loans with an interest rate above 25 per cent. for the purpose of calculating such banks' risk-weighted assets under the CBR's mandatory economic ratios. See "*Risk Factors—Risks Related to TCS's Business and the Russian Financial Sector—TCS Bank's inability to comply with capital adequacy requirements may have a negative effect on TCS's business, results of operations, financial condition and prospects and lead to a need for additional capital*". Moreover, the implementation of Basel III principles with respect to the composition and the assessment of sufficiency of bank regulatory capital in Russia (see "*Risk Factors—Risks Related to TCS's Business and the Russian Financial Sector—The CBR regulations phasing in Basel III in Russia could have an adverse effect on TCS Bank, its capital ratios and its regulatory capital*") could also lead to a significant increase in the amount of capital that banks involved in unsecured retail lending will be required to hold to comply with the new capital adequacy requirements. Any insolvency of, or default by, a major Russian bank involved in unsecured retail lending as a result of its inability to comply with new capital adequacy requirements or for any other reason may also lead to further regulation and restrictions governing the operations of all retail financial services institutions in Russia which, together with diminished confidence in the Russian unsecured retail lending industry following such insolvency or default, could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

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

The CBR may amend the capital adequacy requirements and increase the capital adequacy ratios applicable to Russian banks at any time and, in such circumstances, TCS Bank may be forced to seek additional capital or alternative sources of financing to comply with these requirements. Such additional capital or alternative sources of financing may not be available or may only be available on commercially unacceptable terms. On 1 March 2013, Regulation No. 395-P "On the Methodology of Calculation of Value and Adequacy of Capital of Credit Organisations (Basel III)" of the CBR implementing Basel III principles with respect to the composition and assessment of sufficiency of bank regulatory capital ("**Regulation No. 395-P**") entered into force in Russia. Pursuant to the recently published draft amendments to the relevant banking regulations, the CBR will start applying the new capital adequacy ratios from 1 January 2014. See "*Banking Regulation in Russia—Reform of the Banking Sector*". Until that time, Regulation No. 395-P operates in a test regime. As of the date of this Prospectus, Russian banks are required to calculate their capital and assess capital adequacy in accordance with the new methodology set out in Regulation No. 395-P and submit the relevant accounting forms to the CBR. Regulation No. 395-P will not, however, for the time being, be applied for prudential regulation purposes. The new regulatory capital requirements provided by Regulation No. 395-P will be phased in gradually during the period from 1 January 2014 until 1 January 2018, see "*Banking Regulation in Russia—Reform of the Banking Sector—Subordinated Debt—New Requirements Under Regulation 395-P*". The Issuer currently expects that the impact of new regulatory capital requirements on TCS Bank's capital adequacy ratios will be neutral, but there can be no assurance that full implementation of Regulation No. 395-P will not have an adverse effect on TCS Bank's financial results and capital ratios, which means that TCS might be forced to either raise additional capital or reduce the amount of its lending, either of which could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

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

The Russian market for retail financial and banking services, while relatively new and still undeveloped, is highly competitive. According to the CBR, as of 30 June 2013, 956 banks and non-banking credit organisations were operating in Russia. This competition, which involves both local competitors and global financial institutions, has an influence over the growth and profitability of retail financial services providers, including the growth of loans and deposit portfolios, fee and commission income, net interest margins, cost margins and funding costs, among other things. For example, competition for retail deposits may make banks offer higher interest rates for new deposits, while increased competition in the credit card market may force TCS to offer lower interest rates on credit card loans. In the Russian credit card market, TCS competes primarily with privately-owned banks specialising in consumer finance, such as Russian Standard Bank, Orient Express Bank, Home Credit & Finance Bank, Renaissance Credit and OTP Bank, and the retail banking divisions of the largest state banks and leading universal banks including Sberbank, VTB 24, Rosbank and Alfa-Bank, as well as Svyaznoy Bank, a relatively new market participant that may become a significant player in this market because of its access to the distribution chain of Svyaznoy, the Russian mobile phone and electronics retailer. In addition, in the retail deposit market, TCS competes with state banks, principally Sberbank, VTB 24 and the Bank of Moscow; with privately-owned banks specialising in consumer finance, principally Home Credit & Finance Bank, Russian Standard Bank and Orient Express Bank; with large universal banks, principally Raiffeisenbank, Alfa-Bank and Promsvyazbank; and with certain other banks including Svyaznoy Bank and regional banks. As such, TCS's market share and results of operations are subject to competitive pressures from existing and possibly newly introduced retail banking products of its competitors, including credit card programmes. Many of TCS's competitors have access to much larger deposit bases and benefit from cheaper funding costs. For example, following the global financial and economic crisis of 2008-2009, state banks such as VTB 24, Sberbank, Russian Agricultural Bank and Gazprombank received large amounts of funding from the Russian government at commercially favourable terms in connection with government measures to support the Russian banking sector. As a result, these banks enhanced their dominance of the Russian banking sector, including in retail financial services. The focus of these banks on retail financial services may lead to TCS being unable to compete successfully in this market segment. Moreover, further growth and increasing availability of credit bureaus and development of other resources allowing banks to ascertain the credit history of individual borrowers may lead to an increase in competition in the consumer finance market, which could lead to lower market share or loan volumes for TCS, as well as tighter interest rate spreads. If TCS fails to compete effectively with other banks, including Russian state-owned and privately-held banks and subsidiaries of non-Russian financial institutions, or potential new entrants to the market such as banks owned by major Russian mobile operators, this could have a material adverse effect on its business, results of operations, financial condition and prospects.

***TCS is dependent on credit card lending being its principal product***

Credit card lending to retail customers is, and is expected to remain for the foreseeable future, TCS's main business and source of income, even though it is actively developing other types of retail financial products and services offerings. Due to this focus, TCS's revenues depend on the success of its credit card lending business. If TCS is unsuccessful in implementing its strategy of further developing its credit card business or demand for credit cards decreases, or if credit card lending is disrupted for any reason, in the absence of another major source of income, TCS's revenues could dramatically decrease, which may have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

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

Before 2010, when the volume of business was significantly smaller, TCS used a "push marketing" model to acquire new customers (i.e. TCS mailed its product offerings to carefully preselected potential customers). In 2010, along with direct mailing of its products, TCS started using a "pull marketing" model, as part of which potential customers, including a large proportion of customers who have not been preselected by TCS, fill in a credit card application on the website of TCS Bank. By 2011, the online platform had become the main customer acquisition channel for TCS. Although the customers brought in through TCS's online customer acquisition platform are typically younger, more experienced and comfortable with technology and have higher income levels (see "*Business—Principal Business Activities—Consumer Lending: Credit Cards—Customer Base*"), such customers also tend to default more frequently on their loan payments and thus present a higher risk for TCS as compared to customers acquired through the direct mail or other offline channels. The growth in TCS's provision for loan impairment charge in the six months ended 30 June 2013 as compared to the six months ended 30 June



2012 and in 2012 as compared to 2011 was, in large part, due to the steadily increasing proportion of such typically “riskier” customers acquired through the online platform in the total customer base of TCS. TCS maintains a separate score card for customers acquired through its online customer acquisition platform and applies stricter verification procedures to such customers in order to keep the quality of its loan portfolio at appropriate levels and to ensure that the pricing for this segment appropriately reflects the corresponding levels of risk. However, there can be no assurance that the quality of TCS’s loan portfolio will not deteriorate further from this change in the distribution channel mix and the demographic characteristics of its customers, which may have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.

***The Issuer’s dual share capital structure, combined with the concentration of voting rights, will result in the control of the Issuer by Mr Tinkov, whose interests may conflict with those of holders of GDRs***

The Issuer’s Class A Shares represented by GDRs are each entitled to one vote per share at shareholders’ meetings, whereas the Issuer’s Class B Shares are entitled to 10 votes per share at shareholders’ meetings. After Admission, the Issuer anticipates that Mr Tinkov, indirectly through entities he controls, will beneficially own and control all of the Issuer’s Class B Shares, representing approximately 91.19 per cent. of the voting power of the Issuer’s issued share capital. Accordingly, Mr Tinkov will control the Issuer for the foreseeable future, including having the power to appoint and dismiss the Issuer’s board of directors and to approve significant transactions that may not be in the best interests of minority shareholders. As the interests of Mr Tinkov may, in some circumstances, conflict with the interests of the holders of the GDRs, such divergence of interests may have a material adverse effect on their investment in the GDRs. The voting power of Mr Tinkov will be substantially greater than his economic interest in the Issuer, and the ability of GDR holders to influence the conduct of the Issuer will be limited.

***TCS is dependent upon its IT and communications systems, the failure of which could result in loss of business and reputational damage to TCS***

Given TCS’s branchless, data-driven and service-oriented business model, information technology plays a critical role in TCS’s business. TCS’s ability to maintain financial and operating controls, to monitor and manage its risk exposure, to keep accurate records, to provide high-quality customer service and to develop and sell products and services depends, in part, on the uninterrupted and efficient operation of its information and communications systems, including its information technology and other systems that protect business continuity. TCS’s Internet, mobile and telesales distribution channel is particularly dependent upon highly sophisticated information technology and systems as failures or outages could harm TCS’s ability to conduct business and damage its relationship with consumers and business partners. For a detailed description of TCS’s IT systems, see “Business—IT Infrastructure”.

TCS’s IT systems may be vulnerable to a number of problems, such as software or hardware malfunctions, malicious hacking, physical damage to vital IT centres and computer virus infection. In addition, TCS’s IT systems need regular upgrading to meet changing business and regulatory requirements, adequately support the increased scale of TCS’s operations and to maintain the efficiency of its network’s operations, all of which needs to be done in a cost-effective manner.

TCS plans to further develop its existing IT systems and may also add new IT systems. The implementation of such plans may take longer than expected, may cost more than initially expected or result in unexpected disruption to TCS’s system operations, any of which could have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.

IT systems problems or malfunctions can result from inadequate or failed internal control processes and protection systems, human error, fraud, theft or external events that interrupt normal business operations. Any material disruption to TCS’s IT systems, and in particular any disruption that affects the operations of TCS’s online customer acquisition platform, could have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.

***TCS could be adversely affected by risks related to intellectual property***

TCS relies on the availability of third-party licences. Many of its IT systems include software or other intellectual property licensed from third parties. It may be necessary in the future to renew licences relating to various aspects of these IT systems or to seek new licences. There can be no assurance that the necessary licences would be available on acceptable terms, if at all. The inability to obtain certain licences or other rights or to obtain such licences or rights on favourable terms, or the need to engage in litigation regarding these matters, could adversely affect IT systems operations until equivalent technology can be identified, licensed or developed, and integrated into the existing IT systems and could have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.



Claims by others that TCS infringes their proprietary software or other intellectual property could harm its business. Others have asserted and may in the future assert claims of infringement of intellectual property rights against TCS. For example, in April 2011, Sberbank threatened to file a court claim alleging violation by TCS of Sberbank's intellectual property rights by using "Sberpochta" and "Sberplus" designations for its services. On 30 May 2011, TCS and Sberbank entered into a settlement agreement related to this dispute, which was approved by the Arbitrazh Court of the City of Moscow. Under the terms of this agreement, TCS is required to refrain from using any words containing the part of the word "sber" in relation to various banking activities. Should TCS fail to comply with this obligation in the future, a penalty of EUR 50,000 may be imposed on TCS and awarded to Sberbank for each such violation.

Any future claim of infringement, even one without merit, could cause TCS to incur substantial costs defending against the claim and could distract its management from its business. Furthermore, a successful claimant could secure a judgment or TCS may agree to a settlement that prevents it from using software or other intellectual property or that requires it to pay substantial damages, royalties or other fees. Any of these events could seriously harm TCS's business, results of operations financial condition and prospects.

TCS's proprietary rights may be difficult to enforce, which could enable others to copy or use aspects of its proprietary software or other intellectual property without compensating TCS. Despite TCS's efforts to protect its proprietary rights, unauthorised parties may attempt to copy aspects of its proprietary software or other intellectual property or obtain and use information that TCS regards as proprietary. TCS generally limits access to and distribution of its proprietary information. However, there can be no assurance that the steps taken by TCS will prevent misappropriation of its proprietary software or other intellectual property. Policing unauthorised use of its proprietary software or other intellectual property is difficult. If TCS is unable to protect its proprietary rights to intellectual property, it may find itself at a competitive disadvantage to others who need not incur the additional expense, time and effort required to create the innovative proprietary software or other intellectual property that have enabled it to be successful to date.

***TCS may not be able to properly manage its growth***

TCS increased its total assets by 11.3 per cent. to US\$2,418.8 million as of 30 June 2013 from US\$2,173.5 million as of 31 December 2012; by 137.5 per cent. in 2012 from US\$915.1 million as of 31 December 2011 and by 125.9 per cent. in 2011 from US\$405.1 million as of 31 December 2010. There can be no assurance that TCS will be able to properly manage its growth and continue to achieve positive returns on investments that TCS makes in the development of its retail financial services business.

As it grows, TCS's business requires the effective expansion and maintenance of TCS's financial, IT and information management control systems, the continued training of its personnel, continued efforts to maintain or enhance the quality of its customer service operations and the recruitment of additional employees. Should TCS fail to properly manage its growth, such failure could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***TCS may not be able to properly execute its business development plans***

TCS's plans to develop and offer additional types of retail financial products and services are subject to execution risk associated with a potential delay or failure in rolling out new products. The growth and profitability of the new product and service offerings could be lower than the Issuer expects, there could be insufficient customer demand for these products, the marketing strategy for such products could be ineffective, TCS could face stronger than expected competition in these new segments, or TCS may encounter higher than expected default rates. For example, in the electronic payments segment, TCS will be in competition with established Russian providers, such as QIWI and Yandex.Money, and new international entrants such as PayPal or Google Wallet. In the insurance segment, which TCS plans to enter following the acquisition of JSC Insurance Company "Moskva" on 7 August 2013, it would have to compete with large established insurance companies such as Rosgosstrakh, Ingosstrakh and RESO, as well as direct insurance specialists, such as Renaissance Insurance and inTouch. Should any of these factors impact TCS's new product development efforts or the roll-out of new products and services, it may have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***TCS's business relies on outsourcing relationships with partners, and there can be no guarantee that TCS will be able to maintain these relationships in the future***

TCS's business model involves extensive outsourcing of various customer service and operating functions, which helps it to retain focus on and develop its core competences with respect to TCS's main operations, to limit capital expenditures and to increase the flexibility of its cost base. This makes TCS dependent on its outsourcing

partners and exposes TCS to the risk that existing partners will fail to adequately perform these outsourcing services, as well as the risk that it will be unable to find new outsourcing partners if any existing partners terminate their relationship with TCS. TCS has established relationships with a wide range of providers of payment acceptance services, including ZAO “QIWI Bank” (which manages payment terminal networks operating under the QIWI brand), “SDM-BANK” (which operates the Platforma system), Russlavlbank (which operates the CONTACT system), Alt Telecom (which operates the Giperkassa payment system), OAO “Elecsnet” and Sistema “Gorod”. In addition, since 2009, TCS has cooperated with the Russian Federal Post Office, which allows TCS’s credit card customers to pay their credit card bills without paying commission at over 40,000 Russian Federal Post Office branches. TCS also outsources various business functions, such as personalisation of credit cards, mailing of monthly payment statements and some collections of overdue loans.

Although TCS expects that it will maintain its relationships with its outsourcing partners, these outsourcing agreements generally may be terminated by service providers at any time, subject to notice requirements and/or compensation for damages in certain agreements. As such, there can be no guarantee that TCS’s partners will continue to provide their respective services to TCS, especially if the development of TCS’s range of services results in TCS starting to meaningfully compete with some of these outsourcing partners. It is also possible that TCS’s outsourcing partners will only agree to continue to provide their services on terms that are less attractive for TCS.

In particular, should any arrangements with providers of payment acceptance services be terminated, TCS’s ability to collect amounts due on its credit card loans may be adversely affected. Additionally, should any such arrangement be terminated, TCS’s customers’ payment options would be reduced and some might have to pay amounts due on their credit card loans through other venues, such as banks, which impose charges for such payments that are currently not covered by TCS, while management would also have to divert its time and other resources to address the adverse consequences of any such agreement terminations. Should TCS fail to maintain its relationships with its outsourcing partners, such failure could have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.

***TCS’s exposure to exchange rate risk may increase, particularly as it continues to access international capital markets***

All of TCS’s loans to customers are currently denominated in roubles, while a substantial proportion of TCS’s liabilities is denominated in foreign currencies, principally the U.S. dollar, which exposes TCS to foreign exchange risk. Although TCS sets limits and performs certain other measures aimed at reducing exchange rate risk, fluctuations in exchange rates may have an adverse effect on TCS’s business, results of operations, financial condition and prospects.

TCS plans to continue to access the international capital markets for its funding needs, which subjects it to risks related to currency mismatches between its assets and liabilities. Although TCS seeks to minimise such risks by entering into foreign currency derivative contracts, there is no guarantee that these risk limitation measures will continue to be available or, if they remain available, will be effectively implemented, or that they will allow TCS to substantially reduce the impact of currency volatility.

If TCS’s risk management procedures and limits do not sufficiently reduce the impact of exchange rate risk on TCS’s operations, adverse movements in exchange rates could have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.

***Interest rate risks inherent in TCS’s business cannot be eliminated completely***

Like other Russian banks, TCS is exposed to interest rate risk resulting from mismatches of its interest-bearing liabilities and interest-earning assets as well as from lending to customers and lending to other banks at fixed interest rates and in amounts and for periods that might differ from TCS’s funding sources (which principally include retail deposits and debt securities). Although TCS monitors interest rates with respect to its assets and liabilities, and seeks to manage effectively the interest rate positions on its interest-earning assets and interest-bearing liabilities, any significant adverse interest rate movements may have a material adverse effect on TCS’s business, results of operations, financial conditions and prospects.

***TCS’s banking business entails operational risks, particularly fraud***

TCS is exposed to operational risk, including the risk of fraud by employees, customers or outsiders, mismanagement, unauthorised transactions by employees and operational errors. In addition, TCS’s ability to operate its business, and specifically its online customer acquisition and service platform, depends on its ability to protect the computer systems, networks and databases that it operates and uses from unauthorised intrusions of third parties. Although the Issuer believes that TCS’s computer systems, networks and databases are sufficiently protected from unauthorised access through a range of both physical and software security measures, given that

potential attackers may be able to deploy sufficient technical and financial resources to overcome these security measures, there can be no assurance that TCS's computer systems, networks and databases will not suffer from security breaches in the future. TCS maintains a system of controls designed to keep operational risk at appropriate levels. However, there can be no assurance that it will not suffer losses from any failure of these controls to detect or contain any operational risk in the future.

In 2010, TCS was affected by a number of fraudulent actions. In one instance, fraudsters successfully replicated information recorded on the magnetic stripes of credit cards (with or without a personal identification number (“PIN”)) using skimming devices in ATMs and the merchants payment network. As a result, 24 TCS cards were compromised and the total loss incurred by TCS amounted to RUB 314,410. Another fraud attack against TCS's customers involved malicious attacks on various internet sites and payment platforms, which allowed fraudsters to obtain credit card details (card numbers, CVV2 (Card Verification Value 2) and cardholders' names). As a result, 20 cards were compromised leading to RUB 240,633 of losses. TCS was, however, able to dispute (call back) some of the operations, recouping a total of RUB 55,921. Also during 2010, a total of 183 TCS cards were blocked as a result of compromised card security.

In 2011, TCS recorded fraud incidents with respect to 2,637 cards, which resulted in a loss to TCS of under RUB 1.5 million. There are several types of fraud being separately tracked by TCS: (i) “friendly” fraud (occurs when a consumer makes an Internet purchase with his or her own credit card and then issues a chargeback through the card provider after receiving the goods or services), (ii) “fraudulent application” (occurs when a criminal uses stolen or fake documents to open an account in someone else's name), (iii) “card not present” fraud (which involves the unauthorised use of a credit or debit card number, the security code printed on the card (if required by the merchant) and the cardholder's address details to purchase products or services in a non-face-to-face setting), (iv) “card stolen” fraud (occurs when the debit or credit card is stolen and then used by a criminal, posing as owner of the card), (v) “card lost” fraud (occurs when the card is lost and then used by a criminal, posing as owner of the card), (vi) “card never received” fraud (occurs when the issued card is never received by its rightful owner and is used instead by a criminal, posing as owner of the card), (vii) “counterfeit card” fraud (which involves the usage of counterfeit cards), (viii) “account takeover” fraud (occurs when the existing credit or debit card account is taken over by a criminal, posing as owner of the card) and (ix) “fraudster” fraud (which involves opening an account for fraudulent activities). For example, the newly opened account can be used for taking out money from compromised accounts with the prior transfer of funds from such compromised accounts to the fraudster's account). Among fraud incidents recorded by TCS in 2011, “friendly” fraud accounted for the largest proportion of all fraud cases (affecting 852 cards), followed by “card stolen” fraud (514 cards), “card lost” fraud (394 cards), “card not present” fraud (367 cards), “fraudulent application” cases (337 cards), and “counterfeit card” fraud (106 cards).

In 2012, TCS recorded fraud incidents with respect to 5,942 cards, which resulted in a loss to TCS of under RUB 7.0 million. Among fraud incidents recorded by TCS in 2012, “friendly” fraud again accounted for the largest proportion of all fraud cases (affecting 1,627 cards), followed by “card stolen” fraud (961 cards), “fraudulent application” cases (911 cards), “card lost” fraud (855 cards), “card not present” fraud (813 cards), “fraudster” fraud (355 cards), “account takeover” fraud (292 cards) and “counterfeit card” fraud (120 cards). In the six months ended 30 June 2013, TCS recorded fraud incidents with respect to 3,955 cards, which resulted in a loss to TCS of under RUB 3.4 million. The Issuer believes that if growth in fraud instances and resulting losses continues to increase at a higher rate than the increase in TCS's interest income or such growth in fraud results in permanent damage to TCS's reputation, this could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***Damage to TCS's brand or reputation, or a decline in customer confidence in TCS or its products, could have a material adverse effect on TCS's profitability***

TCS's business is dependent, in part, upon the strength of its “Tinkoff Credit Systems” brand and the reputation of its business. TCS operates in a consumer-oriented industry where customer trust is important due to the need for public confidence in the quality of TCS's services and the security of its IT and communications systems. TCS could suffer damage to its reputation and brand as a result of adverse publicity from government officials, pressure groups or the press, even if there is a relatively high level of satisfaction among TCS's current customers. In addition, any significant problems with collection practices employed by external collection agencies to which TCS outsources collections of its non-performing loans or to which TCS sells such loans could also adversely affect TCS's reputation and brand. Adverse publicity and damage to the Tinkoff Credit Systems brand could directly affect customer willingness to use TCS's products or deposit funds with TCS, and could adversely affect TCS's ability to find new co-branding partners and damage relationships with third parties on which TCS relies, any of which may have a material adverse effect on TCS's business, results of operations, financial conditions and prospects.

***TCS will become exposed to additional risks when it starts selling its own insurance***

TCS plans to start selling its own insurance products by the end of 2013 through its recently acquired wholly-owned subsidiary JSC Insurance Company “Moskva” (renamed OOO “Tinkoff Online-Insurance” after the acquisition), which holds an insurance licence but conducted no material insurance operations as of the date of the acquisition (7 August 2013). TCS does not have experience in insurance and, therefore, there is no guarantee that its insurance operations will be successful. The growth and profitability of TCS’s insurance operations could be lower than the Issuer expects, there could be insufficient customer demand for TCS’s own insurance products, the marketing strategy for such products could be ineffective or TCS could face stronger than expected competition from other insurance companies. Moreover, TCS does not plan to purchase any reinsurance to cover against losses to which it would be exposed by underwriting insurance (property insurance, personal accident insurance, car insurance, travel insurance and credit insurance) due to the prohibitively high cost of any such reinsurance in the initial stages of development of this business. TCS will seek to reduce its exposure to significant loss-causing events by utilising selective underwriting and pricing practices and excluding certain events under policy terms and conditions. However, TCS’s efforts to reduce its exposure, or appropriately price, or set appropriate underwriting terms for, its exposure may not be successful. In addition, any change to the insurance regulatory environment in Russia that seeks to spread insurance risk beyond the initial insurer may force TCS to incur additional expenses for reinsurance, write less insurance business or incur additional costs in meeting increased regulatory requirements for retaining the insurance. As TCS’s insurance business grows, losses from insurance claims (which are not offset by reinsurance recoveries) could have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.

***Failure to maintain adequately and protect customer and employee information could have a material adverse effect on TCS***

TCS collects and processes personal data (including name, address, age, bank and credit card details and other personal data) from its customers, third-party claimants, business contacts and employees as part of the operation of its business and it must comply with data protection and privacy laws and industry standards in Russia. Those laws and standards impose certain requirements on TCS in respect of the collection, use, processing and storage of such personal data. There is a risk that data collected by TCS and its appointed third parties is not processed in accordance with notifications made to, or obligations imposed by, data subjects, regulators, or other counterparties or applicable law. Failure to operate effective data controls in respect of the collection, use, processing and storage of such personal data could potentially lead to regulatory censure, fines, reputational damage and financial costs as well as result in potential inaccurate rating of risks or overpayment of claims.

TCS is also subject to certain data protection industry standards and may be contractually required to comply with those standards. For example, as a major processor of payments from payment cards, TCS Bank is required to comply with the Payment Card Industry Data Security Standard (“**PCI DSS**”) as part of its contractual obligations to merchant acquirers. There is a risk that certain types of data security breaches could subject TCS to liability, contractual penalties and/or damage to TCS’s reputation.

In addition, TCS is exposed to the risk that the personal data it controls could be wrongfully accessed and/or used, whether by employees, agents or other third parties, or otherwise lost or disclosed or processed in breach of data protection regulations. If TCS or any of the third party service providers on which it relies fail to process, store or protect such personal data in a secure manner or if any such theft or loss of personal data were otherwise to occur, TCS could face liability under data protection laws. This could also result in damage to TCS’s reputation as well as the loss of business, any of which could have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.

***The “Tinkoff Credit Systems” trademark is owned by an entity outside TCS and the use of such trademark by a non-TCS entity or a dispute as to its use could have a material adverse effect on TCS***

TCS’s intellectual property rights are important to the value of TCS’s business and are generally registered in the name of TCS Bank with the exception of the “Tinkoff Credit Systems” trademark that is held by Larkpark Services Inc., an entity outside of TCS that is controlled by Mr Tinkov. TCS Bank entered into a licencing agreement with Larkpark Services Inc. for the use of the “Tinkoff Credit Systems” trademark in May 2013 and registered this licence with the Federal Service for Intellectual Property of the Russian Federation on 8 August 2013. The licence agreement is valid for so long as the trademark is registered with the relevant Russian authorities (the registration of the trademark is currently set to expire in December 2016 unless it is renewed for a further 10 year period pursuant to an application from the trademark holder). Larkpark Services Inc. has an existing contractual obligation to renew the registration of the trademark and the licence agreement. Nevertheless, there is a risk that the use of such trademark by a non-TCS entity or any dispute as to the use of the “Tinkoff Credit Systems” trademark could have a material adverse effect on TCS’s business, results of operations, financial condition or prospects.



***There can be no assurance that key members of senior management will remain at TCS or that TCS will be able to retain or recruit experienced and/or qualified personnel***

TCS is dependent on its senior management for the implementation of its strategy and managing its day-to-day activities. In addition, certain business relationships of members of senior management are important to the conduct of TCS's business. There can be no assurance that key members of senior management will remain at TCS or that such business relationships will endure.

TCS also depends on highly-qualified employees, who are difficult to attract and retain. Competition for personnel with relevant expertise is significant due to the relatively small number of available qualified individuals. The continued growth of TCS's existing operations and its ability to execute its strategy depends on TCS's ability to retain existing employees and to identify and recruit additional individuals who are not only familiar with the local customs and market, but who also have the necessary qualifications and level of experience in retail banking. The pool of individuals with the required set of skills in Russia is much smaller than in most Western European countries or in the United States. Increasing competition from international financial institutions active in Russia and from large Russian state-owned banks, which have access to significant capital resources, may also continue to make it more difficult for TCS to pay competitive salaries and to attract and retain qualified employees and may lead to rising labour costs in the future. If TCS is unable to attract, train and retain sufficiently qualified individuals or if competition for qualified employees increases its labour costs, this may have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***Any negative publicity surrounding Mr Tinkov's former projects or surrounding Mr Tinkov may have a material adverse effect on TCS's business***

Before getting involved in the retail financial services business, Mr Tinkov had successfully launched a number of businesses and brands, such as "TechnoShock" and "MusicShock" electronic retail chains, "Darya" packaged meals, "Tinkoff" beer and "Tinkoff Restaurants" which became popular in many regions of Russia. Mr Tinkov sold these brands together with related production facilities. Save for the relevant licencing arrangements in respect of the relevant trademarks, Mr Tinkov currently has no connection to such businesses other than "Tinkoff" beer (produced by Sun InBev) which was re-launched in June 2013, with Mr Tinkov being heavily involved in the marketing and advertising campaigns related to this re-launch.

As the disposal by Mr Tinkov of those businesses has not been broadly disclosed, consumers may still associate the "Tinkoff Credit Systems" brand used by TCS with Mr Tinkov's former projects. Therefore, any adverse publicity with respect to "Tinkoff" beer, "Tinkoff Restaurants" or other former brands of Mr Tinkov could result in a negative perception of the "Tinkoff Credit Systems" brand. In addition, any allegations damaging to Mr Tinkov's reputation may also damage the "Tinkoff Credit Systems" brand or harm TCS Bank's reputation and could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***Any downgrade in the ratings of TCS and/or its related debt obligations could make it more expensive for TCS to raise capital in the future and may adversely affect the price that a subsequent purchaser would be willing to pay for the GDRs***

A significant number of TCS's debt obligations have credit ratings, upon which investors rely in varying degrees, and which may be a prerequisite to investing for certain investors holding such debt obligations. The global financial and economic crisis has witnessed credit rating agencies revising the criteria that they use to determine the credit ratings of debt obligations and/or changing their credit ratings of companies and their rated obligations. Any change in the methodology used by rating agencies could result in a change of outlook, or a downgrade in the ratings of a company or its rated obligations. Any downgrade in the ratings of TCS and/or its rated obligations could make it more difficult and/or expensive for it to raise capital going forward and may adversely affect the price of its outstanding debt obligations and the GDRs. TCS's ratings are also sensitive to changes in the sovereign rating of the Russian Federation. TCS's credit ratings are an assessment by the relevant rating agencies of its ability to pay its debts when due. Consequently, any change in the credit ratings of TCS's debt obligations or TCS could adversely affect the price that a subsequent purchaser would be willing to pay for the GDRs.

***TCS's measures to prevent money laundering and/or terrorist financing may not be completely effective***

The CBR has revoked a number of licences of Russian banks for violations of reporting requirements under Federal Law No. 115-FZ "On Combating of the Legalisation of Illegal Earnings (Money Laundering) and Terrorism Financing" dated 7 August 2001, as amended (the "Anti-Money Laundering Law").



Notwithstanding the current anti-money laundering regulations, the risk remains, however, that Russian financial institutions could be used as vehicles for money laundering. Russia is a member country of the Financial Action Task Force on Money Laundering (“**FATF**”) and the Egmond Group and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Russia, all banks and their employees are obliged to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money laundering. The Anti-Money Laundering Law and implementing regulations set forth the framework for this requirement and other anti-money laundering procedures.

Minimum standards and duties according to the Anti-Money Laundering Law include customer identification, record keeping, suspicious activity reporting, employee training, an audit function and designation of a compliance officer. Suspicious transactions must be reported on a daily basis to the Federal Service for Financial Monitoring of the Russian Federation (“**FSFMT**”). TCS complies with applicable anti-money laundering and anti-terrorist financing laws and regulations. TCS’s anti-money laundering measures are based on relevant Russian legislation. In particular, Russian anti-money laundering laws contain numerous requirements with respect to identification of clients, as well as documentation and reporting to the relevant authorities of transactions subject to mandatory control and other suspicious transactions. TCS has procedures and documents aimed at preventing money laundering and financing of terrorist activities, including a general anti-money laundering policy, employee training, the designation of a compliance officer, internal control procedures that include a refusal policy whereby TCS may refuse to conduct business with suspicious entities or individuals and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the FSFMT.

TCS has not been subject to investigation with respect to any involvement in money laundering or terrorist financing and believes that it fully complies with the reporting requirements under the Anti-Money Laundering Law. However, there can be no assurance that third parties will not attempt to use TCS as a conduit for money laundering or terrorist financing without TCS’s knowledge, nor that the measures described above will be completely effective. TCS has in the past been subject to administrative procedures initiated by the CBR for failing to submit anti-money laundering reports on time due to technical problems in its reporting system and further administrative proceedings could be initiated in the future. Such technical or other breaches of the Anti-Money Laundering Law could have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.

***TCS’s assets and business are not fully insured and may be subject to loss***

Currently, TCS does not maintain comprehensive insurance over its assets, insurance for business interruption, key man insurance (a life and/or disability policy taken out by the employer as a beneficiary in the event of death or disability to a particular key manager) or fraud insurance. Although the premises in which TCS’s offices are located are generally insured by the owners thereof, and although TCS maintains insurance covering damage to interiors, electronic equipment and furniture as well as civil liability insurance, any event which would normally be covered as an insurable risk such as fire, theft, systems disruptions or other operational risk would expose TCS to loss, which could, if significant, materially adversely affect its business, results of operations, financial condition and prospects. In addition, existing insurance cover may not or may not fully cover all insured losses.

**Risks Related to the Russian Federation**

TCS Bank is a Russian bank and all of its assets are located in Russia. There are certain risks associated with an investment linked to a business operating in Russia.

***Emerging markets such as Russia are subject to greater risks than more developed markets and a financial crisis could have a particularly significant adverse effect on banks, including TCS, operating in emerging markets such as Russia***

Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who are familiar with and fully appreciate the significance of the risks involved in investing in emerging markets.

Investors in emerging markets such as Russia should be aware that these markets are subject to greater risk than more developed markets, including, in some cases, significant legal, economic, financial and political risks. Investors should also note that developing economies such as the economy of Russia are subject to rapid changes and that the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any large developing country may tend to adversely affect prices in equity and debt markets of other developing countries as investors move their money to more stable and developed markets. Thus, even if the Russian economy remains relatively stable, financial turmoil in other emerging market countries could have an adverse effect on the Russian economy.

The Russian markets have been highly volatile during the global economic downturn beginning in 2008. For example, in the fourth quarter of 2008, during the acute stage of the global financial and economic crisis, the Russian securities markets were highly volatile, resulting, on occasions, in a series of temporary suspensions in trading on the MICEX and RTS stock exchanges by the FSFM, which had an adverse impact on the price of Russian securities generally.

As has happened in the past, financial problems, or an increase in the perceived risks associated with investing in developing economies, could dampen foreign investments in Russia and have an adverse effect on the Russian economy as a whole, which, in turn, could have an adverse effect on most Russian banks, including TCS, due to, among other factors, declines in the creditworthiness of many borrowers and an overall decrease in demand for loans. See “*Operating and Financial Review—Significant Factors Affecting Results of Operations—Russia’s Economic Condition*”. In addition, any financial turmoil can result in severe liquidity constraints for companies that operate in emerging markets due to the withdrawal of foreign funding sources or the reluctance of foreign investors to provide financing to borrowers in such emerging markets. Since TCS derives a significant proportion of its funding from issuing Eurobonds, any significant decrease in availability of funding through the international capital markets could have an adverse effect on its operations. Accordingly, investors should exercise particular care when evaluating the risks associated with an investment in the GDRs and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, such investments, and investors are therefore urged to consult with their own legal and financial advisers before making an investment in the GDRs.

## **Political Risks**

### ***Political and governmental instability in the Russian Federation***

Since 1991, the Russian Federation has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations of the 1990s, as well as to unrest by some social and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial authorities; this impacted negatively upon the business and investment climate in Russia. Over the past two decades the course of political, economic, regulatory and other reforms has, in some respects, been uneven and the composition of the Russian government has, at times, been unstable.

The Russian President Vladimir Putin is generally credited with having increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment. On 4 December 2011, the State Duma elections were held and, on 4 March 2012, presidential elections were held in Russia.

While the Russian political system and the relationship between the Russian President, the Russian government and the State Duma currently appear to be stable, future political instability could result from deterioration in the overall economic situation, including any decline in standards of living. Shifts in government policy and regulation in Russia are less predictable than in many Western democracies and could disrupt or reverse political, economic, regulatory and other reforms. Any significant change in, or suspension of, the Russian government’s programme of reform in Russia, major policy shifts or lack of consensus between the Russian President, the Russian government, the State Duma and powerful economic groups could lead to a deterioration in Russia’s investment climate that might limit the ability of TCS to obtain financing in the international capital markets or otherwise have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.

### ***Political, social and military conflicts, acts of terrorism or natural disasters could have an adverse effect on the global or Russian financial markets and economy***

The Russian Federation is a federation of 83 political units, which include republics, territories, regions and cities of federal significance, an autonomous region and autonomous districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the Russian government is, in many instances, unclear and sometimes remains contested. In the past, lack of consensus between the federal government and regional or local authorities resulted in the enactment of conflicting legislation at various levels and led to political instability. In particular, in the past, conflicting laws were enacted in the areas of privatisation, securities, corporate legislation, regulation of land use and licensing. Some of these laws and the governmental

and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have, in the past, been challenged in Russian courts and such challenges may occur in the future. This lack of consensus creates uncertainties in the operating environment in Russia, which could hinder TCS's long-term planning efforts and may prevent TCS from effectively and efficiently carrying out its business strategy.

Military conflicts, international terrorist activity and natural disasters have historically had a significant effect on international finance and commodity markets. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. In addition, ethnic, religious, historical and other divisions have, on occasions, given rise to tensions and, in some cases, military conflicts and terrorist attacks. Thus, the conflict in the Russian region of Chechnya in the late 1990s and into the 2000s brought normal economic activity within Chechnya to a halt for a period of time and adversely affected the economic and political situation in neighbouring regions. Violence and attacks relating to conflicts in the North Caucasus also spread to other parts of Russia and resulted in terrorist attacks in Moscow. Most recently, suicide bombings were carried out in two Moscow metro stations on 29 March 2010 and at the Moscow Domodedovo airport on 24 January 2011 and resulted in 76 fatalities in the aggregate. Any future military conflicts, acts of terrorism or natural disasters could have an adverse effect on Russia's political stability, as well as the international financial and commodities markets and the global economy.

Historically, natural disasters have adversely affected the global and Russian economy and financial market. For example, in July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer drought and record high temperatures, resulted in a decline in the Russian harvest, and accordingly an increase in demand for imported grain, reported to be Russia's largest import demand for over 10 years. The costs associated with controlling and reducing the fires, addressing environmental concerns and repairing the damage caused by the fires may have had an adverse effect on the Russian economy. The risks associated with these or similar events could materially and adversely affect the investment environment and overall consumer confidence in Russia, which, in turn, could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

## **Economic Risks**

### ***Economic instability in the Russian Federation***

Since the dissolution of the Soviet Union, the Russian Federation has experienced and/or is currently experiencing:

- significant declines in national GDP;
- high levels of inflation;
- an unstable currency;
- high levels of state or corporate debt, relative to GDP;
- crises in the banking sector limiting the ability of banks to provide liquidity to Russian corporate and individual borrowers;
- a large number of loss-making enterprises that continue to operate due to the lack of effective bankruptcy procedures;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of the "black" and "grey" market economies;
- pervasive capital flight;
- high levels of corruption and extensive penetration of organised crime into the economy;
- dependence of the economy on exports of commodities;
- significant declines and volatility in the stock market;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population; and
- outdated and deteriorating physical infrastructure.

The Russian economy has been subject to abrupt downturns in the past. In addition, as Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly

vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 and have since experienced high levels of volatility, including significant decreases.

In late 2008, at the outset of the global economic downturn, the Russian government announced plans to institute more than US\$200 billion in emergency financial assistance in order to ease taxes, refinance foreign debt and encourage lending. In the 2008-2009 period, the impact of the global economic downturn on the Russian economy has led to, among other things, several suspensions of trading on MICEX and RTS by market regulators since September 2008, a reduction in Russian GDP and the disposable income of the general population, a severe impact on bank liquidity, a significant devaluation of the rouble against the U.S. dollar and euro, a sharp decrease in industrial production and a rise of unemployment. In December 2008, the international credit rating agency S&P downgraded Russia's foreign currency sovereign credit rating from BBB+/A-2 to BBB/A-3, in large part due to the impact of the financial and economic downturn that began in the second half of 2008. Moody's changed its outlook to stable from positive on Russia's key ratings in December 2008. In February 2009, Fitch downgraded its long-term sovereign rating for the Russian Federation from BBB+/A-2 to BBB/A-3, with negative outlook, stating that the lowering of the ratings on Russia reflected risks associated with the sharp reversal in external portfolio and other investment flows, which increased the cost and difficulty of meeting the country's external financing needs. In January 2010 Fitch, however, changed the outlook from negative to stable. In October 2011, Moody's, the international rating agency, adjusted its ratings outlook for the Russian banking system from "stable" to "negative". The change reflected concerns that market volatility was weakening Russia's operating environment, which could potentially negatively affect Russian banks through a system-wide liquidity contraction, slower credit growth and pressures on asset quality over the next 12 to 18 months. In January 2012, Fitch revised its outlook for the Russian Federation from positive to stable based on perceived increased political uncertainty and global economic outlook. In March 2012, Fitch announced it may further lower the Russian sovereign credit rating if the Government does not restrict its budget policy and fails to limit expenditure. In August 2012, however, Fitch affirmed the Russian Federation's long-term sovereign rating at BBB with a stable outlook, and in March 2013, Moody's affirmed its Baa1 sovereign rating with a stable outlook. There can be no assurance that a future economic crisis, will not have a negative effect on investors' confidence in the Russian Federation's markets or economy or the ability of Russian entities to raise capital in the international capital markets, any of which, in turn, could have a material adverse effect on the Russian Federation's economy and/or TCS's business, results of operations, financial condition and prospects.

***TCS could be adversely affected by significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties***

A deterioration in the commercial soundness and/or perceived soundness of the Russian or global financial sector could negatively impact TCS's ability to access the capital markets and increase its counterparty risk in relation to other financial institutions. If such problems were to persist, a default by, or concerns about the stability of, one or more financial institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on TCS's business, result of operations, financial condition and prospects.

***There continues to be a lack of reliable official data in Russia, which makes business planning inherently uncertain and may impair the ability of Russian companies to plan effective strategies***

Official statistics and other data published by Russian federal, regional and local governments, federal agencies and the CBR are in certain respects less complete or reliable than those of some of the more developed market economies of North America and Europe. Official statistics may also be produced on different bases than those used in Western countries. In preparing this Prospectus, the Issuer has relied on and referred to information from various third-party sources and its own internal estimates. For example, a significant portion of information concerning TCS's competitors and the banking industry in Russia has been derived from publicly available information, including information published by the CBR. TCS and the Issuer have not independently verified them and, therefore, any discussion of matters relating to Russia in this Prospectus is subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

***If Russia were to return to higher and sustained inflation, TCS's results of operations could be adversely affected***

According to Rosstat data, the inflation rate in Russia was approximately 11.9 per cent. in 2007, 13.3 per cent. in 2008 and 8.8 per cent. in each of 2009 and 2010. In 2011, inflation in Russia was 6.1 per cent. and in 2012 the inflation rate was 6.6 per cent. In the second quarter of 2013, inflation was 7.2 per cent. as compared to the second quarter of 2012. Levels of inflation higher than those experienced in Russia from 2007 to 2010 could lead



to market instability, a new financial crisis, reductions in consumer purchasing power and an erosion of consumer confidence. Any of these events could lead to decreased demand for banking products and services, which could adversely affect TCS's business, results of operation, financial condition and prospects.

## **Social Risks**

***Social instability could lead to labour conflicts and social tensions and unrest and, as a result, increased support for renewed centralised authority***

The past failures of the Russian government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Moreover, deteriorating economic conditions and turmoil in the financial markets in Russia, such as the global financial and economic crisis in 2008-2009, may result in high unemployment, the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. Labour and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralised authority, re-nationalisation of privatised property, or expropriation of or restrictions on foreign involvement in the economy of Russia. Any of these could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict TCS's operations and lead to a loss of revenue, and could otherwise have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***Crime and corruption could adversely affect the value of investments***

Levels of organised criminal activity continue to be significant in Russia. The Russian and international press have reported high levels of corruption in Russia, including the bribing of officials for the purpose of initiating investigations by government agencies and facilitation payments. Additionally, published reports indicate that a significant number of the Russian media regularly publishes biased articles in exchange for payment. TCS's business, results of operations, financial condition and prospects, as well as the value of the GDRs, could be materially adversely affected by illegal activities or corruption or by claims alleging that TCS is involved in such activities.

## **Legal Risks**

***Risks related to the Russian legal system and legislative weaknesses***

Russia continues to develop a legal framework adequate to facilitate the proper functioning of a market economy. In particular, amendments have recently been introduced to the Russian Civil Code, and further amendments to it are expected to be adopted in the near future that are set to amend or introduce certain new fundamental principles of Russian civil law. The recent nature of much of the Russian legislation and regulation and the rapid evolution of the Russian legal system place the enforceability of certain laws and regulations in doubt, resulting in ambiguities and inconsistencies in their application. The following aspects of Russia's legal system, many of which do not exist in countries with more developed legal systems, create uncertainty with respect to many of the legal and business decisions that TCS makes:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Russian Federal Constitution, the Russian Civil Code and other federal laws and by decrees, orders, regulations and resolutions issued by the President, the Russian government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. There have been, and continue to be, inconsistencies between such laws, presidential decrees, state resolutions and ministerial orders, and between local, regional and federal legislation and regulations;
- decrees, resolutions and regulations may be adopted by state authorities and agencies in the absence of a sufficiently clear constitutional or legislative basis and with a high degree of discretion. There is a risk that state authorities may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issues and registrations and/or to void transactions;
- substantial gaps in the regulatory structure may be created by delay in or the absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and judicial decisions have limited value as precedents;



- Russia has a judiciary with limited experience in interpreting and applying market-oriented legislation and that is vulnerable to economic and political influence; and
- Russia has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor would be able to obtain effective redress in a Russian court.

The independence of the judicial system and its immunity from economic, political and other influences in Russia remains largely untested. The court system is, to a certain extent, understaffed and underfunded. Judges and courts in Russia are generally inexperienced and unsophisticated in business and corporate law. In addition, most court decisions are not readily available to the public. The enforcement of court judgments can, in practice, be very difficult in Russia.

All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. In addition, court claims are often used to further political aims and court judgments are not always enforced or followed by law enforcement agencies.

These weaknesses of the Russian legal system create considerable uncertainty in the legal and operating environment for Russian banks and banking groups, including TCS, as compared to banks in developed countries. In such an environment, it is more difficult for TCS, as well as for the other Russian banks and banking groups, to comply with existing and future laws and regulations and the terms and conditions of its licenses and permits, the violation of which may result in the imposition of fines or penalties or more severe sanctions. These weaknesses also affect TCS's costs of compliance and the costs of doing business generally and create an unfavourable environment for quick and efficient resolution of disputes with other parties. If any of these events materialise in respect of TCS, this could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***The implementation of certain amendments to the Russian Civil Code may create an uncertain environment for business activities and investments***

On 18 July 2008, the former President Dmitry Medvedev issued a decree requiring various amendments to be made to the Russian Civil Code. The Concept of Development of Russian Civil Legislation was subsequently adopted on 7 October 2009. The proposed amendments are divided into four sets which are currently being phased in.

On 30 December 2012, Russian President Vladimir Putin signed the law incorporating the first set of amendments to the Russian Civil Code, which form part of a proposed major reform to Russian civil legislation. The majority of the amendments became effective on 1 March 2013. The amendments relate primarily to certain basic principles of civil law, limits on the exercise of civil rights, restriction of state registration of rights to certain types of property, as well as recognising the principle of compensation for losses incurred as a result of unlawful acts of the state authorities.

As part of the reforms to the Russian Civil Code, a second set of amendments has been proposed and is scheduled to have its second hearing in the State Duma later in 2013. As currently proposed, these amendments would significantly revise aspects of Russian law related to the status of legal entities. Most importantly, the amendments, as currently proposed, would:

- create a new system of classifying business entities, such that all business entities would be categorised as either public joint-stock companies or private entities, and closed joint-stock companies, which are currently a common legal form in Russia, would no longer exist;
- introduce a new management structure for all Russian public joint-stock companies. Specifically, the amendments propose to replace the existing board of directors structure of a joint stock company with a supervisory board exercising control powers. A person appointed as the "sole executive body" (for example, the general director or president) and members of a "collegial executive body" (for example, a management board that operates the company) may not also serve on the supervisory board; and
- expand the liability of the management bodies and persons who may determine a business entity's conduct.

The third set of amendments enacted under the current programme of the reform affects provisions of the Russian Civil Code dealing with securities. The amendments took effect on 1 October 2013. The most significant of these amendments provide for the following:

- differentiation of the regimes applicable to certificated and uncertificated securities: under the new classification certificated securities are treated as tangible property, while uncertificated securities are treated as "other property". Under the general rule, provisions governing registered certificated

securities, records of which are maintained by a registrar or custodian, also apply to uncertificated securities. At the same time, a new section dedicated exclusively to uncertificated securities and dealing with specific aspects of their regulation has been added to the Russian Civil Code. In particular, rules have been introduced protecting holders of uncertificated securities in cases where the securities have been unlawfully debited from their accounts;

- a new concept of an “integrated immovable property complex”, which is defined as a set of immovable property having the same designated use and treated as a single item of real property; and
- the general rule on the ownership of the benefit, output and proceeds from use of an asset changed. The current version of the Russian Civil Code provides that all benefit from use of an asset belongs to the person legally entitled to use it. According to the amendments, as a general rule any benefit resulting from the use of an asset will belong to the owner rather than the user (irrespective of who is actually using it).

Finally, the fourth set of amendments to the Russian Civil Code was signed into law on 7 May 2013. These amendments affect, inter alia, the general rules on transactions, the grounds on which a transaction may be challenged and the rules governing agency (powers of attorney). The amendments became effective on 1 September 2013. The most significant of these amendments provide for the following:

- rules on challenging transactions changed. In general, the amendments expressly provide that a person challenging a transaction must be either a party to the transaction or another person that has a statutory right to challenge the transaction. Furthermore, in order to prevent counterparties from challenging transactions in bad faith on formal or technical grounds, the amendments provide that a claim to have a transaction declared invalid will not be upheld if the party making the claim acted in a way which allowed other parties to treat the transaction as valid. The amendment may be regarded as a type of estoppel restricting the exercise of rights against a party which has been led to believe that they would not be exercised;
- general rules for making and challenging decisions taken at meetings (such as creditors’ meetings and other meetings which have legal consequences) were introduced. That said, such rules should not apply to shareholders’ meetings in a joint stock company or participants’ meetings in a limited liability company or any other meetings to the extent they are regulated by special laws, among others, under the general rules introduced by these amendments;
- authority may be delegated not only under a power of attorney as a separate document, but can also be embedded in an agreement or a corporate resolution. The amendments also lift the current restriction on the maximum term of a power of attorney (three years) thus allowing a power of attorney to be issued for a longer term and introduced a new type of a power of attorney which cannot be revoked; and
- a final 10-year term in addition to the existing three-year limitation period for enforcing one’s rights through the court was introduced.

As of the date of this Prospectus, the potential interpretation of these amendments by state authorities (including the courts), along with their impact on TCS’s activities and corporate governance, are unknown.

#### ***Unlawful or arbitrary government actions***

State authorities have a high degree of discretion in Russia and at times exercise such discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes they illegally go beyond the limits of their discretion. Moreover, the state also has the power, in certain circumstances, by regulation or act, to interfere with the performance of, or to nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government agencies have also used common defects in matters surrounding documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Unlawful or arbitrary state action, if directed at TCS, its management or its principal shareholder or TCS’s partners, could have a material adverse effect on TCS’s business, results of operations, financial condition and prospects.

#### ***Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of TCS’s assets***

Although the Russian government has enacted legislation to protect property against expropriation and nationalisation and to provide fair compensation to be paid if such events were to occur, there can be no certainty that such protections would be enforced. This uncertainty is the result of several factors, including the lack of

state budgetary resources, an independent judicial system and sufficient mechanisms to enforce judgments. The concept of property rights is not well developed in Russia and there is limited experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, TCS may not be able to obtain proper redress in the courts, and may not receive adequate compensation if in the future the Russian government decides to nationalise or expropriate some or all of TCS's assets. The expropriation or nationalisation of any of TCS's assets without fair compensation may have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***Russian tax legislation is relatively undeveloped and subject to frequent changes***

Despite certain improvements in the Russian tax system undertaken by the Russian government over the last decade, such as the adoption of a consolidated legislative act (the “**Tax Code**”) and successive reductions in major tax rates, Russian tax legislation is still subject to frequent changes. In addition, it is expected that additional revenue-raising measures will be introduced into Russian tax legislation. With effect from 1 January 2010 the unified social tax was replaced with direct mandatory contributions to the Social Security Fund, the Medical Insurance Fund and the Pension Fund. Moreover, tax administration rules are now split between the Tax Code and a special law on social security contributions. The Pension Fund received more power and became a separate administrative body authorised to conduct full-scope tax audits in respect of contributions. Russia also introduced temporary rules reducing the deductibility of interest on loans denominated in foreign currency. These limitations will be in force at least until the end of 2013.

These changes affect the overall tax climate in Russia and may result in additional tax liabilities for TCS, have a material adverse effect on TCS's overall tax position and undermine TCS's tax planning efforts, which, individually or in combination, could have a material adverse effect on TCS's business, results of operations, financial condition and/or prospects.

***Russian tax authorities' approach to tax law enforcement and interpretation of the legislation may be unpredictable and selective***

The fiscal deficit that Russia was facing following the global financial and economic crisis of 2008-2009 resulted in greater scrutiny of Russian entities by the Russian tax authorities, which were trying to raise more revenue. Due to the absence of (or ambiguity of some) regulations on enforcement, lack of legislative and/or judicial guidance, and frequent changes in interpretation of the relevant legislation by regulators (primarily the Russian Ministry of Finance), additional tax audits and groundless claims of the Russian tax authorities are not rare. The absence of effective out-of-court dispute resolution procedures also results in additional costs and administrative efforts for taxpayers, who are generally forced to file claims in court when a dispute arises with the tax authorities.

In addition, court precedents are generally not binding in Russia. As a result, even though in recent years the highest Russian courts have gradually tried to bring court practice into line on matters of taxation and develop a unified approach to particular types of cases, there are still no clear rules to distinguish between lawful tax optimisation and tax evasion. The courts have tried to develop certain anti-avoidance approaches such as the concept of a “taxpayer acting in bad faith” and the concept of an “unjustified tax benefit”, moving towards a substance-over-form approach and limiting the ability of taxpayers to rely on a literal interpretation of the law. These concepts, however, are formulated quite broadly, are open to different interpretations and their status in the Russian legal system is unclear. The positions of the highest courts are also not stable and can change within a relatively short period of time. As a result, TCS's tax position may be difficult to assess, TCS may be subject to selective actions, including audits, by the Russian tax authorities, and become involved in unforeseen disputes with the Russian tax authorities, which, individually or in combination, could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***Repeated tax audits and extension of liability beyond the limitation period may result in additional tax liabilities for TCS***

The tax authorities are entitled to conduct tax audits for the year in which the decision to conduct the audit is taken and the three calendar years immediately preceding that year. However, the fact that a particular tax period has been reviewed does not automatically rule out the possibility of an additional review of the same period by the same or a higher tax authority (where such audit is carried out in connection with the restructuring/liquidation of a taxpayer, or as a result of filing by such taxpayer of an amended tax return decreasing the tax payable, or by a higher-level tax authority for the purpose of reviewing the work of lower-level tax authorities). Any such review could, if it is concluded that TCS Bank had significant unpaid taxes relating to such periods, have a material adverse effect on TCS's business, results of operations, financial condition and/or prospects.

Russian tax legislation provides for a three year statute of limitations for the imposition of fines for underpayment of taxes and other tax offences. At the same time, the law provides for the possibility of extending the three year statute of limitations if the taxpayer actively obstructed or hindered a tax audit. These provisions, however, are unclear and may be interpreted broadly by the tax authorities with a view to applying penalties beyond the three year term. There can be no assurance that the Russian tax authorities will not review TCS Bank's compliance with applicable tax law and attempt to assess additional taxes beyond the three year limitation period.

***The Issuer may be exposed to taxation in Russia if the Issuer is treated as having a Russian permanent establishment***

The Russian Tax Code establishes the concept of a permanent establishment in Russia as a means of taxing foreign legal entities that carry out regular business activities in Russia which are beyond preparatory and auxiliary activities. Russia's double tax treaties with other countries also establish similar concepts. However, the practical application of the concept of a permanent establishment under Russian domestic law is not well developed, and so foreign companies that have even limited operations in Russia which would not normally satisfy the conditions for creating a permanent establishment under international norms may be at risk of being treated as having a permanent establishment in Russia and hence being liable to pay Russian tax.

Although the Issuer intends to conduct its affairs so that it is not treated as having a permanent establishment in Russia, no assurance can be given that the Issuer will not be treated as having such a permanent establishment. If the Issuer were to be treated as having a permanent establishment in Russia, it would be subject to Russian taxation in a manner broadly similar to the taxation of a Russian legal entity.

Only the part of the income of a foreign entity that is attributable to a permanent establishment should be subject to taxation in Russia. The Tax Code contains some attribution rules that are not sufficiently developed. There is, therefore, a risk that the tax authorities might seek to assess Russian tax on the entire income of a foreign company. Having a permanent establishment in Russia may also have other adverse tax implications, including potential ineligibility for a reduced withholding tax rate under an applicable double tax treaty and potential adverse effects on value added tax ("VAT") and property tax obligations. Under Russian law a permanent establishment that pays income in the form of dividends is required, similar to a Russian legal entity, to withhold tax on that income, acting as a tax agent. There is no clear mechanism as to how this tax may be paid or may be paid or assessed by the tax authorities. However, the formal requirement is in place, and the Issuer may be fined for non-compliance with its obligations as a tax agent. There is also a risk that penalties could be imposed by the tax authorities for failure to register a permanent establishment with the Russian tax authorities.

Recent events in Russia suggest that the tax authorities may be more actively seeking to investigate and assert that foreign entities operate through a permanent establishment in Russia. Any such taxes or penalties could have a material adverse effect on TCS's business, results of operations, financial condition and prospects.

***Introduction of the concept of tax residency in Russia may have an adverse effect on TCS***

Currently, the Russian domestic tax framework does not have a concept of tax residency. However, the Russian government in its Main Areas of Russian Tax Policy for 2014-2016 intends to introduce the concept of tax residency for legal entities into domestic tax law. In previous Main Areas of Russian Tax Policy it was suggested that companies should be deemed Russian tax residents based on the place of effective management and control of the Issuer and/or based on the place of residence of its shareholders.

No assurance can be given as to whether and/or when these amendments will be enacted or their precise nature and potential interpretation by the tax authorities. However, it is possible that, if enacted, these amendments may have an adverse effect on TCS's business, results of operations, financial condition and prospects.

The activities of members of the Issuer's board of directors who reside in Russia could possibly lead to the Russian tax authorities deeming the Issuer to be a Russian legal entity. This risk is based on provisions of Russian corporate law which stipulate that a company is deemed to be domiciled at the place where its permanent executive body (general director or executive board) is located. If the tax authorities establish that those directors (and/or other decision-making corporate officers) of the Issuer who reside in Russia exercise their duties while in Russia, there is a risk that the Issuer may be deemed to be a legal entity that is subject to taxation in Russia and, in particular, withholding tax on dividends payable to investors (especially if the tax authorities manage to prove that the Russian resident directors exercise their duties at a single location). This risk may increase with further development of the "residency" and "place of effective management" concepts previously discussed in this risk factor.



***The Issuer may encounter difficulties obtaining lower rates of Russian withholding income tax envisaged by the Russia-Cyprus double tax treaty for dividends distributed from Russia***

Dividends paid by a Russian legal entity to a foreign legal entity are generally subject to Russian withholding income tax at a rate of 15 per cent., although this tax rate may be reduced under an applicable double tax treaty. The Issuer relies on the Russia-Cyprus double tax treaty. This tax treaty allows withholding income tax on dividends paid by a Russian company to a Cypriot company to be reduced to 10 per cent., provided that the following conditions are met: (i) the Cypriot company is a tax resident of Cyprus within the meaning of the tax treaty; (ii) the Cypriot company is the beneficial owner of the dividends; (iii) the dividends are not attributable to a permanent establishment of the Cypriot company in Russia; and (iv) the treaty clearance procedures are duly fulfilled. This rate may be further reduced to 5 per cent. if the level of direct investment of the Cypriot company in the Russian subsidiary paying the dividends is at least €100,000. Although the Issuer will seek to claim treaty protection, there is a risk that the applicability of the reduced rate of 5 per cent. or 10 per cent. may be challenged by the Russian tax authorities. As a result, there can be no assurance that the Issuer would be able to successfully claim the reduced withholding income tax rate in practice. Specifically, the Issuer may incur 15 per cent. withholding income tax at source on dividend payments from TCS if the treaty clearance procedures are not duly fulfilled as on the date when the dividend payment is made. In that case the Issuer may seek to claim as a refund the difference between the 15 per cent. tax withheld and the reduced rate of 10 per cent. or 5 per cent., as appropriate. However, there can be no assurance that such taxes would be refunded in practice.

The Russian government in its Main Areas of Russian Tax Policy for 2014-2016 intends to introduce the concept of “beneficial ownership” to domestic tax law in order to combat tax avoidance through the use of low-tax jurisdictions. This is in line with the declared intentions of the Russian President contained in his Budget Message regarding Budget Policy for 2010-2012, i.e. to introduce an anti-avoidance mechanism with respect to double tax treaty benefits in cases where the ultimate beneficiaries of the income do not reside in the relevant tax treaty jurisdiction. Furthermore, the Russian Ministry of Finance has issued a number of clarifications regarding the tax treaty concept of “beneficial ownership”. Although up to the date of this Prospectus these clarifications have been of limited use, they demonstrate an attempt by the Russian tax authorities to address the question of beneficial ownership of income in international financial transactions and holding structures. Given that the Issuer is located outside Russia, the future development and application of the “beneficial ownership” concept to it may have a material adverse effect on TCS’s business, results of operation, financial condition and prospects.

The Russian government also intends to introduce the concept of controlled foreign corporations into domestic tax law. It is currently uncertain whether and when this and the other initiatives described above may be introduced, how they would be interpreted and applied by the tax authorities and/or the courts in practice, and what effect this may have on taxpayers. The imposition of additional tax liabilities on TCS as a result of implementation of these initiatives may have a material adverse effect on TCS’s business, results of its operations, financial condition and prospects.

***Russian transfer pricing legislation is unclear and subject to change***

Russia introduced new transfer pricing legislation with effect from 1 January 2012. The new rules are more technically elaborated and detailed than previous ones. Although the new legislation is meant to be in line with international transfer pricing principles developed by the Organisation for Economic Co-operation and Development, there are certain significant differences in how these principles have been reflected in the local rules. The list of “controlled” transactions under this new legislation includes transactions performed with related parties and certain types of cross-border transactions. With respect to “controlled transactions” the Russian tax authorities may make transfer pricing adjustments and impose additional tax liabilities when the transfer prices deviate from market prices. Special transfer pricing rules apply to transactions with securities and derivatives. The amendments have toughened considerably the previous transfer pricing rules, by, among other things, effectively shifting the burden of proving market prices from the tax authorities to the taxpayer and requiring the taxpayer to keep specific documentation.

Accordingly, due to the uncertainties in interpretation of the Russian transfer pricing legislation which was in effect before 1 January 2012 and new transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge the level of prices applied by TCS Bank and make adjustments which could affect TCS Bank’s tax position unless TCS Bank is able to confirm the use of market prices with respect to controlled transactions, supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on TCS’s business, results of operation, financial condition and prospects.



At the moment there is no developed court practice on the application of the new transfer pricing rules and only limited guidance from the tax authorities, which makes interpretation, application and enforcement of these rules by the Russian tax authorities and courts unpredictable. The possibility of applying “mirror adjustments” (offsetting adjustments to the counterparty to the transaction) is limited and depends on performance of adjusted tax obligations by the other party to the transaction.

The need to ensure compliance with the new transfer pricing documentation requirements and possible transfer pricing adjustments could have a material adverse effect on TCS’s business and results of operations, financial condition and prospects.

***Changes in the double tax treaty between Russia and Cyprus may significantly increase TCS’s tax burden***

A company that is tax resident in Cyprus is subject to Cypriot taxation and qualifies for benefits available under the Cypriot tax treaty network, including the Russia-Cyprus double tax treaty. The Issuer can provide no assurance that the double tax treaty or reinterpretation by a court of its existing provisions will not be renegotiated or revoked or reinterpreted by a court. Adverse changes in, or the cancellation of, the Russia-Cyprus double tax treaty may significantly increase the Issuer’s tax burden and adversely affect its business, results of operations, financial condition and prospects.

***The Russian public reporting requirements and accounting regulations, to which TCS Bank is subject, differ significantly from those applicable to comparable companies in other jurisdictions***

TCS Bank’s corporate affairs are governed by its charter, its internal regulations and the laws governing Russian banks and companies incorporated in Russia. The responsibilities of members of the board of directors (“**Board of Directors**”) and management board (the “**Management Board**”) of TCS Bank under Russian law are different from those applicable to, and may be subject to certain requirements not generally applicable to, companies organised in the United Kingdom, the United States or other developed countries. Russian banking and securities market regulations contain certain disclosure requirements, including the requirement to file periodic financial statements prepared in accordance with RAS with the CBR. Much of this financial information is subsequently made available to the public. Material differences exist between financial information prepared under RAS and that prepared under IFRS. Therefore, investors are cautioned not to place undue reliance on such financial information prepared under RAS when evaluating the financial performance of TCS Bank or TCS. In addition, despite recent initiatives to improve corporate transparency in Russia, there is less publicly available information about TCS than there is available for comparable banks and banking groups in, for example, the United Kingdom or the United States.

***Significant changes in Russian banking and financial regulation could increase TCS’s expenses***

Like most of Russia’s legislation on business activities, Russia’s laws and regulations on banks and banking activities, as well as laws setting forth the fundamentals of financial markets legislation, were adopted in the 1990s and early 2000s and are subject to constant revision. In addition to the CBR Law, the Federal Law of December 2, 1990, No. 305-I “On Banks and Banking Activity”, as amended (the “**Banking Law**”), and the Federal Law of April 22, 1996, No. 39-FZ “On the Securities Market”, as amended (the “**Securities Market Law**”), Russia has adopted and continues to develop new banking and financial market legislation.

The recent and proposed changes in Russian banking and financial regulation, including changes in mandatory reserve requirements and changes to regulatory ratios, are aimed at bringing them closer to those of more developed countries. It is difficult to forecast how the changes in banking and financial regulation will affect the Russian banking system, and no assurance can be given that the regulatory system will not change in a way that will increase TCS’s expenses. See also “*Banking Regulation in Russia*”.

**Risks Related to Republic of Cyprus**

***The Issuer may be subject to the Special Contribution for the Defence Fund of the Republic of Cyprus***

Cypriot companies must pay a Special Contribution for the Defence Fund of the Republic of Cyprus (the “**Defence Tax**”) at a rate of 20 per cent. on deemed dividend distributions to the extent that both their immediate and ultimate beneficial owners are Cypriot tax residents. A Cypriot company that does not distribute at least 70 per cent. of its after tax profits within two calendar years from the end of the calendar year in which the profits arose, is deemed to have distributed this amount as a dividend two calendar years after that calendar year end. The amount of this deemed dividend distribution, subject to the Defence Tax, is reduced by any actual dividend paid out of the profits of the relevant year at any time up to the date of the deemed distribution and the resulting balance of profits will be subject to the Defence Tax to the extent of the appropriation of shares held in the company at that time by Cyprus tax residents. The profits to be taken into account in determining the deemed dividend do not include fair value adjustments to any movable or immovable property.

Defence Tax payable as a result of a deemed dividend distribution is paid in the first instance by the company which may recover such payment from its Cypriot shareholders by deducting the amount from an actual dividend to be subsequently paid to such shareholders from the relevant profits. To the extent that the Issuer is unable to recover this amount due to a change in shareholders or no actual dividend is ever paid out of the relevant profits, the Issuer will suffer the cost of the Defence Tax. The imposition of Defence Tax could have a material adverse effect on the Issuer's business, results of operations, financial condition and prospects if the Issuer is unable to recover the tax from shareholders as described above.

In September 2011, the Commissioner of the Inland Revenue Department to Cyprus issued Circular 2011/10, which exempted from the Defence Tax any profits of a company that is tax resident in Cyprus imputed directly to shareholders that are themselves tax resident in Cyprus to the extent that these profits are indirectly apportioned to shareholders who are ultimately not Cyprus tax residents.

***The Issuer's interest expenses may not be deductible***

In May 2012, the House of Representatives of Cyprus enacted laws, effective as of 1 January 2012, which provide that if a Cyprus parent company incurs an interest expense on the acquisition of shares of a company that is wholly-owned subsidiary (whether directly or indirectly and irrespective of whether the subsidiary is a Cyprus or foreign company), the interest expense will now be deductible for tax purposes by the parent company. This deduction will only be available provided the subsidiary owns assets that are used in its business and the amount of interest deducted is limited and proportionate to the amount and value of assets used in the business. If the Issuer is unable to deduct its interest expenses for tax purposes, its business, results of operations, financial conditions and prospects may be adversely affected.

***The Issuer may be subject to potential adjustment of its taxable profits if transactions with related parties were not carried out on an arm's length basis***

The arm's length principle contained in the Cypriot Income Tax Law 2002, as amended from time to time (the "**Cyprus Tax Law**") requires transactions to be carried out, for tax purposes, at fair market value and on normal commercial terms. If not, the Cyprus tax authorities may intervene, deem that they were so carried out and tax the resulting profits/gains accordingly. There are currently no specific transfer pricing rules and transfer pricing documentation requirements in the Cyprus Tax Law. Therefore, the Issuer may be subject to potential adjustments of its taxable profits on any future examination of its tax affairs by the Cyprus tax authorities if it can be demonstrated that certain transactions with related parties were not carried out on an arm's length basis.

In addition, the arm's length principles contained in the Cyprus Tax Law do not provide for a corresponding adjustment for the related counterparty on a transaction that is subject to adjustment.

***Adverse financial measures may be adopted in Cyprus in connection with its bailout***

In June 2012, the Cypriot government applied for financial assistance from the European Central Bank, the European Commission and the International Monetary Fund (together, the "**Troika**"). As economic conditions in Cyprus deteriorated, the Cypriot government ordered all banking institutions in Cyprus to temporarily close from and including 15 March 2013 to 27 March 2013, to avoid a run on deposits held in the country's banks, and entered into intensive negotiations with the Troika. On 24 March 2013 the Cypriot government and the Troika reached a provisional agreement regarding the provision of a EUR10 billion loan and related finance package to Cyprus, such loan and finance package being conditional on Cyprus implementing a comprehensive economic adjustment programme, or the Cyprus Economic Adjustment Programme. The Cyprus Economic Adjustment Programme will include a scheme for the reorganisation of the Cypriot banking system which will result in the Cyprus Popular Bank Public Co Ltd, or the Cyprus Popular Bank, Cyprus' second largest bank, being absorbed into Bank of Cyprus plc and in deposit holders with credit balances in excess of EUR100,000 net of loans held with Cyprus Popular Bank or Bank of Cyprus plc suffering significant or total losses. As a part of the implementation of the Cyprus Economic Adjustment Programme, temporary restrictions on bank transfers and withdrawals from banking institutions in Cyprus have been imposed. In addition, the Cypriot government and the Troika have reached an agreement on a Memorandum of Understanding pursuant to which the Cypriot government has passed legislation for the increase of the income tax rate from 10 per cent. to 12.5 per cent. and an increase of the rate of the special defence contribution tax applicable to certain sources of interest income from 15 per cent. to 30 per cent. The measures implemented to date have not had, and are not expected to have, a material impact on holding companies, such as the Issuer, that do not have significant deposits in Cyprus banks or operations in Cyprus. However, further disruption to the Cyprus banking system, or additional changes to implement the Cyprus Economic Adjustment Programme, are possible and such disruptions or changes may adversely affect the Issuer's business, results of operations, financial condition and prospects. Moreover, there can be no assurance that financial assistance to the Cypriot government from the Troika will continue in the future.

## **Risks Relating to the GDRs and the Trading Market**

### ***Voting rights with respect to the Class A Shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Cypriot law***

GDR holders have no direct voting rights with respect to the Class A Shares represented by the GDRs. GDR holders are able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the deposit agreement entered into on or about the date of this Prospectus between the Issuer and the Depositary (the “**Deposit Agreement**”) and the relevant requirements of Cypriot law. See “*Terms and Conditions of the Global Depositary Receipts*”. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders.

Holders of Class A Shares receive notice directly from the Issuer and are able to exercise their voting rights either personally or by proxy. GDR holders, by comparison, do not receive notice directly from the Issuer. Rather, in accordance with the Deposit Agreement, the Issuer provides notice to the Depositary. The Depositary then, as soon as practicable, at the Issuer’s expense, distributes to GDR holders notices of meetings, copies of voting materials (if and as received by the Depositary from the Issuer) and a statement as to the manner in which GDR holders may give instructions.

In order to exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Class A Shares represented by the GDRs they hold. As a result of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of Class A Shares, and there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. If the Depositary does not receive timely voting instructions, the holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person appointed by the Issuer to vote such Class A Shares, provided that such discretionary proxy will not be given if the Issuer does not wish such proxy to be given or if such matter materially and adversely affects the rights of holders of Class A Shares. If timely voting instructions are not received and no discretionary proxy is given in respect of such Class A Shares, or if the Depositary determines that it is not permissible under Cypriot law or it is reasonably impracticable to vote or cause to be voted the Class A Shares, such Class A Shares will not be voted.

### ***Sales of additional GDRs or Class A Shares (or Class B Shares once converted into Class A Shares) may result in a decline in the price of the GDRs***

Sales, or the possibility of sales, by the Issuer or the Selling Shareholders (see “*Principal and Selling Shareholders*”) of a substantial number of GDRs or Class A Shares (or Class B Shares once converted into Class A Shares) by Mr Tinkov could have an adverse effect on the value of the GDRs as well as the Issuer’s ability to obtain further capital through an offering of equity securities. Each of the Issuer, the Selling Shareholders and certain beneficial shareholders has agreed that, until 180 days, or in the case of Tasos Invest & Finance Inc., Tadek Holding & Finance S.A., Maitland Commercial Inc., Vizer Limited and Norman Legal S.A., the entities wholly-owned by Mr Tinkov, and Altruco Trustees Limited, 365 days after the Closing Date, neither it nor any person acting on its behalf or under its direction will, without the prior written consent of the JGCs and the JBRs, except in limited circumstances, offer, sell, contract to sell, pledge or otherwise dispose of, the Class A Shares, Class B Shares or the GDRs or, in the case of the Issuer, issue new Class A Shares, Class B Shares or GDRs. See “*Plan of Distribution—Lock-up Provisions*”. The sale of a substantial number of additional GDRs or Class A Shares, in particular by the Selling Shareholders, or the issuance of new shares by the Issuer, or the possibility that these sales or issuances may occur, may result in a decline in the price of the GDRs. Moreover, the Issuer may in the future issue new Class A Shares, Class B Shares or GDRs that have rights, preferences or privileges senior to those of the Class A Shares which could negatively affect the price of the GDRs. As a result, investors who purchase GDRs could lose all or part of their investment in such GDRs.

### ***The Issuer is not subject to the same takeover protection as a company incorporated in the United Kingdom***

Since the Issuer has its registered office in Cyprus and GDRs representing its Class A Shares are proposed to be listed on a regulated market in the United Kingdom, the takeover protection regime applicable to the Issuer is more limited than that applicable to public companies incorporated in the United Kingdom. Any offer for GDRs will be subject to the provisions of the United Kingdom City Code on Takeovers and Mergers (the City Code) in respect only of consideration, disclosure requirements and procedural matters applicable to the offer, while Cypriot law will apply to such an offer in relation to information to employees of the target company and substantive company law matters, such as whether such an offer would trigger a mandatory offer to all holders of GDRs. The requirements of Cypriot law regarding the thresholds for making a mandatory offer are set out in

*“Description of Share Capital—Cypriot Law—General”*. As at the date of this Prospectus, it is unclear whether the Cyprus Takeover Law provisions for a mandatory offer apply to GDRs. Consequently, a prospective bidder acquiring GDRs may gain control of the Issuer in circumstances in which no requirement for a mandatory offer is triggered in respect of the Issuer under the takeover protection regime applicable to it. As a result, some holders of GDRs may not be given the opportunity to receive treatment equal to that which may be received, in case of an offer made by a potential bidder with a view to gaining control of the Issuer, by certain other holders of GDRs or, as the case may be, Class A Shares at the relevant time.

***Holders of GDRs may not be able to exercise their pre-emptive rights in relation to future issues of Class A Shares***

In order to raise funding in the future, the Issuer may issue additional Class A Shares, including in the form of additional GDRs. Generally, existing holders of shares in Cypriot public companies are in certain circumstances entitled to pre-emptive rights on the issue of new shares in that company as described in *“Description of Share Capital—Articles of Association—Pre-emption Rights”*, though, under certain circumstances, such pre-emptive rights can be disapplied by the majorities described in *“Description of Share Capital—Articles of Association—Pre-emption Rights”*. Holders of GDRs in certain jurisdictions (including the United States) may not be able to exercise pre-emptive rights for shares represented by GDRs unless the applicable securities law requirements in such jurisdiction (including, in the United States, in some circumstances the filing of a registration statement under the Securities Act) are adhered to or an exemption from such requirements is available. The Issuer may not adhere to such requirements and an exemption may not be available. Accordingly, such holders may not be able to exercise their pre-emptive rights on future issuances of Class A Shares, and, as a result, their percentage ownership interest in the Issuer would be reduced.

***The price of the GDRs may be highly volatile***

Trading of GDRs generally on the London Stock Exchange has historically been subject to high volatility in terms of price and volume. The liquidity of any market for the GDRs depends on the number of holders of the GDRs, the market for similar securities and other factors, including general economic conditions and TCS’s financial condition, performance and prospectus, as well as the recommendations of securities analysts. As a result, TCS cannot be certain that an active trading market for the GDRs will develop or that it will be maintained. If an active trading market for the GDRs does not develop, investors may not be able to sell the GDRs they purchased at or above the price at which they acquired them or at all. As a result, investors could lose all or part of their investment in the GDRs.

***The Class A Shares underlying the GDRs are not listed and are illiquid and will remain illiquid***

Unlike the shares underlying most of the other GDRs traded on the London Stock Exchange, the Class A Shares are neither listed nor traded on any stock exchange, and the Issuer does not intend to apply for the listing or admission to trading of its Class A Shares on any stock exchange. As a result, a withdrawal of shares by a holder of GDRs, whether by election or due to certain events described under *“Terms and Conditions of the Global Depositary Receipts—Termination of Deposit Agreement”*, will result in that holder obtaining securities that are significantly less liquid than the GDRs and the price of those securities may be discounted as a result of such withdrawal.

***Investors in the Offering will experience immediate and substantial dilution in net tangible book value per Class A Share***

The price at which the Class A Shares (in the form of GDRs) are being sold in the Offering is substantially higher than TCS’s net tangible book value per Class A Share (i.e. TCS’s consolidated total assets less consolidated total liabilities divided by the number of outstanding Class A Shares). Therefore, purchasers of the Class A Shares (in the form of GDRs) will incur immediate and substantial dilution in net tangible book value per Class A Share.

***Failure or invalidation of the issue of the New TCS Bank Shares may prevent TCS Bank from receiving or retaining the proceeds from the Closed Subscription***

TCS Bank will not receive any proceeds directly from the Offering. Following the completion of the Offering, the Issuer will deposit the proceeds it receives from the Offering in an account of TCS Bank. The Issuer intends to use such proceeds to acquire the New TCS Bank Shares through the Closed Subscription as soon as possible, although the process may take several months. The Closed Subscription was approved by the written resolution of the Issuer, in its capacity as TCS Bank’s sole shareholder, on 27 August 2013 and subsequently registered by the CBR on 16 September 2013. Such acquisition of the New TCS Bank Shares will also require the prior permission of the CBR which the Issuer shall apply for promptly following the completion of the Offering.



When considering whether permission for the acquisition of the New TCS Bank Shares by the Issuer may be granted, the CBR will test the financial standing of the Issuer, including its net assets, creditworthiness and profitability of the Issuer in the last three years of its operations. At the time of the acquisition, the net assets of the Issuer must be not less than the purchase price of the New TCS Bank Shares. Given that the Issuer will hold the proceeds from the Offering it receives, it is expected that it will be able to satisfy the CBR's net assets test and receive permission to acquire the New TCS Bank Shares. The CBR may refuse to grant the permission if the Issuer is at any stage of bankruptcy or liquidation proceedings, has material tax debt or other indebtedness, or if the Issuer is involved in any litigation that can affect its financial standing.

After completion of the Offering and once the required permission of the CBR has been received, the Issuer will acquire the New TCS Bank Shares in full and pay the relevant funds to TCS Bank as consideration for the New TCS Bank Shares.

If the CBR fails or refuses to issue the permission to the Issuer for the acquisition of the New TCS Bank Shares or if the Issuer fails to subscribe and pay for the New TCS Bank Shares or if TCS Bank fails to file in a timely manner a report on the results of the placement of the New TCS Bank Shares (the "**Placement Report**") with the CBR as provided by Russian law, or if the CBR fails or refuses to register such Placement Report or a Russian court invalidates the issue of the New TCS Bank Shares based on alleged violations of Russian law, the proceeds from the Offering that are received by the Issuer may be transferred to TCS Bank through a subordinated loan, instead of the Closed Subscription. The applicable statutory limit for invalidation of the issue of the New TCS Bank Shares is three months after the state registration of the Placement Report. The Issuer believes that no violations of Russian law have taken place to date and there are no grounds pursuant to which the CBR would refuse permission to the Issuer for the acquisition of the New TCS Bank Shares or otherwise invalidate the issue of the New TCS Bank Shares.

If TCS Bank is unable to obtain or retain the net proceeds of the Closed Subscription from the Issuer in whole or in part, TCS Bank may, in due course, have to seek other sources of finance to strengthen its capital base and to enable future growth. There can be no assurance that TCS Bank would have sufficient operating cash flow or access to debt or other financing, on commercially reasonable terms or at all, to strengthen its capital base and to enable future growth. Failure to strengthen its capital base and to enable future growth with the net proceeds of the Closed Subscription in whole or in significant part may have a material adverse effect on TCS's ability to implement its growth strategy, and on its business, financial condition, results of operations or prospects.

***The GDRs may be subject to U.S. withholding under FATCA***

In order to receive payments free of U.S. withholding tax under Sections 1471 through 1474 of the Internal Revenue Code of 1986 (commonly referred to as "**FATCA**"), the Issuer and financial institutions through which payments in respect of the GDRs are made may enter into agreements with the United States Internal Revenue Service (the "**IRS**") pursuant to which they may be required to provide certain information about their investors and to agree to withhold at a rate of up to 30 per cent. on all, or a portion of, payments in respect of the GDRs made after 31 December 2016. There can be no assurance that the Issuer will enter into such an agreement with the IRS.

Under an agreement with the IRS, withholding may be triggered if: (a) an investor does not provide information sufficient for the relevant party to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of the Issuer; (b) an investor does not consent, where necessary, to have its information disclosed to the IRS; or (c) any investor or person through which payment in respect of the GDRs is made is not able to receive payments free of withholding under FATCA.

A beneficial owner of the GDRs that is a "foreign financial institution" (as defined under the FATCA rules) that is withheld upon generally will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles the investor to a reduced rate of tax on the payment that was subject to withholding under FATCA, provided the required information is furnished in a timely manner to the IRS.

The United States is in the process of negotiating intergovernmental agreements to implement FATCA (each, an "**IGA**") with a number of jurisdictions. Different rules than those described above may apply if the Issuer or an investor is resident in a jurisdiction that has entered into an intergovernmental agreement to implement FATCA. Cyprus has stated its intention to enter into an IGA with the United States; however, such an IGA has not been finalised.

Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.



## THE OFFERING

The Issuer .....	TCS Group Holding PLC.
The Selling Shareholders .....	Tasos Invest & Finance Inc., Tadek Holding & Finance S.A., ELQ Investors II Ltd, Vostok Komi (Cyprus) Limited, Rousse Nominees Limited, Lorimer Ventures Limited and Altruco Trustees Limited (as trustee in relation to the ESOP and the Equity LTIP).
The Offering .....	<p>The Offering consists of an offering of up to 62,111,802 Class A Shares in the Issuer (excluding the Over-allotment Option), in the form of GDRs with one GDR representing an interest in one Class A Share, by the Issuer and the Selling Shareholders.</p> <p>The Offering comprises an international offering of GDRs outside of the Russian Federation. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A, or another exemption from the registration requirements of the Securities Act, and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S.</p>
Joint Global Coordinators or JGCs .....	Goldman Sachs International, Morgan Stanley & Co. International plc and SIB (Cyprus) Limited.
Joint Bookrunners or JBRs .....	J.P. Morgan Securities plc and Renaissance Capital.
Selling Agent .....	Pareto Securities AB.
Offer Price .....	US\$17.50 per GDR.
Share Capital .....	Immediately prior to the Offering, the Issuer's issued share capital consisted of 79,044,396 Class A Shares (including shares to be issued to the Equity LTIP on or prior to the date of this Prospectus) and 92,144,679 Class B Shares, which are fully paid and issued. Following the Offering, the Issuer's issued share capital will consist of 89,044,396 Class A Shares and 92,144,679 Class B Shares, which are fully paid and issued. The nominal value of each Class A Share and each Class B Share is US\$0.04 per share.
Custodian .....	HSBC Bank plc acting by way of its Athens branch, HSBC Bank plc (Greece) via its department, HSBC Securities Services, Greece.
Depository .....	JPMorgan Chase Bank, N.A.
GDRs .....	<p>One GDR will represent one Class A Share on deposit with the Custodian, as custodian for the Depository. The GDRs will be issued by the Depository pursuant to the Deposit Agreement. The Rule 144A GDRs will be evidenced initially by the Master Rule 144A GDR and the Regulation S GDRs will be evidenced initially by the Master Regulation S GDR and each such Master GDR will be issued pursuant to the Deposit Agreement. See <i>"Clearing and Settlement"</i>. Pursuant to the Deposit Agreement, the Class A Shares represented by the GDRs will be held by the Depository or by the Custodian for the account and to the order of the Depository (on behalf of the holders and beneficial owners of the GDRs) in one or more separate accounts maintained by the Custodian.</p> <p>From time to time the Depository may deduct per-GDR fees and other fees, charges and expenses as well as taxes and governmental charges from dividend distributions and may otherwise assess other per-GDR fees and other fees, charges and expenses to the GDR holders. See <i>"Terms and Conditions of the Global Depositary Receipts—Depositary's Fees, Costs and Expenses"</i>.</p> <p>Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement, interests in Master Regulation S GDR may be</p>

exchanged for interests in the corresponding number of GDRs represented by the Rule 144A Master GDR, and vice versa. See “*Terms and Conditions of the Global Depositary Receipts*”.

Over-allotment Option . . . . . The Over-allotment Selling Shareholders have granted to the JGCs and the JBRs an Over-allotment Option to purchase up to 9,316,770 additional GDRs at the Offer Price. The Over-allotment Option is exercisable on one or more occasions for the purpose of covering over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions on the date hereof, or from time to time, up to and including the 30<sup>th</sup> calendar day following the announcement of the Offer Price upon written notice from the JGCs and the JBRs to the Over-allotment Selling Shareholders and to the extent not previously exercised by the JGCs and the JBRs may be terminated by the JGCs and the JBRs at any time. If the JGCs and the JBRs exercise the Over-allotment Option, the Over-allotment Selling Shareholders will be obligated to sell and each JGC or JBR will be severally obligated, subject to the conditions contained in the Underwriting Agreement, to purchase, a number of additional GDRs proportionate to that JGC’s and JBR’s initial amount indicated in the table in “*Plan of Distribution*”. The Over-allotment Option is granted to the JGCs and the JBRs as part of the Underwriting Agreement for no additional consideration to the Over-allotment Selling Shareholders from the JGCs or the JBRs. See “*Plan of Distribution*” and “*Transfer Restrictions*”.

Closing Date . . . . . The GDRs are expected to be issued on or about 25 October 2013, and payment for them made, on or about 25 October 2013.

Closed Subscription . . . . . Following completion of the Offering, TCS Bank will offer up to 700,000,000 New TCS Bank Shares to the Issuer pursuant to the Closed Subscription. Under Russian law, the Closed Subscription is a process whereby particular persons or groups of persons determined and approved by a shareholders meeting or written resolution of the sole shareholder as part of the terms of the new issuance may subscribe for the newly issued shares (such as the Issuer in the case of the New TCS Bank Shares). The Closed Subscription was approved by the written resolution of the Issuer, in its capacity as TCS Bank’s sole shareholder, on 27 August 2013 and registered by the CBR on 16 September 2013.

TCS Bank will not receive any proceeds directly from the Offering. Following the completion of the Offering, the Issuer will deposit the proceeds it receives from the Offering in an account of TCS Bank. The Issuer intends to use such proceeds to acquire the New TCS Bank Shares through the Closed Subscription as soon as possible, although the process may take several months. Such acquisition of the New TCS Bank Shares will require the prior permission of the CBR which the Issuer shall apply for promptly following the completion of the Offering. After completion of the Offering and once the required permission of the CBR has been received, the Issuer will acquire the New TCS Bank Shares in full and pay the relevant funds to TCS Bank as consideration for the New TCS Bank Shares. The Issuer will remain the sole shareholder of TCS Bank.

Listing and Trading . . . . . Prior to the Offering, there has been no market for the GDRs.

This Prospectus has been prepared in connection with the application for the admission of the GDRs to trading on the London Stock Exchange.

Application has been made (A) to the UKLA for a listing of (i) up to 62,111,802 GDRs to be issued on the Closing Date, (ii) up to 9,316,770 GDRs in connection with the Over-allotment Option and (iii) up to 109,760,503 additional GDRs to be issued from time to time against the deposit of up to 109,760,503 Class A Shares (to the extent permitted by law) with the Custodian, as custodian for the Depositary, as depositary, to be admitted to listing on the Official List and (B) to the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities through its IOB. Conditional trading in the GDRs on the London Stock Exchange through its IOB is expected to commence on an if-and-when-issued basis on or about 8:00 a.m. on 22 October 2013. Admission is expected to take place on or about 8:00 a.m. on 25 October 2013. All dealings in the GDRs prior to the commencement of unconditional tradings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The GDRs are expected to be traded on the London Stock Exchange under the symbol "TCS".

Lock-Up .....	Each of the Issuer and the Selling Shareholders have agreed that neither it, nor any of its affiliates or subsidiaries, nor any person acting on its or their behalf will, subject to certain exceptions including transfers between existing shareholders at the date of this Prospectus, from the date hereof until 180 days after (or, in the case of Tasos Invest & Finance Inc., Tadek Holding & Finance S.A., Maitland Commercial Inc., Vizer Limited and Norman Legal S.A., the entities owned by Mr Tinkov, and Altruco Trustees Limited, 365 days after) the later of the Closing Date or the Over-allotment Option closing date, without the prior written consent of the the JGCs and the JBRs: (i) offer, sell, lend, mortgage, assign, charge, pledge, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant or contract to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any GDRs, Class A Shares, Class B Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Class A Shares or Class B Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; (ii) enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of Class A Shares or Class B Shares; or (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, subject to certain limitations. See " <i>Plan of Distribution—Lock-up Provisions</i> ".
Use of Proceeds .....	The Issuer expects to receive net proceeds of US\$166.4 million from the Offering. The Issuer intends to use such proceeds from the Offering for the purposes described in " <i>Use of Proceeds</i> ".
Taxation .....	For a discussion of certain United States, United Kingdom, Cypriot and Russian tax consequences of subscribing for or purchasing of and holding the GDRs, see " <i>Taxation</i> ".
Dividend Policy .....	Pursuant to the Issuer's articles of association (the " <b>Articles of Association</b> "), the Issuer may pay dividends out of its profits. To the extent that the Issuer declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Class A Shares underlying the GDRs, subject to the terms of the Deposit Agreement. The Issuer expects to pay dividends, if at all, in U.S. dollars.

The General Meeting may declare: (a) dividends at an annual general meeting; or (b) interim dividends at an extraordinary general meeting with the sanction of an ordinary resolution but no dividend or interim dividend may exceed the amount (if any) so recommended by the board of directors of the Issuer and the board of directors of the Issuer may at any time declare interim dividends.

Payments of dividends by the Issuer will be based on a policy established by the Issuer's board of directors whereby dividends would be paid only if TCS Bank's current and projected N1 capital adequacy ratio would remain (after payment of dividends) at or above a target level considered optimal by the management, i.e. within two to four per cent. above the highest levels required by the relevant covenants in any of TCS's financing arrangements (currently 13 per cent.). Taking into account the various factors potentially affecting TCS Bank's N1 capital adequacy ratio, including, among others, the recently published proposed amendments to the risk-weighting coefficients set by the CBR in relation to unsecured high interest rate consumer loans (see "*Business—Recent Developments—Changes in Risk-Weighting Coefficients on Higher Rate Loans*"), the Issuer does not currently expect to pay dividends in the nearest years as it accumulates additional capital to maintain its N1 capital adequacy ratio above the levels required by TCS's financing arrangements.

In addition, payment of any such dividend will be subject to any restrictions under applicable law and regulations, the Articles of Association, available cash flow, dividends from the Issuer's subsidiaries and TCS's capital investment requirements, as well as the approval of the dividend by the general meeting of shareholders of the Issuer on the recommendation of the Issuer's board of directors, based on the audited stand-alone and consolidated financial statements of the Issuer for the relevant financial year. Interim dividends will be declared and approved at the discretion of the Issuer's board of directors. The Issuer's dividend policy is subject to modification from time to time as the Issuer's board of directors may deem appropriate, including as a result of changes in applicable laws and regulations or the Articles of Association, or to reflect changes in the circumstances in which the Issuer operates.

The Class A Shares and Class B Shares have the right to an equal share in any dividend or other distribution paid by the Issuer, and any dividend or other distribution may only be declared and paid by the Issuer to the holder of the Class A Shares and Class B Shares together and each such share shall be treated (notwithstanding its classification or class designation) equally for such purposes.

The Issuer is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to it in accordance with applicable corporate law and contractual restrictions in shareholder and joint venture agreements. See "*Dividend Policy*".

Voting Rights ..... Each GDR carries the right to exercise the voting rights in respect of the relevant underlying Class A Shares, subject to the provisions of the Deposit Agreement and applicable Cyprus law. Each Class A Share carries one vote. Each Class B Share carries 10 votes. See "*Terms and Conditions of the Global Depositary Receipts*" and "*Description of Share Capital*".

The Depositary will endeavour to exercise, on behalf of holders of GDRs, at any meeting of holders of Class A Shares of which the Depositary receives timely notice, the voting rights relating to the Class A Shares underlying the GDRs in accordance with instructions it receives from holders of GDRs. The Issuer shall notify the

Depository of any resolution(s) to be proposed at any general meeting. The Deposit Agreement does not allow for the voting of fractional entitlements. See “*Terms and Conditions of the Global Depositary Receipts*” and “*Description of Share Capital*”.

Transfer Restrictions . . . . . The GDRs will be subject to certain restrictions as described under “*Transfer Restrictions*”.

Settlement Procedures . . . . . Payment for the GDRs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream, Luxembourg on or about the Closing Date. The Issuer has applied to DTC to have the Rule 144A GDRs accepted for clearance through DTC and to Euroclear and Clearstream, Luxembourg to have the Regulation S GDRs accepted for clearance through the systems of Euroclear and Clearstream, Luxembourg. Upon acceptance by DTC, a single Master Rule 144A GDR will be issued and held by JP Morgan Chase Bank N.A., as custodian for DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR will be registered in the name of BNP Paribas Securities Services, Luxembourg branch, as nominee and common depository for Euroclear and Clearstream, Luxembourg. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDRs only through DTC, Euroclear or Clearstream, Luxembourg, as applicable.

Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. See “*Clearing and Settlement*”.

The security identification numbers for the GDRs offered hereby are as follows:

Regulation S GDRs:	CUSIP:	87238U203
	ISIN:	US87238U2033
	Common Code:	097457107
	SEDOL:	BF233S0
Rule 144A GDRs:	CUSIP:	87238U104
	ISIN:	US87238U1043
	Common Code:	097456585
	SEDOL:	BF233R9

London Stock Exchange  
GDR trading symbol: TCS

Risk Factors . . . . . Investors should consider carefully certain risks discussed under “*Risk Factors*”.



## USE OF PROCEEDS

The gross proceeds of the Offering to the Issuer will be approximately US\$175 million. The net proceeds that the Issuer will receive from the Offering by virtue of the sale of the GDRs, and after deduction of underwriting commissions, fees and expenses incurred by the Issuer in connection with the Offering of up to approximately US\$8.6 million, will be approximately US\$166.4 million.

Assuming no exercise of the Over-allotment Option, the Selling Shareholders will sell an aggregate of 52,111,802 Class A Shares in the form of GDRs in the Offering. For the number of Class A Shares to be sold by each Selling Shareholder, see *“Principal and Selling Shareholders”*.

Following completion of the Offering, TCS Bank will offer up to 700,000,000 New TCS Bank Shares to the Issuer pursuant to the Closed Subscription. Under Russian law, a closed subscription is a process whereby particular persons or groups of persons approved by a shareholders meeting or a written resolution of the sole shareholder as part of the terms of a new issuance may subscribe for newly issued shares (such as the Issuer in the case of the New TCS Bank Shares). The Closed Subscription was approved by the written resolution of the Issuer, in its capacity as TCS Bank’s sole shareholder, on 27 August 2013 and registered by the CBR on 16 September 2013.

TCS Bank will not receive any proceeds directly from the Offering. Following the completion of the Offering, the Issuer will deposit the proceeds it receives from the Offering in an account of TCS Bank. The Issuer intends to use such proceeds to acquire the New TCS Bank Shares through the Closed Subscription as soon as possible, although the process may take several months. Such acquisition of the New TCS Bank Shares will require the prior permission of the CBR which the Issuer shall apply for promptly following the completion of the Offering. After completion of the Offering and once the required permission of the CBR has been received, the Issuer will acquire the New TCS Bank Shares in full and pay the relevant funds to TCS Bank as consideration for the New TCS Bank Shares. The Issuer’s holding in TCS Bank will not be altered as a result of the Closed Subscription. The Issuer will remain the sole shareholder of TCS Bank.

Over three quarters of proceeds of the subscription for the New TCS Bank Shares will be used by TCS Bank to enhance its capital position, which would allow it to further grow its retail lending business (mainly comprising credit cards), with the remaining proceeds to be allocated to support the future development of TCS’s other lines of business including insurance and payment solutions. See *“Risk Factors—Risks Relating to the GDRs and the Trading Market—Failure or invalidation of the issue of the New TCS Bank Shares may prevent TCS Bank from receiving or retaining the proceeds from the Closed Subscription”*.

## DIVIDEND POLICY

Pursuant to the Articles of Association, the Issuer may pay dividends out of its profits. To the extent that the Issuer declares and pays dividends, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Class A Shares underlying the GDRs, subject to the terms of the Deposit Agreement. The Issuer expects to pay dividends, if at all, in U.S. dollars. If dividends are not paid in U.S. dollars, except as otherwise described under “*Terms and Conditions of the Global Depositary Receipts—Conversion of Foreign Currency*”, they will be converted into U.S. dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

The General Meeting may declare: (a) dividends at an annual general meeting; or (b) interim dividends at an extraordinary general meeting with the sanction of an ordinary resolution but no dividend or interim dividend may exceed the amount (if any) so recommended by the board of directors of the Issuer and the board of directors of the Issuer may at any time declare interim dividends.

Payment of dividends by the Issuer is based on a policy established by the Issuer’s board of directors whereby dividends would be paid only if TCS Bank’s current and projected N1 capital adequacy ratio would remain (after payment of dividends) at or above a target level considered optimal by the management, i.e. within two to four per cent. above the highest levels required by the relevant covenants in any of TCS’s financing arrangements (currently 13 per cent.). The CBR has recently proposed amendments to the risk-weighting coefficients used to calculate the N1 capital adequacy ratio which, if implemented, may adversely affect TCS Bank’s ability to pay dividends. See “*Business—Recent Developments—Changes in Risk-Weighting Coefficients on Higher Rate Loans*”.

In addition, payment of any such dividend will be subject to any restrictions under applicable law and regulations, the Articles of Association, available cash flow, dividends from the Issuer’s subsidiaries and TCS’s capital investment requirements, as well as the approval of the dividend by the general meeting of shareholders of the Issuer on the recommendation of the Issuer’s board of directors, based on the audited stand-alone and consolidated financial statements of the Issuer for the relevant financial year. Interim dividends will be declared and approved at the discretion of the Issuer’s board of directors. The Issuer’s dividend policy is subject to modification from time to time as the Issuer’s board of directors may deem appropriate, including as a result of changes in applicable laws and regulations or the Articles of Association, or to reflect changes in the circumstances in which the Issuer operates.

The Class A Shares and Class B Shares have the right to an equal share in any dividend or other distribution paid by the Issuer, and any dividend or other distribution may only be declared and paid by the Issuer to the holder of the Class A Shares and Class B Shares together and each such share shall be treated (notwithstanding its classification or class designation) equally for such purposes.

The Issuer is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to it in accordance with applicable corporate law and contractual restrictions in shareholder and joint venture agreements. The payment of dividends by those subsidiaries is contingent upon the sufficiency of their earnings and cash flows distributable reserves. The maximum dividend payable by the Issuer’s subsidiaries is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to relevant law.

## CAPITALISATION

The following table sets forth TCS's capitalisation as of 30 June 2013 on a historical basis as extracted from the Unaudited Interim Financial Statements. For further information regarding TCS's financial position, see "Selected Consolidated Financial and Other Information", "Operating and Financial Review" and the Unaudited Interim Financial Statements.

	<i>As of 30 June 2013</i>
	<i>(US\$ thousands)</i>
Customer accounts .....	977,293
Debt securities in issue .....	806,273
Subordinated debt .....	198,354
<b>Total borrowings and customer accounts .....</b>	<b>1,981,920</b>
Share capital .....	6,835
Share premium .....	118,724
Treasury shares .....	(135)
Share-based payment .....	13,582
Retained earnings .....	249,260
Accumulated loss on translation .....	(32,403)
<b>Total equity .....</b>	<b>355,863</b>
<b>Total capitalisation .....</b>	<b>2,337,783</b>

Except as set forth below, since 30 June 2013, there have been no material changes in the capitalisation of TCS.

On 10 July 2013, TCS issued U.S. dollar-denominated euro commercial paper with a nominal value of US\$20 million at 5.25 per cent. coupon rate maturing on 9 July 2014. Also on 10 July 2013, TCS issued U.S. dollar-denominated euro commercial paper with a nominal value of US\$75 million at 4.5 per cent. coupon rate maturing on 10 January 2014.

On 18 July 2013, TCS redeemed a portion of rouble-denominated bonds issued in July 2012 through a public offer at the purchase price equal to their nominal value of RUB 1.1 billion.

On 28 July 2013, TCS redeemed in full at nominal value rouble-denominated bonds issued in July 2010 with a nominal value of RUB 1.4 billion.

## SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The following tables set forth selected consolidated statement of comprehensive income data for the years ended 31 December 2012, 2011 and 2010 and selected consolidated statement of financial position data of TCS as of 31 December 2012, 2011 and 2010 which have been derived from the Annual Financial Statements included elsewhere in this Prospectus. The selected consolidated condensed statement of comprehensive income data for the six months ended 30 June 2013 and 2012 and selected consolidated condensed statement of financial position data as of 30 June 2013 have been derived from the Unaudited Interim Financial Statements included elsewhere in this Prospectus.

The information in this section should be read in conjunction with sections entitled “Presentation of Financial and Other Information” and “Operating and Financial Review”.

### TCS’s Consolidated Statement of Comprehensive Income Data

	<i>Six months ended 30 June</i>		<i>Year ended 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in thousands of U.S. dollars, except as stated otherwise)</i>				
Interest income .....	519,551	271,458	657,836	331,935	138,693
Interest expense .....	(125,983)	(63,982)	(157,601)	(78,246)	(43,110)
<b>Net interest income .....</b>	<b>393,568</b>	<b>207,476</b>	<b>500,235</b>	<b>253,689</b>	<b>95,583</b>
Provision for loan impairment .....	(140,396)	(37,927)	(124,378)	(41,924)	(27,965)
<b>Net interest income after provision for loan impairment .....</b>	<b>253,172</b>	<b>169,549</b>	<b>375,857</b>	<b>211,765</b>	<b>67,618</b>
Customer acquisition expense .....	(68,906)	(46,745)	(85,258)	(54,516)	(21,991)
Fee and commission expense .....	(5,181)	(3,397)	(7,417)	(6,328)	(2,726)
(Losses less gains)/gains less losses from operations with foreign currencies .....	(1,531)	(3,463)	(8,321)	(191)	6,240
Gain from sale of bad debts .....	6,711	809	5,103	2,651	2,268
Insurance agency fee .....	1,086	—	306	—	—
Other operating income .....	207	325	219	248	187
Administrative and other operating expenses .....	(82,663)	(49,557)	(122,527)	(69,654)	(40,084)
Release of provision for liabilities and charges .....	—	—	—	4,923	1,786
Gains/(losses) on repurchase of debt securities in issue .....	—	—	116	(182)	(359)
<b>Profit before tax .....</b>	<b>102,895</b>	<b>67,521</b>	<b>158,078</b>	<b>88,716</b>	<b>12,939</b>
Income tax expense .....	(23,563)	(15,262)	(36,164)	(20,322)	(3,814)
<b>Profit for the period or year .....</b>	<b>79,332</b>	<b>52,259</b>	<b>121,914</b>	<b>68,394</b>	<b>9,125</b>
Other comprehensive income/(loss): Exchange differences on translation to presentation currency .....	(24,328)	(7,687)	10,773	(10,169)	(300)
<b>Other comprehensive income/(loss) for the period or year .....</b>	<b>(24,328)</b>	<b>(7,687)</b>	<b>10,773</b>	<b>(10,169)</b>	<b>(300)</b>
<b>Total comprehensive income for the period or year .....</b>	<b>55,004</b>	<b>44,572</b>	<b>132,687</b>	<b>58,225</b>	<b>8,825</b>
<b>Earning per share for profit attributable to the owners, basic (in US\$ per share) .....</b>	<b>11.84</b>	<b>8.18</b>	<b>18.63</b>	<b>10.87</b>	<b>1.54</b>
<b>Earnings per share for profit attributable to the owners, diluted (in US\$ per share) .....</b>	<b>11.59</b>	<b>8.08</b>	<b>18.32</b>	<b>10.77</b>	<b>1.54</b>

## Consolidated Statement of Financial Position Data

	<i>As of</i> <i>30 June</i>	<i>As of</i> <i>31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in thousands of U.S. dollars)</i>			
<b>ASSETS</b>				
Cash and cash equivalents	279,908	457,382	163,191	50,892
Mandatory cash balances with the CBR	27,424	22,560	6,975	2,463
Due from hanks	—	—	2,236	—
Loans and advances to customers	1,951,609	1,573,266	663,413	316,418
Financial derivatives	22,222	826	15,271	—
Current income tax assets	2,030	—	—	409
Deferred income tax assets	11,722	11,370	1,356	529
Guarantee deposits with payment systems	48,196	33,592	24,030	12,555
Fixed assets	22,128	17,952	4,511	4,427
Intangible assets	12,889	13,460	7,695	4,646
Other financial assets	39,847	38,995	21,963	10,501
Other non-financial assets	829	4,068	4,482	2,296
<b>TOTAL ASSETS</b>	<b>2,418,804</b>	<b>2,173,471</b>	<b>915,123</b>	<b>405,136</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks	16,602	16,930	—	—
Customer accounts	977,293	878,146	361,664	174,149
Debt securities in issue	806,273	762,414	412,875	143,591
Subordinated debt	198,354	123,897	—	—
Syndicated loan	—	—	—	31,378
Provisions for liabilities and charges	—	—	—	4,747
Financial derivatives	921	11,927	—	—
Current income tax liabilities	—	2,779	4,950	—
Other financial liabilities	52,362	70,570	13,687	6,424
Other non-financial liabilities	11,136	8,541	4,857	982
<b>TOTAL LIABILITIES</b>	<b>2,062,941</b>	<b>1,875,204</b>	<b>798,033</b>	<b>361,271</b>
<b>EQUITY</b>				
Share capital	6,835	6,777	6,370	6,283
Share premium	118,724	118,724	81,631	66,641
Treasury shares	(135)	(77)	(77)	—
Share-based payment	13,582	10,990	—	—
Retained earnings/(accumulated deficit)	249,260	169,928	48,014	(20,380)
Accumulated loss on translation	(32,403)	(8,075)	(18,848)	(8,679)
<b>TOTAL EQUITY</b>	<b>355,863</b>	<b>298,267</b>	<b>117,090</b>	<b>43,865</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,418,804</b>	<b>2,173,471</b>	<b>915,123</b>	<b>405,136</b>

## Selected Non-IFRS Financial Ratios and Other Non-IFRS Measures

	<i>Six months ended 30 June</i>		<i>Year ended 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in %)</i>				
<b>Profitability</b>					
Net interest margin <sup>(1)</sup>	37.1	41.2	37.3	44.0	37.1
Cost/income ratio <sup>(2)</sup>	38.5	46.4	41.5	48.9	64.9
Return on equity <sup>(3)</sup>	48.7	66.6	59.7	83.9	23.4
Return on assets <sup>(4)</sup>	6.8	9.3	8.3	10.5	3.2
<b>Asset quality</b>					
Cost of risk ratio <sup>(5)</sup>	14.4	8.2	10.5	7.7	11.1

(1) Net interest margin is defined as a ratio of net interest income to the average balance of total interest-earning assets (multiplied by two for the six months ended 30 June 2013 and 2012 to annualise the ratio). The average balance of TCS's assets in the six months ended 30 June 2013 represents the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013, and the average balance



of TCS's assets in the six months ended 30 June 2012 represents the average of the balances as of 31 December 2011, 31 March 2012 and 30 June 2012. The average balance of TCS's assets in 2012 represents the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012; the average balance of TCS's assets in 2011 represents the average of the balances as of 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011; and the average balance of TCS's assets in 2010 represents the average of the balances as of 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010.

- (2) The cost/income ratio is calculated as the sum of TCS's administrative and other operating expenses and its customer acquisition expenses divided by its net interest income.
- (3) Return on equity is defined as profit for the period or profit for the year, as applicable, divided by the average balance of TCS's total equity (multiplied by two for the six months ended 30 June 2013 and 2012 to annualise the ratio). The average balance of TCS's total equity in the six months ended 30 June 2013 represents the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013, and the average balance of TCS's total equity in the six months ended 30 June 2012 represents the average of the balances as of 31 December 2011, 31 March 2012 and 30 June 2012. The average balance of TCS's total equity in 2012 represents the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012; the average balance of TCS's total equity in 2011 represents the average of the balances as of 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011; and the average balance of TCS's total equity in 2010 represents the average of the balances as of 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010.
- (4) Return on assets is defined as profit for the period or profit for the year, as applicable, divided by the average balance of TCS's total assets (multiplied by two for the six months ended 30 June 2013 and 2012 to annualise the ratio). The average balance of TCS's total assets in the six months ended 30 June 2013 represents the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013, and the average balance of TCS's total assets in the six months ended 30 June 2012 represents the average of the balances as of 31 December 2011, 31 March 2012 and 30 June 2012. The average balance of TCS's total assets in 2012 represents the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012; the average balance of TCS's total assets in 2011 represents the average of the balances as of 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011; and the average balance of TCS's total assets in 2010 represents the average of the balances as of 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010.
- (5) The cost of risk ratio represents total provision for loan impairment charge divided by the average balance of gross loans and advances to customers in the same period or year, as applicable (multiplied by two for the six months ended 30 June 2013 and 2012 to annualise the ratio). The average balance of TCS's gross loans and advances to customers in the six months ended 30 June 2013 represents the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013, and the average balance of TCS's gross loans and advances to customers in the six months ended 30 June 2012 represents the average of the balances as of 31 December 2011, 31 March 2012 and 30 June 2012. The average balance of TCS's gross loans and advances to customers in 2012 represents the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012; the average balance of TCS's gross loans and advances to customers in 2011 represents the average of the balances as of 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011; and the average balance of TCS's gross loans and advances to customers in 2010 represents the average of the balances as of 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010.

	<i>As of or for the six months ended 30 June 2013</i>	<i>As of or for the year ended 31 December</i>		
		<i>2012</i>	<i>2011</i>	<i>2010</i>
Credit card loan portfolio growth rate <sup>(1)</sup> . . . . .	25.9%	140.3%	109.5%	76.6%
Equity to total assets ratio <sup>(2)</sup> . . . . .	14.7%	13.7%	12.8%	10.8%
Debt to equity ratio <sup>(3)</sup> . . . . .	5.62	5.97	6.61	7.96
<b>Asset quality</b>				
Provision for impairment of loans as a percentage of gross loans . . . . .	10.0%	8.1%	6.5%	7.4%
Non-performing loans as a percentage of gross loans . . . . .	6.0%	4.7%	3.7%	4.0%
Provision for impairment of loans as a percentage of non-performing loans . . . . .	164.9%	174.2%	178.0%	185.5%
<b>Capital adequacy</b>				
Tier I capital ratio <sup>(4)</sup> . . . . .	15.0%	14.0%	12.1%	8.4%
Total capital ratio <sup>(4)</sup> . . . . .	22.0%	20.1%	12.1%	8.4%
N1 capital adequacy ratio calculated in accordance with the CBR requirements <sup>(5)</sup> . . . . .	17.14%	17.41%	14.04%	13.55%

- (1) Credit card loan portfolio growth rate is defined as the change between gross credit card loan portfolio closing and opening balances of the respective reporting period or year, as applicable, divided by gross credit card loan portfolio opening balance of the respective reporting period or year, as applicable.
- (2) Equity to total assets ratio is defined as the closing balance of total equity divided by the closing balance of total assets of the respective reporting period or year, as applicable.
- (3) Debt to equity ratio is defined as the closing balance of total debt (sum of due to banks, customer accounts, debt securities in issue, subordinated debt and syndicated loan) divided by the closing balance of total equity of the respective reporting period.
- (4) See "Operating and Financial Review—Capital Adequacy". TCS's CAR is calculated on a consolidated basis under the methodology set by the Basel Committee with capital adjustments as set out in Basel III. TCS's Tier I capital is represented by net assets of TCS and decreased by intangible assets. TCS's Tier II capital is represented by subordinated loans, up to a limit of 50 per cent. of Tier I capital.
- (5) N1 capital adequacy ratio is calculated in accordance with the rules of the CBR and is based on TCS Bank's unconsolidated RAS accounts of TCS Bank that are materially different from IFRS. The CBR has increased risk-weighting coefficients on unsecured high interest rate consumer loans with effect from 1 July 2013 and has proposed even higher risk-weighting coefficients for such loans recently. See "Business—Recent Developments".

## OPERATING AND FINANCIAL REVIEW

*The following discussion and analysis of TCS's operating and financial results is based on, and should be read in conjunction with, the Financial Statements. Investors should read the following discussion together with the whole of this Prospectus, including "Risk Factors", "Selected Consolidated Financial and Other Information" and the Financial Statements (including the related notes) and should not rely solely on the information set out in this section.*

*The following discussion includes certain forward-looking statements that, although based on assumptions that the Issuer considers to be reasonable, are subject to risks and uncertainties that could cause actual events or conditions to differ materially from those expressed or implied in this Prospectus. Among the important factors that could cause TCS's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those factors that are discussed in "Forward-Looking Statements" and "Risk Factors" in this Prospectus. All statements other than statements of historical fact, such as statements regarding TCS's future financial position and risks and uncertainties related to TCS's business, plans and objectives for future operations, are forward-looking statements.*

### Overview

TCS is an innovative provider of online retail financial services operating in Russia through a high-tech branchless platform. Since its inception in 2006, TCS has grown into a leader in credit cards and has developed a successful online retail deposits programme. While credit cards and online retail deposits are the mainstay of TCS's business, it is broadening its product offering to bring other online products and services to Russian consumers.

TCS has built an advanced high-tech retail financial services platform that is highly suited for the Russian market and operating environment. TCS's platform is entirely branchless, with a low fixed cost base and high degree of operating flexibility to ramp the business up or slow the business down according to the external environment. This business model also enables TCS to take advantage of what it believes to be a significant growth opportunity in Russia. The Issuer believes that the low level of retail financial services penetration, relatively high margins and barriers to entry for TCS's competitors make its business model attractive in terms of growth potential and competitive edge. TCS's remote customer service through its award-winning Internet banking as well as through mobile banking and its high-volume call centres sets it apart from its competitors, facilitates its rapid growth and helps to keep operational costs at a relatively low level.

Operating flexibility and reach are further enhanced by TCS's use of direct marketing channels that enable it to attract new customers throughout Russia. TCS's primary distribution channels are its online (Internet, mobile and telesales), direct mail and direct sales agents channels. The Issuer believes that TCS's online offer is one of the most efficient ways to reach new customers in Russia, particularly in underserved parts of the country. TCS also uses "bring a friend" network marketing (a bonus system encouraging existing customers to recommend TCS) and other distribution channels.

TCS continuously develops and introduces new financial services products to retail customers in Russia. With respect to credit cards, which are its core product, TCS was the first and only bank in Russia to use direct mail as a key acquisition channel. TCS was also among the first to originate new credit cards and attract deposits online in large volumes. Other examples of TCS's innovations being used in connection with its existing products include the "click-to-meet" Internet application allowing delivery of the card within a few days through TCS's in-house "smart courier" network and the only distributed call centre ("**Home Call Centre**") among financial services providers in Russia that processes significant volumes of calls. TCS's Home Call Centre had over a thousand operators working from home as of 30 June 2013.

The Issuer believes that TCS's online platform is capable of supporting additional innovative financial products that TCS regularly brings to the market. In 2012 and the six months ended 30 June 2013, TCS launched a number of such new financial products, including:

- an ALL Airlines rewards programme for the mass affluent segment of the credit card market;
- point-of-sale lending to customers making online purchases through Internet retailers;
- sales of third-party insurance through its website;
- a comprehensive suite of online and mobile payment and transaction services using customers' bank accounts and "virtual" online credit cards in cooperation with Visa and MasterCard;
- prepaid cards in partnerships with Yandex.Money and Money@Mail.ru; and
- the "Bravo" in-house targeted loyalty platform.

According to CBR data, as of 1 July 2013, TCS had the third largest credit card loan portfolio in Russia, with a market share of 7.7 per cent. based on non-delinquent receivables and with 3.5 million issued credit cards as of 30 June 2013. As of 30 June 2013, TCS's total assets, loans and advances to customers and customer accounts (deposits) amounted to US\$2,418.8 million, US\$1,951.6 million and US\$977.3 million, respectively. In the six months ended 30 June 2013, TCS generated profit for the period of US\$79.3 million, as compared to US\$52.3 million in the six months ended 2012. As of 31 December 2012, TCS's total assets, loans and advances to customers and customer accounts (deposits) amounted to US\$2,173.5 million, US\$1,573.3 million and US\$878.1 million, respectively. In 2012, TCS generated profit for the year of US\$121.9 million, as compared to US\$68.4 million in 2011 and US\$9.1 million in 2010.

## Significant Factors Affecting Results of Operations

### Russia's Economic Conditions

Substantially all of TCS's assets and clients are located in Russia. As a result, TCS is affected by Russian economic conditions.

The following table sets forth certain Russian economic indicators as of or for the years ended 31 December 2012, 2011 and 2010:

	<i>As of or for the year ended 31 December</i>		
	<i>2012</i>	<i>2011</i>	<i>2010</i>
GDP (in billions of roubles at current prices) .....	62,599	55,800	46,309
GDP growth (in % change in physical volume of GDP) .....	3.4	4.3	4.5
(Deficit)/surplus of the federal budget of the Russian Federation (in billions of roubles) .....	(39.4)	442.0	(1,812.0)
Official reserves (in billions of U.S. dollars) .....	537.6	498.6	479.4
Inflation <sup>(1)</sup> (in %) .....	6.6	6.1	8.8
Unemployment (in %) .....	5.5	6.5	7.3
Real wages (in %) .....	8	3	5
Real disposable money income (in %) .....	4.4	0.5	5.9
Nominal appreciation/(depreciation) of the rouble against the U.S. dollar (in %) .....	(5.5)	3.4	4.3
Real appreciation/(depreciation) of the rouble against the U.S. dollar (in %) .....	(2.7)	8.8	9.7

Sources: Rosstat, CBR. Data from Rosstat's or CBR's websites.

(1) Inflation is measured as change in the consumer price index.

After experiencing a 7.8 per cent. contraction in GDP in 2009, principally as a result of the impact of the global financial and economic crisis, Russia's GDP growth amounted to 4.5 per cent. in 2010 and 4.3 per cent. in 2011. The rate of GDP growth decreased to 3.4 per cent. in 2012, in part due to the impact of the sovereign debt crisis on the European and U.S. economies that adversely affected demand for Russian exports to those regions, and then decreased further to 1.6 per cent. in the first quarter of 2013 as compared to the first quarter of 2012. Inflation was moderate in 2011 and 2012 and decreased to 6.1 per cent. in 2011 from 8.8 per cent. in 2010 and then slightly increased to 6.6 per cent. in 2012 and to 7.2 per cent in the second quarter of 2013 as compared to the second quarter of 2012. The unemployment rate has fallen from 7.3 per cent. in 2010 to 6.5 per cent. in 2011 and 5.5 per cent. in 2012. The Russian federal budget had a deficit of RUB 39.4 billion in 2012 and a surplus of RUB 442 billion in 2011 as compared to a RUB 1,812 billion deficit in 2010.

In contrast with 2009, the real wages and real disposable money income of the Russian population increased in each of 2010, 2011 and 2012. Real wages increased by 5 per cent. in 2010, three per cent. in 2011 and 8 per cent. in 2012, while real disposable money income increased by 5.9 per cent. in 2010, 0.5 per cent. in 2011 and 4.4 per cent. in 2012, thus creating conditions for increased demand for financial products and services in Russia.

An improvement in the real disposable money income of the population had a positive effect on the operations of Russian banks since January 2010. According to the CBR, total loans of Russian banks increased by 11.5 per cent. in 2010 from RUB 19.9 trillion as of 1 January 2010 to RUB 22.2 trillion as of 1 January 2011, increased by 29.6 per cent. in 2011 to RUB 28.7 trillion as of 1 January 2012, increased by 18.3 per cent. in 2012 to RUB 34.0 trillion as of 1 January 2013 and increased by 10.1 per cent. in the six months ended 30 June 2013 to RUB 37.4 trillion as of 1 July 2013 (Source: CBR. *The Review of the Banking Sector of the Russian Federation. Analytical Data. No. 130 (August 2013), No. 129 (July 2013) and No. 116 (June 2012), table 12*). Total deposits of Russian banks increased by 23.1 per cent. during 2010 from RUB 17.1 trillion as of 1 January 2010 to RUB 21.1 trillion as of January 2011, increased by 23.7 per cent. during 2011 to RUB 26.1 trillion as of 1 January 2012, increased by 15.5 per cent. during 2012 to RUB 30.1 trillion as of 1 January 2013 and increased by 9.5 per cent. in the six months ended 30 June 2013 to RUB 33.0 trillion as of 1 July 2013 (Source: CBR. *The Review of the Banking Sector of the Russian Federation. Analytical Data. No. 130 (August 2013), No. 129 (July 2013) and No. 116 (June 2012), table 13*).

The end of the global financial and economic crisis had a positive impact on TCS's operations. As domestic debt capital markets re-opened for Russian issuers, TCS was able to access such debt capital markets and use the financing proceeds to grow its loan portfolio again in the second quarter of 2010. Rapid growth of the portfolio continued in 2011 (with the exception of September and October of that year), 2012 and the six months ended 30 June 2013. This growth was possible due to increases in real disposable money income and real wages of the Russian population, which positively affected demand for TCS's loan products.

#### ***Fast Growth of the Credit Card Loan Portfolio***

TCS's lending strategy focuses on increasing its share of the Russian credit card market through strong and profitable growth of its credit card loan portfolio. After the successful launch of its retail deposit programme in February 2010 and renewed access to the domestic debt capital markets beginning in April 2010, TCS started investing again in the growth of its credit card business in the second quarter of 2010. The rapid growth of the credit card loan portfolio that followed has been achieved through:

- (a) strong emphasis on growth in new customer acquisitions, particularly through direct mail to pre-selected customers in 2010 and 2011 and through the online customer acquisition platform beginning in 2011; and
- (b) increased credit limits for existing customers based on their credit profile and behavioural scoring.

In 2011, TCS's credit card loan portfolio and the number of credit card customers showed rapid growth, except for September and October of that year when TCS temporarily suspended the acquisition of new customers to accumulate a cash safety cushion to protect itself against a potential new wave of the financial crisis. Rapid growth in the credit card loan portfolio and the number of credit card customers continued in 2012 and in the six months ended 30 June 2013.

As a result, TCS's gross credit card loan portfolio grew by 25.9 per cent. as of 30 June 2013 as compared to 31 December 2012, by 140.3 percent in 2012 and by 109.5 per cent. in 2011. Average total loans and advances to customers (the vast majority of which consists of credit card loans) net of provision for loan impairment increased from US\$227.4 million in 2010 to US\$507.4 million in 2011, US\$1,093.4 million in 2012 and US\$1,762.3 million in the six months ended 30 June 2013.

Rapid growth in the credit card loan portfolio, combined with the ability to maintain average annual interest rates on total loans and advances to customers above 58 per cent. throughout the period under review, allowed TCS to maintain rapid growth rates of interest income, which increased from US\$138.2 million in 2010 to US\$330.6 million in 2011, US\$656.1 million in 2012 and from US\$270.3 million in the six months ended 30 June 2012 to US\$519.0 million in the six months ended 30 June 2013.

The growth in its credit card loan portfolio also allowed TCS to significantly increase its share of the Russian credit card market. According to CBR data, TCS's market share of the Russian credit card market increased from 2.5 per cent. at the beginning of the period under review (1 January 2010) to 4.2 per cent. as of 1 January 2011, 5.8 per cent. as of 1 January 2012, 7.2 per cent. as of 1 January 2013 and 7.7 per cent. as of 1 July 2013. According to the CBR, as of 1 July 2013, TCS had the third largest credit card loan portfolio in Russia after Sberbank and Russian Standard Bank, up from ninth as of 1 January 2010.

Key indicators of TCS's financial position also closely correlate with loan portfolio growth dynamics. During phases when the portfolio starts growing more quickly after a slow or no-growth period (for example, in the second quarter of 2010), returns and capital adequacy ratios tend to decrease. The reason for this is the lag between the time when an investment in growth is made and the time when the newly acquired assets begin to generate income, although this lag has decreased significantly since the online customer acquisition platform became the largest distribution channel for acquiring new customers in 2011. During phases of continued growth, returns are generally higher as a result of higher initial accruals of frontloading fees when customers utilise the larger proportion of their limits during the first months of using their credit cards.

If the CBR's proposed risk-weighting coefficients are implemented in the form of the currently published amendments (see "*Business—Recent Developments*"), TCS may have to reduce the rate of growth of its gross credit card loan portfolio in the future.

#### ***Change in the Mix of Distribution Channels***

Until 2011, the direct mail distribution channel was the principal channel for the acquisition of new customers for TCS. Beginning in 2011, TCS's online customer acquisition platform (combining the Internet, mobile and telesales) has become the predominant method for attracting new customers. In the six months ended 30 June 2013, 90 per cent. of new credit card issuances were through this distribution channel. The Issuer believes that TCS is currently the number one online credit card originator in Russia by the number of credit cards issued.



The transition from direct mail to the online customer acquisition platform as the principal channel for attracting new customers allowed TCS to lower the ratio of customer acquisition costs to net interest income and decrease the time lag between the initial investment into marketing campaigns and the issuance of new cards and significantly expanded the target audience for TCS's marketing efforts, thus providing a strong foundation for rapid growth in credit card loan portfolio and interest income in 2011, 2012 and the six months ended 30 June 2013 discussed above.

The customers brought in through TCS's online customer acquisition platform are typically younger, have higher income levels and are more experienced and comfortable with technology, which makes them receptive to what TCS has to offer to its customers through the Internet and mobile banking. See *"Business—Principal Business Activities—Consumer Lending: Credit Cards—Customer Base"*. However, such customers also tend to default more frequently on their loan payments and thus present a higher risk for TCS as compared to customers acquired through the direct mail or other offline distribution channels. The growth in TCS's provision for loan impairment charge in the six months ended 30 June 2013 as compared to the six months ended 30 June 2012 was, in large part, due to the steadily increasing proportion of such typically "riskier" customers acquired through the online platform in the total customer base of TCS. The Issuer recognises that the credit risk profile and behavioural pattern of potential customers targeted through the online customer acquisition platform differs from those demonstrated by customers acquired through the offline channels. TCS uses stricter credit screening technologies for online credit card applicants and its approval rates for this category of potential customers were lower as compared to those acquired through the offline channels throughout the period under review. Nevertheless, the net present value ("NPV") of customers attracted through the online customer acquisition platform is, on average, higher than the NPV of customers acquired through the offline channels despite the higher cost of risk because the cost of acquiring and servicing these customers is much lower.

#### ***Fluctuation of Interest Rates Earned on Loans and Advances to Customers and Incurred on Certain Liabilities of TCS and Declining Interest Margins***

TCS was able to maintain average annual interest rates on its loans and advances to customers above 58 per cent. throughout the period under review. Although the yields on credit cards issued by TCS are relatively high, credit limits are very low, so card interest and fee charges are also relatively low in absolute terms and the Issuer believes customer sensitivity to paying such charges is also low. Customers who repay their balances in full during the grace period pay zero interest and only those who use their cards to withdraw cash or do not fully repay their balances within the grace period pay interest (or fees in case of cash withdrawal).

Although TCS continues to benefit from relatively high interest rates on credit card loans, increased competition in the consumer banking market, as well as new regulations, may result in reductions in interest rates charged by TCS in the future on its credit card loans. Moreover, if the CBR's recent proposals on limiting interest rates on consumer loans or legislation limiting the full cost of loans provided to individuals are adopted, this could also result in reductions in TCS's interest rates on credit card loans. For more information, see *"Business—Recent Developments—Recent Initiatives Contemplating Limitation of Interest Rates on Consumer Loans"*. The Issuer expects that TCS's credit card rates will also decrease gradually over time, as the cost of risk and cost of funding decrease and rates are reduced for existing, long-standing customers in order to retain them. Further, the Issuer expects TCS's customers to gradually become more disciplined over time, which should help TCS to improve its portfolio risk profile, but would also exert downward pressure on the effective interest rates and margins. Such expectations are based on the Issuer's belief that as customers in Russia gain more experience in using different financial products, their financial awareness and credit discipline will increase.

In February 2010, TCS rebalanced its liabilities structure by launching a retail deposit programme and by successfully raising debt in the domestic capital markets. Initially, TCS's value proposition with respect to retail deposits was founded on the convenience of opening a deposit account without a visit to a branch, in addition to competitive deposit rate offers. Shortly after the launch of the retail deposit programme, the rates offered by TCS were significantly higher than the average for the market, but upon achieving the planned level of deposits (within the range of 40 to 60 per cent. of its total liabilities) in its funding base, TCS gradually lowered these rates (in line with the CBR's recommendations to Russian banks) in order to slow down the speed of new customer acquisitions and as a response to positive changes in customers' perception of TCS's services. The average interest rates on customer accounts decreased from 13.7 per cent. in 2010 to 12.1 per cent. in 2012 and 12.0 per cent. in the six months ended 30 June 2013.

TCS's other principal source of funding is debt securities. In 2010, TCS issued three series of rouble-denominated domestic bonds totalling RUB 4.5 billion, representing 39.7 per cent. of its total liabilities as of 31 December 2010. Interest rates on rouble-denominated domestic bonds tend to be higher for the issuer than interest rates on foreign currency-denominated Eurobonds (excluding the impact of hedging foreign currency exchange risk). In 2011, in addition to rouble-denominated domestic bonds, TCS also issued US\$175 million U.S. dollar-denominated Eurobonds and SEK 550 million Swedish krona-denominated Eurobonds. In 2012, these were followed by an issue of US\$250 million U.S. dollar-denominated Eurobonds. As a result of these bond



issuances, the average interest rates on debt securities in issue decreased from 18.3 per cent. in 2010 to 14.1 per cent. in 2012 and 14.3 per cent. in the six months ended 30 June 2013. Average interest rates on TCS's total interest-bearing liabilities decreased from 18.3 per cent. in 2010 to 14.2 per cent. in 2011, 12.9 per cent. in 2012 and 13.1 per cent. in the six months ended 30 June 2013.

TCS's ability to maintain average annual interest rates on its loans and advances to customers above 58 per cent. throughout the period under review and the decrease in the average interest rate incurred on its total liabilities had a positive effect on TCS's net interest spread and net interest margin. However, the proportion of average loans and advances to customers in TCS's average total interest-earning assets decreased from 88.3 per cent. in 2010 to 81.4 per cent. in 2012 as TCS increased the proportion of cash and cash equivalents in its total interest-earning assets as a result of issuance of Eurobonds and subordinated debt at the end of 2012, which increased TCS's cash cushion to protect its liquidity position against future shocks and market instability. As interest earned on such cash and cash equivalents was very low, average interest rate on total interest-earning assets of TCS decreased from 53.8 per cent. in 2010 and 57.6 per cent. in 2011 to 49.0 per cent. in 2012, which had an adverse effect on TCS's net interest spread and net interest margin, which decreased from 43.4 per cent. for net interest spread and 44.0 per cent. for net interest margin in 2011 to 36.1 per cent. for net interest spread and 37.3 per cent. for net interest margin in 2012. Net interest spread and net interest margin remained at approximately the same level (each decreasing by 0.2 per cent.) in the six months ended 30 June 2013.

### ***Decreasing Cost/Income Ratio***

TCS's high-tech online customer acquisition and service platform allows TCS to have low operating and customer acquisition and service costs, which tend to decrease further as a proportion of net interest income due to economy of scale effects arising from the rapid growth in the size of TCS's credit card loan portfolio. The absence of an expensive branch network and the benefits of increasing proportion of customers who have been acquired and are serviced online (resulting, for example, in no or decreased need for account statements and smaller number of calls per account) helped to decrease TCS's cost/income ratio, calculated as the sum of administrative and other operating expenses and customer acquisition expenses divided by net interest income from 64.9 per cent. in 2010 to 48.9 per cent. in 2011, 41.5 per cent. in 2012 and 38.5 per cent. in the six months ended 30 June 2013. Primarily as a result of net interest income increasing much faster than the sum of administrative and other operating expenses and customer acquisition expenses, TCS's profit for the year or profit for the period, as applicable, increased from US\$9.1 million in 2010 to US\$68.4 million in 2011 and US\$121.9 million in 2012 and from US\$52.3 million in the six months ended 30 June 2012 to US\$79.3 million in the six months ended 30 June 2013.

### ***Changes in Provisions***

In 2011, provision for loan impairment charge increased by US\$14.0 million to US\$41.9 million from US\$28.0 million in 2010. This 49.9 per cent. increase was much smaller than a 115.4 per cent. increase in the average balance of TCS's gross loans and advances to customers between the two years. The Issuer believes that TCS's credit risk in 2011 was abnormally low primarily due to lack of competition in the loan market as most Russian banks were still recovering from the adverse impact of the global financial and economic crisis of 2008-2009 and were not yet ready to resume rapid loan portfolio growth. TCS was, therefore, able to target and approve applications of customers with better than average risk profile resulting in lower provisions in that year.

In 2012 and the six months ended 30 June 2013, however, the change in the mix of distribution channels, the increase in competition and certain other factors led to significant increases in provisions that exceeded the growth rates of TCS's loan portfolio. In 2012, provision for loan impairment charge increased by US\$82.5 million to US\$124.4 million from US\$41.9 million in 2011. This 196.7 per cent. increase was much larger than a 117.8 per cent. increase in the average balance of TCS's gross loans and advances to customers between the two years. Similarly, provision for loan impairment charge increased by US\$102.5 million, or 270.2 per cent., from US\$37.9 million in the six months ended 30 June 2012 to US\$140.4 million in the six months ended 30 June 2013, significantly exceeding a 111.1 per cent. increase in the average balance of TCS's gross loans and advances to customers between the six months ended 30 June 2013 and the six months ended 30 June 2012.

The primary reason for the increase in provisions in 2012 and the six months ended 30 June 2013 was the increasing proportion of new customers brought in through TCS's online customer acquisition platform. Taking all factors into consideration, the NPV of such customers is, on average, higher than the NPV of customers acquired through the offline channels. However, these customers also tend to have larger balances and default more frequently on their loan repayments and thus present a higher risk for TCS as compared to customers acquired through the direct mail channel or other offline distribution channels. Thus, the increase in provisions in

2012 and the six months ended 30 June 2013 was in large part attributable to the increase in the proportion of new higher risk customers acquired through the online customer acquisition platform from 52.2 per cent. in 2011 to 78.8 per cent. in 2012 and to 90.0 per cent. in the six months ended 30 June 2013. The second factor that contributed to the increase in provisions was the increased level of competition, which moved TCS's credit risk from abnormally low levels in 2011 back to relatively market standard levels in 2012 and the six months ended 30 June 2013. Another factor that affected not just TCS but all other Russian banks during the six months ended 30 June 2013 was the increased difficulty of collections from delinquent customers. As overall effectiveness of collection services decreased due to increasing debt burden on borrowers against a backdrop of slowdown in economic growth in Russia (see *"Risk Factors—Risks Related to TCS's Business and the Russian Financial Sector—TCS may experience significant increases in its provisions for loan impairment and in the proportion of non-performing loans in its gross loan portfolio and/or reductions of its collections and recoveries rates as a result of any deterioration in the economic conditions in Russia"*), provisions had to be further increased to account for this change in delinquent customer behaviour. Finally, TCS experienced a significantly higher level of defaults by new customers acquired in March through June 2012 as compared to customers acquired during any other period in 2011 or 2012, which was principally due to the launch of TV advertising of TCS's credit cards during this period. New customers attracted through this marketing channel have a significantly higher probability of default than other new customers, but the scoring models used during these four months were not recalibrated in time to take this into account, resulting in higher delinquencies and requiring increased provisions.

TCS'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 loan ("NPL") levels and provisions might change in the future. The average monthly second payment default rate was equal to 3.61 per cent. in 2010, 5.88 per cent. in 2011, 7.09 per cent. in 2012 and 6.12 in the six months ended 30 June 2013. The Issuer believes that the decrease in the average monthly second payment default rate between 2012 and the six months ended 30 June 2013 as well as within the latter period over time (the monthly second payment default rate reached 5.41 per cent., the lowest level in this period, in June 2013) may indicate that the growth in provisions in 2012 and the six months ended 30 June 2013 could slow down in the future as asset quality (as measured by the monthly second payment default rate) showed signs of improvement during the first half of 2013. On the other hand, in September 2013, the CBR published draft amendments to legislation contemplating increase of amounts of provisions for unsecured loans to individuals. See *"Banking Regulation in Russia—CBR—Loss provisions"*. These amendments are driven by the CBR's concerns regarding consumer lending growth in recent years and the adverse impact of such rapid growth on the creditworthiness of retail customers. If implemented in their proposed form, these amendments will require TCS to increase provisions on (i) loans without overdue payments, (ii) loans with payments overdue by up to 30 days and (iii) portfolios of similar loans without overdue payments and with payments overdue by up to 30 days. See *"Banking Regulation in Russia—CBR—Loss provisions"*.

### Results of Operations of TCS in 2012, 2011, 2010 and the six months ended 30 June 2013 and 2012

The following table sets forth selected consolidated income statement data for TCS in 2012, 2011, 2010 and the six months ended 30 June 2013 and 2012.

	Six months ended 30 June		Year ended 31 December		
	2013	2012	2012	2011	2010
	(in thousands of U.S. dollars)				
Interest income .....	519,551	271,458	657,836	331,935	138,693
Interest expense .....	(125,983)	(63,982)	(157,601)	(78,246)	(43,110)
<b>Net interest income .....</b>	<b>393,568</b>	<b>207,476</b>	<b>500,235</b>	<b>253,689</b>	<b>95,583</b>
Provision for loan impairment .....	(140,396)	(37,927)	(124,378)	(41,924)	(27,965)
<b>Net interest income after provision for loan impairment .....</b>	<b>253,172</b>	<b>169,549</b>	<b>375,857</b>	<b>211,765</b>	<b>67,618</b>
Customer acquisition expense .....	(68,906)	(46,745)	(85,258)	(54,516)	(21,991)
Fee and commission expense .....	(5,181)	(3,397)	(7,417)	(6,328)	(2,726)
(Losses less gains)/gains less losses from operations with foreign currencies .....	(1,531)	(3,463)	(8,321)	(191)	6,240
(Losses) /gains on repurchase of debt securities in issue .....	—	—	116	(182)	(359)
Gain from sale of bad debts .....	6,711	809	5,103	2,651	2,268
Insurance agency fee .....	1,086	—	306	—	—
Other operating income .....	207	325	219	248	187
Release of provision for tax risks .....	—	—	—	4,923	1,786
Administrative and other operating expenses .....	(82,663)	(49,557)	(122,527)	(69,654)	(40,084)
<b>Profit before tax .....</b>	<b>102,895</b>	<b>67,521</b>	<b>158,078</b>	<b>88,716</b>	<b>12,939</b>
Income tax expense .....	(23,563)	(15,262)	(36,164)	(20,322)	(3,814)
<b>Profit for the period .....</b>	<b>79,332</b>	<b>52,259</b>	<b>121,914</b>	<b>68,394</b>	<b>9,125</b>

## Selected Statistical Information for the Six Months Ended 30 June 2013 and 2012

### Average Balances and Interest Rates Data

The following table sets forth the consolidated average balances of interest-earning assets and interest-bearing liabilities of TCS in the six months ended 30 June 2013 and 2012. The table also sets forth the amount of interest income earned and interest expense incurred by TCS in the same periods, as well as the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities. For the purposes of this table, the average balances of assets and liabilities for TCS in the six months ended 30 June 2013 represent the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013, and the average balances of assets and liabilities for TCS in the six months ended 30 June 2012 represent the average of the balances as of 31 December 2011, 31 March 2012 and 30 June 2012. The quarterly information for TCS has neither been audited nor reviewed. The results of this analysis would likely be different if alternative averaging methods were used. The average rates below are calculated by dividing aggregate interest income or expense for the relevant line item below by the average balance for the same line item and then annualising the resulting numbers. Average interest rates are distinct from the effective interest rates presented in the Financial Statements and referred to elsewhere in this Prospectus.

	Six months ended 30 June 2013			Six months ended 30 June 2012		
	Average balance	Interest Income/ Expense	Average interest rate <sup>(6)</sup>	Average balance	Interest Income/ Expense	Average interest rate <sup>(6)</sup>
	(in thousands of U.S. dollars, except percentages)					
Total loans and advances to customers <sup>(1)(2)</sup>	1,762,318	519,020	58.9%	860,260	270,300	62.8%
Cash and cash equivalents <sup>(3)</sup> , due from banks and securities	358,660	531	0.3%	145,725	1,158	1.6%
<b>Total interest-earning assets</b>	<b>2,120,978</b>	<b>519,551</b>	<b>49.0%</b>	<b>1,005,985</b>	<b>271,458</b>	<b>54.0%</b>
<b>Interest-bearing liabilities</b>						
Local bonds and promissory notes	274,684	19,682	14.3%	199,854	17,157	17.2%
Eurobonds	482,723	35,764	14.8%	248,195	16,852	13.6%
U.S. dollar-denominated euro commercial paper	31,351	863	5.5%	—	—	—
Debt securities in issue	788,758	56,309	14.3%	448,049	34,009	15.2%
Due to banks	17,709	1,026	11.6%	—	39	—
Customer accounts	942,381	56,325	12.0%	485,723	29,934	12.3%
Subordinated debt	175,807	12,323	14.0%	—	—	—
<b>Total interest-bearing liabilities</b>	<b>1,924,655</b>	<b>125,983</b>	<b>13.1%</b>	<b>933,772</b>	<b>63,982</b>	<b>13.7%</b>
Gross loans and advances to customers	1,946,056			922,070		
<b>Total assets</b>	<b>2,320,232</b>			<b>1,121,225</b>		
<b>Total equity</b>	<b>325,945</b>			<b>157,014</b>		
Net interest spread <sup>(4)</sup>	—	—	35.9%	—	—	40.3%
Net interest income	—	393,568	—	—	207,476	—
Net interest margin <sup>(5)</sup>	—	—	37.1%	—	—	41.2%

(1) Net of provision for loan impairment.

(2) Includes credit card loans, instalments, online point of sale ("POS") loans and loans being recovered through courts.

(3) Excludes cash on hand and cash balances with the CBR (other than mandatory reserve deposits) as these assets are not interest-earning.

(4) Net interest spread is defined as a difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities.

(5) Net interest margin is defined as an annualised ratio of net interest income to the average balance of total interest-earning assets (with net interest income multiplied by two).

(6) Average interest rate on interest-earning assets was calculated as the total interest income divided by interest-earning assets representing the average of the 31 December 2012, 31 March 2013 and 30 June 2013 balances for the six months ended 30 June 2013 and 31 December 2011, 31 March 2012 and 30 June 2012 balances for the six months ended 30 June 2012 and then by multiplying the resulting rates by two to annualise them. Average interest rate on interest-bearing liabilities was calculated as total interest expense divided by interest-bearing liabilities representing the average of the 31 December 2012, 31 March 2013 and 30 June 2013 balances for the six months ended 30 June 2013 and of 31 December 2011, 31 March 2012 and 30 June 2012 balances for the six months ended 30 June 2012 and then by multiplying the resulting rates by two to annualise them. Interest income includes all fees received that are an integral part of the effective interest rate, such as, cash withdrawal fees, credit insurance fees and other fees.

### Interest-Earning Assets

#### Average Balances

The average balance of total interest-earning assets increased by US\$1,115.0 million, or 110.8 per cent., from US\$1,006.0 million for the six months ended 30 June 2012 to US\$2,121.0 million for the six months ended 30 June 2013. The increase in the average balance of total interest-earning assets in the six months ended 30 June 2013 as compared to the 30 June 2012 was principally the result of an increase in the size of TCS's loans and

advances to customers, the average balance of which increased by US\$902.1 million, or 104.9 per cent., between the two periods. The average balance of TCS's cash and cash equivalents increased at an even faster rate in the six months ended 30 June 2013 as compared to the six months ended 30 June 2012 due to (i) the overall growth of TCS's business resulting in an increased need for available cash, (ii) the issuance of Eurobonds in September and December 2012 and in the beginning of 2013 and (iii) the increase in TCS's cash cushion to protect its liquidity position against future shocks and market instability.

#### *Average Interest Rates*

The decrease in the average interest rate on TCS's loans and advances to customers in the six months ended 30 June 2013 as compared to the six months ended 30 June 2012 was primarily due to three factors. First, the proportion of customers acquired through the online platform in the total number of TCS's customers further increased in the six months ended 30 June 2013 as compared to the six months ended 30 June 2012. Such customers typically get larger credit limits (due to higher incomes) and larger credit limits are usually associated with lower effective rate charged to the customer (sometimes known as APR in other markets) as various fees charged to each account are divided by a larger outstanding balance. Second, customers acquired through the online platform also tend to use their cards for cash advances less frequently, reducing the fees charged to their accounts and hence their average interest rate. Third, long standing customers are proactively migrated to better tariff plans as part of TCS's retention programme.

#### ***Interest-Bearing Liabilities***

##### *Average Balances*

The average balance of total interest-bearing liabilities increased by US\$990.9 million, or 106.1 per cent., from US\$933.8 million in the six months ended 30 June 2012 to US\$1,924.7 million in the six months ended 30 June 2013. This increase was primarily due to (i) an increase in the average balance of customer accounts by US\$456.7 million, or 94.0 per cent., from US\$485.7 million in the six months ended 30 June 2012 to US\$942.4 million in the six months ended 30 June 2013, (ii) an increase in the average balance of debt securities in issue by US\$340.7 million, or 76.0 per cent., from US\$448.0 million in the six months ended 30 June 2012 to US\$788.8 million in the six months ended 30 June 2013 principally as a result of the issuance of U.S. dollar-denominated Eurobonds in September 2012 and the issuance of two series of rouble-denominated domestic bonds with a nominal value of RUB 3 billion in May 2013 and with a nominal value of RUB 2 billion in July 2012, as well as the issuance of euro commercial paper in the amount of US\$50 million in March 2013, partially offset by the early redemption of the Swedish krona-denominated bonds with a nominal value of SEK 550 million in June 2013 and the redemption of two series of rouble-denominated domestic bonds in April and July 2012 and (iii) an increase in the average balance of subordinated debt from nil in the six months ended 30 June 2012 to US\$175.8 million in the six months ended 30 June 2013 principally as a result of the issuance of U.S. dollar-denominated subordinated debt in December 2012 and February 2013.

##### *Average Interest Rates*

The decrease in the average interest rate on TCS's total interest-bearing liabilities from 13.7 per cent. in the six months ended 30 June 2012 to 13.1 per cent. in the six months ended 30 June 2013 was primarily due to (i) a decrease in the average interest rate on debt securities in issue from 15.2 per cent. in the six months ended 30 June 2012 to 14.3 per cent. in the six months ended 30 June 2013, as TCS was able to obtain lower interest rates on newly issued local bonds due to the increase in scale and profitability of its operations (reflected in a credit rating upgrade from Fitch to a B+ (stable) rating in March 2013 as compared to a B (positive) credit rating in March 2012) and attract a relatively low interest rate on its euro commercial paper issued in March 2013, and (ii) a decrease in the average interest rate on customer accounts from 12.3 per cent. in the six months ended 30 June 2012 to 12.0 per cent. in the six months ended 30 June 2013.

#### ***Net Interest Spread***

Net interest spread decreased from 40.3 per cent. in the six months ended 30 June 2012 to 35.9 per cent. in the six months ended 30 June 2013 as a 5.0 per cent. decrease in the average interest rate on total interest-earning assets was only partially offset by a 0.6 per cent. decrease in the average interest rate on total interest-bearing liabilities. The large decrease in the average interest rate on total interest-earning assets was due to (i) a decrease in the average interest rate on total loans and advances to customers from 62.8 per cent. in the six months ended 30 June 2012 to 58.9 per cent. in the six months ended 30 June 2013 discussed in “*Operating and Financial Review—Selected Statistical Information for the Six Months Ended 30 June 2013 and 2012—Interest-Earning Assets—Average Interest Rates*” and (ii) a decrease in the proportion of total loans and advances to customers in total interest-earning assets of TCS from 85.5 per cent. in the six months ended 30 June 2012 to 83.1 per cent. in

the six months ended 30 June 2013 as TCS increased the proportion of cash and cash equivalents in its total interest-earning assets as a result of issuance of Eurobonds at the end of 2012 and subordinated debt at the end of 2012 and the beginning of 2013 and as a result of increases in TCS's cash cushion to protect its liquidity position against future shocks and market instability.

### **Net Interest Margin**

Changes in net interest margin were driven by the same principal factors that affected net interest spread. Net interest margin decreased from 41.2 per cent. in the six months ended 30 June 2012 to 37.1 per cent. in the six months ended 30 June 2013 due to an 5.0 per cent. decrease in the average interest rate on TCS's total interest-earning assets that was only partially offset by a 0.6 per cent. decrease in the average interest rate on TCS's total interest-bearing liabilities.

### **Changes in Interest Income and Interest Expense—Volume and Rate Analysis**

The following table provides a comparative analysis of changes in interest income and interest expense of TCS in the six months ended 30 June 2013 as compared to the six months ended 30 June 2012. Changes in interest income or interest expense are attributed to either (i) changes in average balances (volume change) of interest-earning assets or interest bearing liabilities or (ii) changes in average rates (rate change) at which interest income was earned on such assets or at which interest expense was incurred on such liabilities or (iii) changes in volume/rate. Changes in interest income and interest expense due to changes in volume have been calculated as the change in volume times the prior comparative period's (six months ended 30 June 2012) rate. Changes in interest income and interest expense due to changes in rate have been calculated as the change in the rate times the prior comparative period's (six months ended 30 June 2012) volume. Average volume/rate changes have been allocated between the average volume and average rate variances on a consistent basis based upon the absolute percentage changes in average balances and average rates:

	<i>Six months ended 30 June 2013/six months ended 30 June 2012</i>		
	<i>Increase/(decrease) due to changes in<sup>(1)</sup></i>		
	<i>Volume</i>	<i>Rate</i>	<i>Net change</i>
	<i>(in thousands of U.S. dollars)</i>		
<b>Interest income</b>			
Cash and cash equivalents, due from banks and securities	808	(1,435)	(627)
Total loans and advances to customers	266,667	(17,947)	248,720
<b>Total interest income</b>	<b>267,475</b>	<b>(19,382)</b>	<b>248,093</b>
<b>Interest expense</b>			
Local bonds and promissory notes	5,687	(3,162)	2,525
Eurobonds	17,248	1,664	18,912
U.S. dollar-denominated euro commercial paper	863	—	863
Debt securities in issue	23,798	(1,498)	22,300
Due to banks	987	—	987
Customer accounts	27,320	(929)	26,391
Subordinated debt	12,323	—	12,323
<b>Total interest expense</b>	<b>64,428</b>	<b>(2,427)</b>	<b>62,001</b>
<b>Net change in net interest income</b>	<b>203,047</b>	<b>(16,955)</b>	<b>186,092</b>

(1) Excludes "other interest income" and "other interest expense" that do not relate to the interest-earning assets and interest-bearing liabilities analysed above.



## Results of Operations for the Six Months Ended 30 June 2013 Compared to Six Months Ended 30 June 2012

The following table sets out TCS's operating results for the six months ended 30 June 2013 and 2012:

	<i>Six months ended 30 June</i>		<i>Change</i>
	<i>2013</i>	<i>2012</i>	
	<i>(in thousands of U.S. dollars)</i>		<i>(in %)</i>
Interest income	519,551	271,458	91.4
Interest expense	(125,983)	(63,982)	96.9
<b>Net interest income</b>	<b>393,568</b>	<b>207,476</b>	<b>89.7</b>
Provision for loan impairment	(140,396)	(37,927)	270.2
<b>Net interest income after provision for loan impairment</b>	<b>253,172</b>	<b>169,549</b>	<b>49.3</b>
Customer acquisition expense	(68,906)	(46,745)	47.4
Fee and commission expense	(5,181)	(3,397)	52.5
Losses less gains from operations with foreign currencies	(1,531)	(3,463)	(55.8)
Gain from sale of bad debts	6,711	809	729.5
Insurance agency fee	1,086	—	n/a
Other operating income	207	325	(36.3)
Administrative and other operating expenses	(82,663)	(49,557)	66.8
<b>Profit before tax</b>	<b>102,895</b>	<b>67,521</b>	<b>52.4</b>
Income tax expense	(23,563)	(15,262)	54.4
<b>Profit for the period</b>	<b>79,332</b>	<b>52,259</b>	<b>51.8</b>

### Interest Income

Interest income is recorded on an accruals basis using the effective interest method. This method defers, as part of interest income, all fees received 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 cash withdrawal fees, credit insurance fees (fees for insurance coverage of borrower's liability to TCS in case of such borrower's death or disability) and other fees.

The following table sets out the principal components of TCS's interest income in the six months ended 30 June 2013 and 2012:

	<i>Six months ended 30 June</i>			
	<i>2013</i>	<i>Percentage of total</i>	<i>2012</i>	<i>Percentage of total</i>
	<i>(in thousands of U.S. dollars, except percentages)</i>			
Loans and advances to customers, including:				
Credit card loans <sup>(1)</sup>	509,922	98.1%	270,029	99.5%
Instalments <sup>(2)</sup>	5,492	1.1%	214	0.1%
POS loans <sup>(3)</sup>	3,606	0.7%	57	0.0%
Placements with other banks	531	0.1%	1,158	0.4%
<b>Total interest income</b>	<b>519,551</b>	<b>100%</b>	<b>271,458</b>	<b>100%</b>

(1) Includes all fees received that are an integral part of the effective interest rate, such as cash withdrawal fees, credit insurance fees and other fees.

(2) TCS has a restructuring programme for delinquent borrowers who demonstrate a willingness to settle their debt by switching to fixed monthly repayments of outstanding amounts ("instalments").

(3) These loans represent point-of-sale unsecured lending to customers making online purchases through Internet retailers.

TCS's interest income consists primarily of interest income on TCS's credit card loans, which accounted for 98.1 per cent. of TCS's total interest income in the six months ended 30 June 2013 and for 99.5 per cent. of its total interest income in the six months ended 30 June 2012.

Interest income on all of TCS's credit card loans to individuals consists of an interest rate charged to the customers and certain fees relating to credit card loans, including, but not limited to, cash withdrawal fees, credit insurance fees and other fees (including annual fees and SMS fees).

The following table sets out the breakdown of TCS's interest income between (i) interest income and penalties; (ii) cash withdrawal fees; (iii) credit insurance fees and (iv) other fees in the six months ended 30 June 2013 and 2012:

	<i>Six months ended 30 June</i>			
	<i>2013</i>	<i>Percentage of total</i>	<i>2012</i>	<i>Percentage of total</i>
	<i>(in thousands of U.S. dollars, except percentages)</i>			
Interest income and penalties	354,248	68.2%	180,337	66.4%
Cash withdrawal fees	71,969	13.9%	48,705	17.9%
Credit insurance fees	66,639	12.8%	31,379	11.6%
Other fees	26,695	5.1%	11,037	4.1%
<b>Total interest income</b>	<b>519,551</b>	<b>100%</b>	<b>271,458</b>	<b>100%</b>

Interest income increased by US\$248.1 million, or 91.4 per cent., from US\$271.5 million in the six months ended 30 June 2012 to US\$519.6 million in the six months ended 30 June 2013. This increase was driven by a 104.9 per cent. increase in the average balance of loans and advances to customers between the two periods from US\$860.3 million in the six months ended 30 June 2012 to US\$1,762.3 million in the six months ended 30 June 2013, which was partially offset by a decrease in the average rate on TCS's loans and advances to customers from 62.8 per cent. in the six months ended 30 June 2012 to 58.9 per cent. in the six months ended 30 June 2013. The proportion of cash withdrawal fees in total interest income of TCS decreased from 17.9 per cent. in the six months ended 30 June 2012 to 13.9 per cent. in the six months ended 30 June 2013. This decrease was due to the increase in the proportion of customers acquired through the online channels in the latter period, who generally tend to withdraw less cash than customers acquired through the offline channels.

The large period-on-period increases in interest income in the six months ended 30 June 2013 as compared to the six months ended 30 June 2012 principally resulted from TCS's continuing penetration of the Russian credit card market, as its share of this market increased from 5.8 per cent. as of 1 January 2012 to 7.7 per cent. as of 1 July 2013 according to the CBR. TCS also continued to benefit from relatively high interest rates on credit card loans. However, in the future, increased competition in the consumer lending market, as well as new regulations, may result in reductions in interest rates charged by TCS.

### **Interest Expense**

Interest expense principally consists of interest incurred by TCS on its debt securities (principally domestic bonds and loan participation notes), as well as interest on amounts received through retail deposits or from banks and other financial institutions.

The following table sets out the principal components of TCS's consolidated interest expense in the six months ended 30 June 2013 and 2012 and average interest-bearing liabilities, calculated as the average of the balances as of 31 December 2012, 31 March 2013 and 30 June 2013 for the six months ended 30 June 2013 and 31 December 2011, 31 March 2012 and 30 June 2012 for the six months ended 30 June 2012:

	<i>Six months ended 30 June</i>		<i>Change</i>
	<i>2013</i>	<i>2012</i>	
	<i>(in thousands of U.S. dollars)</i>		<i>(in %)</i>
<b>Interest expense</b>			
Customer accounts	56,325	29,934	88.2
Eurobonds	35,764	16,852	112.2
Rouble-denominated bonds	19,682	17,157	14.7
Subordinated debt	12,323	—	n/a
Due to banks	1,026	39	2,530.8
U.S. dollar-denominated euro commercial paper	863	—	n/a
<b>Total interest expense</b>	<b>125,983</b>	<b>63,982</b>	<b>96.9</b>
<b>Average interest-bearing liabilities</b>			
Eurobonds	482,723	248,195	94.5
Rouble-denominated bonds	274,684	199,854	37.4
U.S. dollar-denominated euro commercial paper	31,351	—	n/a
Debt securities in issue	788,758	448,049	76.0
Due to banks	17,709	—	n/a
Customer accounts	942,381	485,723	94.0
Subordinated debt	175,807	—	n/a
<b>Total average interest-earning liabilities</b>	<b>1,924,655</b>	<b>933,772</b>	<b>106.1</b>

Interest expense increased by US\$62.0 million, or 96.9 per cent., from US\$64.0 million in the six months ended 30 June 2012 to US\$126.0 million in the six months ended 30 June 2013. This increase was principally due to an increase in the average balance of TCS's interest-bearing liabilities from US\$933.8 million in the six months ended 30 June 2012 to US\$1,924.7 million in the six months ended 30 June 2013 partially offset by a decrease in the average rate on such liabilities from 13.7 per cent. in the six months ended 30 June 2012 to 13.1 per cent. in the six months ended 30 June 2013. The increases in the average balances of TCS's interest-bearing liabilities in the six months ended 30 June 2013 as compared to the six months ended 30 June 2012 are discussed in "Operating and Financial Review—Selected Statistical Information for the Six Months Ended 30 June 2013 and 2012—Interest-Bearing Liabilities—Average Balances". The changes in the average interest rates on TCS's interest-bearing liabilities between the two periods are discussed in "Operating and Financial Review—Selected Statistical Information for the Six Months Ended 30 June 2013 and 2012—Interest-Bearing Liabilities—Average Interest Rates".

### **Net Interest Income**

Net interest income earned by TCS is affected by a number of factors. It is primarily determined by the volume of interest-earning assets and interest-bearing liabilities, together with the differential between rates at which interest is earned on interest-earning assets and rates at which interest is incurred on interest-bearing liabilities. TCS's net interest income before provision for loan impairment charge increased by US\$186.1 million, or 89.7 per cent., from US\$207.5 million in the six months ended 30 June 2012 to US\$393.6 million in the six months ended 30 June 2013. The increase in net interest income between the two periods was primarily caused by a 104.9 per cent. increase in the average balance of loans and advances to customers between the two periods driven by the significant growth of TCS's credit card loan portfolio and, to a lesser extent, by the decrease in the average interest rates on TCS's interest-bearing liabilities, the impact of which was partially offset by the decrease in the average interest rates on TCS's interest-earning assets between the six months ended 30 June 2012 and the six months ended 30 June 2013.

### **Provision for Loan Impairment Charge**

Provision for loan impairment charge consists of provision for loan impairment charge on various types of loans to individuals including credit card loans, instalments, online POS loans and loans being recovered through courts.

The following table sets forth provision for loan impairment charge for TCS in the six months ended 30 June 2013 and 2012:

	<i>Six months ended 30 June</i>		<i>Change</i>
	<i>2013</i>	<i>2012</i>	
	<i>(in thousands of U.S. dollars)</i>		<i>(in %)</i>
Credit card loans	124,663	36,580	240.8
Instalments <sup>(1)</sup>	13,058	1,257	938.8
POS Loans <sup>(2)</sup>	2,675	90	2,872.2
<b>Total provision for loan impairment</b>	<b>140,396</b>	<b>37,927</b>	<b>270.2</b>
Cost of risk ratio <sup>(3)</sup>	14.4%	8.2%	

(1) TCS has a restructuring programme for delinquent borrowers who demonstrate a willingness to settle their debt by switching to instalments or fixed monthly repayments of outstanding amounts.

(2) These loans represent point-of-sale unsecured lending to customers making online purchases through Internet retailers.

(3) Represents total provision for loan impairment charge divided by the average balance of gross loans and advances to customers in the same period multiplied by two for the six months ended 30 June 2013 and 2012 to annualise the ratio.

Provision for loan impairment charge increased by US\$102.5 million, or 270.2 per cent., from US\$37.9 million in the six months ended 30 June 2012 to US\$140.4 million in the six months ended 30 June 2013. The increase in provisions in the six months ended 30 June 2013 as compared to the six months ended 30 June 2012 was in large part attributable to the increase in the proportion of new higher risk customers acquired through the online customer acquisition platform. The second factor that affected not just TCS but all other Russian banks involved in consumer finance in the six months ended 30 June 2013 was the increased difficulty of collections from delinquent customers. As overall effectiveness of collection services decreased over time, provisions had to be further increased to account for this change in delinquent customer behaviour. Finally, TCS experienced a significantly higher level of defaults by new customers acquired in March through June 2012, which was principally due to the launch of TV advertising of TCS's credit cards during this period. New customers attracted through this marketing channel had a significantly higher probability of default than other new customers, but the scoring models used during these four months were not recalibrated to take this into account, resulting in higher delinquencies and requiring increased provisions. The impact of this increase in defaults on the six months ended 30 June 2012 was relatively limited due to its timing, while subsequent periods were affected more severely.

### ***Customer Acquisition Expenses***

Customer acquisition expenses represent expenses paid by TCS for services related to origination of credit card and other customers and include, among others, marketing and advertising expenses, mailing of advertising materials and expenses incurred in connection with processing of responses. The components of customer acquisition expenses are staff costs (directly related to customer acquisition), marketing and advertising, personalisation, printing and distribution, database acquisition and payments to partners and payments to credit bureaus. While some of these types of expenses apply to the same extent across all types of distribution channels used by TCS (for example, payments to credit bureaus), others are more channel specific, with marketing and advertising expenses being particularly important for the successful operation of TCS's online customer acquisition platform and with personalisation, printing and distribution playing a similarly important part in respect of the direct mail distribution channel.

Customer acquisition expenses increased by US\$22.2 million, or 47.4 per cent., from US\$46.7 million in the six months ended 30 June 2012 to US\$68.9 million in the six months ended 30 June 2013. This increase was principally due to the increase in staff costs from US\$8.5 million in the six months ended 30 June 2012 to US\$23.5 million in the six months ended 30 June 2013, which accounted for 67.6 per cent. of the total increase in customer acquisition expenses between the two periods. The large increase in staff costs reflected rapid growth in the number of TCS's employees whose compensation was accounted for in customer acquisition expenses from 1,197 as of 30 June 2012 to 3,704 as of 30 June 2013.

Reflecting the increased prominence of the online customer acquisition platform, marketing and advertising expenses increased by US\$9.8 million, from US\$23.9 million in the six months ended 30 June 2012 to US\$33.8 million in the six months ended 30 June 2013. In contrast, personalisation, printing and distribution expenses that are associated with the direct mail distribution channel decreased by US\$5.2 million, from US\$10.3 million in the six months ended 30 June 2012 to US\$5.2 million in the six months ended 30 June 2013.

### ***Fee and Commission Expense***

Fee and commission expense consists of service fees and banking and other fees related to the maintenance of customers' accounts, such as the printing and mailing of customers' statements and technical support of customers' operations. The following table sets out the principal components of TCS's fee and commission expense in the six months ended 30 June 2013 and 2012:

	<i>Six months ended 30 June</i>		<i>Change</i>
	<i>2013</i>	<i>2012</i>	
	<i>(in thousands of U.S. dollars)</i>		<i>(in %)</i>
Service fees .....	4,822	3,217	49.9
Banking and other fees .....	359	180	99.4
<b>Total .....</b>	<b>5,181</b>	<b>3,397</b>	<b>52.5</b>

Fee and commission expense increased by US\$1.8 million, or 52.5 per cent., from US\$3.4 million in the six months ended 30 June 2012 to US\$5.2 million in the six months ended 30 June 2013. This 52.5 per cent. increase was significantly smaller than a 104.9 per cent. increase in the average balance of TCS's loans and advances to customers between the two periods because the online customer acquisition platform accounted for 90 per cent. of all newly issued credit cards during the six months ended 30 June 2013 and customers acquired through this distribution channel often do not require paper statements, allowing cost savings on printing and mailing costs.

### ***Gain from Sale of Bad Debts***

Gain from sale of bad debts increased by US\$5.9 million, or 729.5 per cent., from US\$0.8 million in the six months ended 30 June 2012 to US\$6.7 million in the six months ended 30 June 2013. With the growth of non-performing loans in 2012 primarily due to the change in customer acquisition channel mix and, to a lesser extent, due to higher delinquency rates among new customers acquired in March through June 2012, TCS began selling its bad loans on a significant scale in September 2012 and continued such sales through monthly tender offers in all subsequent months other than January 2013. TCS sold bad loans with a gross amount of US\$49.0 million in the six months ended 30 June 2013 as compared to bad loans with a gross amount of just US\$6.8 million in the six months ended 30 June 2012. The difference between the carrying amount of bad debt (usually at zero because loans overdue by more than 180 days are 100 per cent. provisioned) and the consideration received is recorded in profit and loss as gain from sale of bad debts at the settlement date. The large increase in the gross amount of bad debt sold in the six months ended 30 June 2013 as compared to the six months ended 30 June 2012 was reflected in a similarly large increase in gain from sale of bad debt between the two periods.

## Administrative and Other Operating Expenses

The following table sets out the principal components of TCS's administrative and other operating expenses in the six months ended 30 June 2013 and 2012:

	<i>Six months ended 30 June</i>		<i>Change</i>
	<i>2013</i>	<i>2012</i>	
	<i>(in thousands of U.S. dollars)</i>		<i>(in %)</i>
Staff costs .....	47,324	25,899	82.7
Taxes other than income tax .....	10,810	7,602	42.2
Communication services .....	5,870	5,507	6.6
Rental expenses .....	5,752	1,788	221.7
Depreciation of fixed assets .....	3,954	1,866	111.9
Amortisation of intangible assets .....	1,857	1,557	19.3
Expenses on deposits insurance .....	1,725	980	76.0
Stationery and office expenses .....	1,441	746	93.2
Information services .....	1,287	1,460	(11.8)
Professional services .....	1,139	513	122.0
Transportation .....	268	180	48.9
Other administrative expenses .....	1,236	1,459	(15.3)
<b>Total .....</b>	<b>82,663</b>	<b>49,557</b>	<b>66.8</b>

Administrative and other operating expenses increased by US\$33.1 million, or 66.8 per cent., from US\$49.6 million in the six months ended 30 June 2012 to US\$82.7 million in the six months ended 30 June 2013. This increase was principally due to increases in staff costs, taxes other than income tax and rental expenses, which collectively accounted for 86.4 per cent. of the total increase in administrative and other expenses in the six months ended 30 June 2013 as compared to the six months ended 30 June 2012.

### *Staff Costs*

Staff costs include wages, staff bonuses, recruitment expenses and management's long-term benefits. Staff costs increased by US\$21.4 million, or 82.7 per cent., from US\$25.9 million in the six months ended 30 June 2012 to US\$47.3 million in the six months ended 30 June 2013. This increase was primarily due to the growth of TCS's business, which resulted in a 27.4 per cent. increase in the number of TCS's employees whose compensation was accounted for in administrative and other operating expenses from 1,724 as of 30 June 2012 to 2,196 as of 30 June 2013, as well as the increase in the average wages of TCS's employees between the two periods. Expenses related to management's long-term benefits consisted of US\$3,494 thousand in share-based payment into the ESOP (comprising 30 per cent. of the total number of Class A Shares to be issued to the ESOP) and US\$1,599 thousand payment into TCS's original long-term incentive plan in the six months ended 30 June 2013 and of US\$4,019 thousand in share-based payment into the ESOP (comprising 40 per cent. of the total number of Class A Shares to be issued to the ESOP) and US\$98 thousand payment into the original long-term incentive plan in the six months ended 30 June 2012. For more information on the ESOP, the original long-term incentive plan and the Equity LTIP, see "*Management—TCS Bank—Interests of TCS's Board of Directors and Senior Managers in the ESOP and the Equity LTIP*". The remaining 30 per cent. of the total number of Class A Shares to be issued to the ESOP at nominal value are scheduled to be issued in June 2014 ahead of vesting on 30 June 2014. In addition, the board of directors of the Issuer is currently authorised to issue Class A Shares to the Equity LTIP with the maximum number of such shares to be issued not to exceed one per cent. of the current issued share capital of the Issuer on a fully diluted basis. The issue of Class A Shares to the ESOP and Equity LTIP will result in additional long-term benefits expense in future periods.

### *Taxes Other than Income Tax*

Taxes other than income tax consist mainly of value-added tax on certain services purchased by TCS (mainly acquisition-related) and tax on property and fixed assets. TCS's taxes other than income tax increased by US\$3.2 million, or 42.2 per cent., from US\$7.6 million in the six months ended 30 June 2012 to US\$10.8 million in the six months ended 30 June 2013. This increase was largely due to an increase in the provision of services subject to VAT and increases in taxes on property and fixed assets owned by TCS.

### *Rental Expenses*

TCS's rental expenses increased by US\$4.0 million, or 221.7 per cent., from US\$1.8 million in the six months ended 30 June 2012 to US\$5.8 million in the six months ended 30 June 2013 principally due to the expansion of the office space to include the new headquarters in Olympia Park and the second call centre in Khutorskaya.



## Income Tax Expense

TCS's income tax expense increased by US\$8.3 million, or 54.4 per cent., from US\$15.3 million in the six months ended 30 June 2012 to US\$23.6 million in the six months ended 30 June 2013. The corporate tax rate applicable to TCS Bank and other Russian subsidiaries of TCS was 20 per cent. in the six months ended 2013 and 2012. TCS's effective tax rate (defined as income tax expense divided by profit before tax) was 22.9 per cent. in the six months ended 30 June 2013 and 22.6 per cent. in the six months ended 30 June 2012. The difference between the effective tax rate and the statutory rate was principally due to non-deductible expenses (including part of interest expense incurred on deposits and certain administrative expenses, such as advertising) in the amount of US\$4.2 million in the six months ended 30 June 2013 and US\$2.0 million in the six months ended 30 June 2012.

## Profit for the Period

For the reasons discussed above, TCS's profit for the period in the six months ended 30 June 2013 increased by US\$27.1 million, or 51.8 per cent., from US\$52.3 million in the six months ended 30 June 2012 to US\$79.3 million in the six months ended 30 June 2013.

## Selected Statistical Information for the Years Ended 31 December 2012, 2011 and 2010

### Average Balances and Interest Rate Data

The following table sets forth the consolidated average balances of interest-earning assets and interest-bearing liabilities of TCS in 2012, 2011 and 2010. The table also sets forth the amount of interest income earned and interest expense incurred by TCS in the same years, as well as the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities. For the purposes of this table, the average balances of assets and liabilities for TCS in 2012 represent the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012; the average balances of assets and liabilities for TCS in 2011 represent the average of the balances as of 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011; and the average balances of assets and liabilities for TCS in 2010 represent the average of the balances as of 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010. The quarterly information for TCS has neither been audited nor reviewed. The results of this analysis would likely be different if alternative averaging methods were used. The average rates below are calculated by dividing aggregate interest income or expense for the relevant line item below by the average balance for the same line item. Average interest rates are distinct from the effective interest rates presented in the Financial Statements and referred to elsewhere in this Prospectus.

	Year ended 31 December								
	2012			2011			2010		
	Average balance	Interest Income/Expense	Average interest rate <sup>(6)</sup>	Average balance	Interest Income/Expense	Average interest rate <sup>(6)</sup>	Average balance	Interest Income/Expense	Average interest rate <sup>(6)</sup>
<i>(in thousands of U.S. dollars, except percentages)</i>									
<b>Interest-earning assets</b>									
Total loans and advances to customers <sup>(1)(2)</sup> .....	1,093,356	656,115	60.0%	507,361	330,573	65.2%	227,378	138,228	60.8%
Cash and cash equivalents <sup>(3)</sup> , due from banks and securities .....	249,061	1,721	0.7%	68,840	1,362	2.0%	30,254	465	1.5%
<b>Total interest-earning assets</b> .....	<b>1,342,417</b>	<b>657,836</b>	<b>49.0%</b>	<b>576,201</b>	<b>331,935</b>	<b>57.6%</b>	<b>257,632</b>	<b>138,693</b>	<b>53.8%</b>
<b>Interest-bearing liabilities</b>									
Local bonds and promissory notes .....	225,517	39,171	17.4%	179,149	32,557	18.2%	47,433	7,269	15.3%
Eurobonds .....	353,031	42,439	12.0%	116,693	14,875	12.7%	45,550	9,712	21.3%
Debt securities in issue .....	578,548	81,610	14.1%	295,842	47,432	16.0%	92,983	16,981	18.3%
Due to banks .....	7,072	776	11.0%	3,242	234	7.2%	6,124	873	14.3%
Customer accounts .....	611,892	74,050	12.1%	244,910	29,202	11.9%	83,887	11,490	13.7%
Subordinated debt .....	24,779	1,165	4.7%	—	—	—	—	—	—
Syndicated loan .....	—	—	—	6,276	1,378	22.0%	53,204	13,766	25.9%
<b>Total interest-bearing liabilities</b> .....	<b>1,222,291</b>	<b>157,601</b>	<b>12.9%</b>	<b>550,270</b>	<b>78,246</b>	<b>14.2%</b>	<b>236,198</b>	<b>43,110</b>	<b>18.3%</b>
Gross loans and advances to customers .....	1,179,544			541,609			251,396		
<b>Total assets</b> .....	<b>1,473,189</b>			<b>649,625</b>			<b>287,488</b>		
<b>Total equity</b> .....	<b>204,093</b>			<b>81,553</b>			<b>38,922</b>		
Net interest spread <sup>(4)</sup> .....	—	—	36.1%	—	—	43.4%	—	—	35.5%
Net interest income .....	—	500,235	—	—	253,689	—	—	95,583	—
Net interest margin <sup>(5)</sup> .....	—	—	37.3%	—	—	44.0%	—	—	37.1%

(1) Net of provision for loan impairment.

- (2) Includes credit card loans, instalments, online POS loans and loans being recovered through the courts in 2012, credit card loans, instalments and loans being recovered through the courts in 2011 and credit card loans, instalments and other loans in 2010.
- (3) Excludes cash on hand and cash balances with the CBR (other than mandatory reserve deposits) as these assets are not interest-earning.
- (4) Net interest spread is defined as a difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities.
- (5) Net interest margin is defined as a ratio of net interest income to the average balance of total interest-earning assets.
- (6) Average interest rate on interest-earning assets was calculated as the total interest income divided by interest-earning assets representing the average of the 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012 balances for 2012; of the 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011 balances for 2011; and of the 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010 balances for 2010. Average interest rate on interest-bearing liabilities was calculated as total interest expense divided by interest-bearing liabilities representing the average of the 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012 balances for 2012; of the 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011 balances for 2011; and of the 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010 balances for 2010. Interest income includes all fees received that are an integral part of the effective interest rate, such as cash withdrawal fees, credit insurance fees and other fees.

## ***Interest-Earning Assets***

### ***Average Balances***

The increase in interest-earning assets in 2012 as compared to 2011 and in 2011 as compared to 2010 was principally the result of an increase in the size of TCS's loans and advances to customers, the average balance of which increased by US\$586.0 million, or 115.5 per cent., between 2011 and 2012 and by US\$280.0 million, or 123.1 per cent., between 2010 and 2011. The average balance of TCS's cash and cash equivalents increased in 2012 as compared to 2011 due to (i) the overall growth of TCS's business resulting in an increased need for available cash, (ii) the issuance of Eurobonds in September and December 2012 and (iii) decision to increase TCS's cash cushion to protect its liquidity position against future shocks and market instability.

### ***Average Interest Rates***

The decrease in the average interest rate on TCS's loans and advances to customers in 2012 as compared to 2011 was primarily due to three factors. First, the proportion of customers acquired through the online platform in the total number of TCS's customers increased significantly in 2012 as compared to 2011. Such customers typically get higher credit limits (due to higher incomes) and higher credit limits are usually associated with lower effective rate charged to the customer (sometimes known as APR in other markets) as various fees charged to each account are divided by a larger outstanding balance. Second, customers acquired through the online platform also tend to use their cards for cash advances less frequently, reducing the fees charged to their accounts and hence their average interest rate. Third, long standing customers are proactively migrated to better tariff plans as part of TCS's retention programme.

The increase in the average interest rate on TCS's loans and advances to customers in 2011 as compared to 2010 was primarily due to the steady growth of the credit card loan portfolio throughout 2011 as compared to uneven growth of such portfolio in 2010. TCS's portfolio growth in 2010 mainly occurred in the second half of the year, while in the first half of the year, the loan portfolio did not grow significantly. As a result, a significant amount of revenue from annual fees and cash withdrawal fees on new credit cards issued in the second half of 2010 was deferred until 2011, thus lowering the average interest rate on loans and advances to customers in 2010 and increasing it in 2011 when such deferred revenue was actually recorded.

## ***Interest-Bearing Liabilities***

### ***Average Balances***

The total average balance of interest-bearing liabilities increased by US\$672.0 million, or 122.1 per cent., between 2011 and 2012 and by US\$314.1 million, or 133.0 per cent., between 2010 and 2011. The increase in 2012 as compared to 2011 was primarily due to a US\$367.0 million increase in the average balance of customer accounts and, to a lesser extent, due to a US\$282.7 million increase in the average balance of debt securities in issue resulting from the issuances of rouble-denominated domestic bonds with nominal values of RUB 1.5 billion in April 2012 and RUB 2.0 billion in July 2012, as well as U.S. dollar-denominated bonds with a nominal value of US\$250 million in September 2012. The increase in 2011 as compared to 2010 was primarily due to a US\$202.9 million increase in the average balance of debt securities in issue as a result of the issuances of rouble-denominated domestic bonds with a nominal value of RUB 1.5 billion in February 2011, U.S. dollar-denominated bonds with a nominal value of US\$175 million in April 2011, and Swedish krona-denominated bonds with a nominal value of SEK 550 million in December 2011; and, to a lesser extent, due to a US\$161.0 million increase in the average balance of customer accounts.

### *Average Interest Rates*

The decrease in the average interest rate on TCS's total interest-bearing liabilities from 14.2 per cent. in 2011 to 12.9 per cent. in 2012 was primarily due to the decrease in the average interest rate on debt securities in issue from 16.0 per cent. in 2011 to 14.1 per cent. in 2012 as TCS was able to lower interest rates on newly issued bonds due to increase in scale and profitability of its operations, which allowed it to attract funding in international and domestic capital markets on better terms than a year earlier. It should be noted, however, that while interest rates on foreign-currency denominated bonds are lower than on rouble-denominated domestic bonds, TCS manages its exposure to foreign currency exchange risk using currency swaps which add four to six per cent. per year to the cost of foreign currency-denominated bonds, which is not reflected in interest expense on debt securities in issue. These results of hedging are included in the "(losses less gains)/gains less losses from operations with foreign currencies" line item of TCS's consolidated statement of comprehensive income.

The decrease in the average interest rate on TCS's total interest-bearing liabilities from 18.3 per cent. in 2010 to 14.2 per cent. in 2011 was primarily due to (i) the decrease in the average interest rate on debt securities in issue from 18.3 per cent. in 2010 to 16.0 per cent. in 2011 as TCS was able to issue lower rate bonds in the latter year; and (ii) the decrease in the average interest rate on deposits. Following the launch of TCS's retail deposit programme in February 2010, the rates offered by TCS were higher than the average for the market, but upon achieving the planned level of deposits in its funding base, TCS gradually lowered the rates as a response to improved market conditions and positive changes in customers' perception of TCS's services.

### ***Net Interest Spread***

Net interest spread decreased from 43.4 per cent. in 2011 to 36.1 per cent. in 2012 as an 8.6 per cent. decrease in the average interest rate on total interest-earning assets was only partially offset by a 1.3 per cent. decrease in the average interest rate on total interest-bearing liabilities. The large decrease in the average interest rate on total interest-earning assets was due to (i) a decrease in the average interest rate on total loans and advances to customers from 65.2 per cent. in 2011 to 60.0 per cent. in 2012 discussed in "*Operating and Financial Review—Selected Statistical Information for the Six Months Ended 30 June 2013 and 2012—Interest-Earning Assets—Average Interest Rates*" and (ii) a decrease in the proportion of total loans and advances to customers from 88.1 per cent. in 2011 to 81.4 per cent. in 2012 as TCS increased the proportion of cash and cash equivalents in its total interest-earning assets as a result of its issuance of Eurobonds in the end of 2012 and as a result of increases in TCS's cash cushion to protect its liquidity position against future shocks and market instability.

Net interest spread increased from 35.5 per cent. in 2010 to 43.4 per cent. in 2011 due to an increase in the average interest rate on total loans and advances to customers from 60.8 per cent. in 2010 to 65.2 per cent. in 2011 discussed in "*Operating and Financial Review—Selected Statistical Information for the Six Months Ended 30 June 2013 and 2012—Interest-Earning Assets—Average Interest Rates*" and (ii) a decrease in the average interest rate on total interest-bearing liabilities of TCS discussed in "*Operating and Financial Review—Selected Statistical Information for the Six Months Ended 30 June 2013 and 2012—Interest-Bearing Liabilities—Average Interest Rates*".

### ***Net Interest Margin***

Changes in net interest margin were driven by the same principal factors that affected net interest spread. Net interest margin decreased from 44.0 per cent. in 2011 to 37.3 per cent. in 2012 due to an 8.6 per cent. decrease in the average interest rate on TCS's total interest-earning assets that was only partially offset by a 1.3 per cent. decrease in the average interest rate on TCS's total interest-bearing liabilities.

Net interest margin increased from 37.1 per cent. in 2010 to 44.0 per cent. in 2011 due to (i) a 3.8 per cent. increase in the average interest rate on TCS's total interest-earning assets driven by an increase in the average interest rate on total loans and advances to customers and (ii) a 4.1 per cent. decrease in the average interest rate on TCS's total interest-bearing liabilities.

## Changes in Interest Income and Interest Expense—Volume and Rate Analysis

The following table provides a comparative analysis of changes in interest income and interest expense of TCS in 2012 as compared to 2011 and in 2011 as compared to 2010. Changes in interest income or interest expense are attributed to either (i) changes in average balances (volume change) of interest-earning assets or interest-bearing liabilities or (ii) changes in average rates (rate change) at which interest income was earned on such assets or at which interest expense was incurred on such liabilities or (iii) changes in volume/rate. Changes in interest income and expense due to changes in volume have been calculated as the change in volume times the prior comparative year's (2011 for 2012 and 2010 for 2011) rate. Changes in interest income and expense due to changes in rate have been calculated as the change in the rate times the prior comparative year's (2011 for 2012 and 2010 for 2011) volume. Average volume/rate changes have been allocated between the average volume and average rate variances on a consistent basis based upon the absolute percentage changes in average balances and average rates:

	Year ended 31 December					
	2012/2011			2011/2010		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
	(in thousands of U.S. dollars)					
<b>Interest income</b>						
Cash and cash equivalents, due from banks and securities	1,707	(1,348)	359	732	165	897
Total loans and advances to customers	353,581	(28,039)	325,542	181,751	10,594	192,345
<b>Total interest income</b>	<b>355,288</b>	<b>(29,387)</b>	<b>325,901</b>	<b>182,483</b>	<b>10,759</b>	<b>193,242</b>
<b>Interest expense</b>						
Local bonds and promissory notes	8,108	(1,494)	6,614	23,702	1,586	25,288
Eurobonds	28,458	(894)	27,564	10,318	(5,155)	5,163
Debt securities in issue	36,566	(2,388)	34,178	34,020	(3,569)	30,451
Due to banks	376	166	542	(312)	(327)	(639)
Customer accounts	44,405	443	44,848	19,380	(1,668)	17,712
Subordinated debt	1,165	—	1,165	—	—	—
Syndicated loan	(1,378)	—	(1,378)	(10,573)	(1,815)	(12,388)
<b>Total interest expense</b>	<b>81,134</b>	<b>(1,779)</b>	<b>79,355</b>	<b>42,515</b>	<b>(7,379)</b>	<b>35,136</b>
<b>Net change in net interest income</b>	<b>274,154</b>	<b>(27,608)</b>	<b>246,546</b>	<b>139,968</b>	<b>18,138</b>	<b>158,106</b>

## Results of Operations in 2012, 2011 and 2010

The following table sets out TCS's operating results for 2012, 2011 and 2010:

	Year ended 31 December			Change from the prior year	
	2012	2011	2010	2012/2011	2011/2010
	(in thousands of U.S. dollars)			(in %)	
Interest income	657,836	331,935	138,693	98.2	139.3
Interest expense	(157,601)	(78,246)	(43,110)	101.4	81.5
<b>Net interest income</b>	<b>500,235</b>	<b>253,689</b>	<b>95,583</b>	<b>97.2</b>	<b>165.4</b>
Provision for loan impairment	(124,378)	(41,924)	(27,965)	196.7	49.9
<b>Net interest income after provision for loan impairment</b>	<b>375,857</b>	<b>211,765</b>	<b>67,618</b>	<b>77.5</b>	<b>213.2</b>
Customer acquisition expense	(85,258)	(54,516)	(21,991)	56.4	147.9
(Losses less gains)/gains less losses from operations with foreign currencies	(8,321)	(191)	6,240	4,256.5	n/a
Insurance agency fee	306	—	—	n/a	—
Gain from sale of bad debts	5,103	2,651	2,268	92.5	16.9
Fee and commission expense	(7,417)	(6,328)	(2,726)	17.2	132.1
Administrative and other operating expenses	(122,527)	(69,654)	(40,084)	75.9	73.8
Release of provision for tax risks	—	4,923	1,786	(100.0)	175.6
Other operating income	219	248	187	(11.7)	32.6
Gains/(losses) on repurchase of debt securities in issue	116	(182)	(359)	n/a	(49.3)
<b>Profit before tax</b>	<b>158,078</b>	<b>88,716</b>	<b>12,939</b>	<b>78.2</b>	<b>585.6</b>
Income tax expense	(36,164)	(20,322)	(3,814)	78.0	432.8
<b>Profit for the year</b>	<b>121,914</b>	<b>68,394</b>	<b>9,125</b>	<b>78.3</b>	<b>649.5</b>

## Interest Income

The following table sets out the principal components of TCS's interest income in 2012, 2011 and 2010:

	Year ended 31 December					
	2012	% of total	2011	% of total	2010	% of total
	(in thousands of U.S. dollars, except percentages)					
Loans and advances to customers, including: .....						
Credit card loans <sup>(1)</sup> .....	654,682	99.5%	330,221	99.5%	138,094	99.6%
Instalments <sup>(2)</sup> .....	495	0.1%	352	0.1%	12	0.0%
POS loans <sup>(3)</sup> .....	938	0.1%	—	—	—	—
Corporate loans .....	—	—	—	—	122	0.1%
Other interest income .....	1,721	0.3%	1,362	0.4%	465	0.3%
<b>Total interest income</b> .....	<b>657,836</b>	<b>100%</b>	<b>331,935</b>	<b>100%</b>	<b>138,693</b>	<b>100%</b>

(1) Includes all fees received that are an integral part of the effective interest rate, such as cash withdrawal fees, credit insurance fees and other fees.

(2) TCS has a restructuring programme for delinquent borrowers who demonstrate a willingness to settle their debt by switching to instalments or fixed monthly repayments of outstanding amounts.

(3) These loans represent point-of-sale unsecured lending to customers making online purchases through Internet retailers.

TCS's credit card loans accounted for 99.5 per cent. of TCS's total interest income in 2012 and 2011 and for 99.6 per cent. of its total interest income in 2010.

The following table sets out the breakdown of TCS's interest income between (i) interest income and penalties; (ii) cash withdrawal fees; (iii) credit insurance fees and (iv) other fees in 2012, 2011 and 2010:

	Year ended 31 December					
	2012	% of total	2011	% of total	2010	% of total
	(in thousands of U.S. dollars, except percentages)					
Interest income and penalties .....	437,267	66.5%	220,690	66.5%	90,028	64.9%
Cash withdrawal fees .....	112,350	17.1%	56,867	17.1%	24,409	17.6%
Credit insurance fees .....	79,122	12.0%	37,566	11.3%	16,713	12.1%
Other fees .....	29,097	4.4%	16,812	5.1%	7,543	5.4%
<b>Total interest income</b> .....	<b>657,836</b>	<b>100%</b>	<b>331,935</b>	<b>100%</b>	<b>138,693</b>	<b>100%</b>

In 2012, interest income increased by US\$325.9 million, or 98.2 per cent., to US\$657.8 million from US\$331.9 million in 2011. This increase was principally driven by a 115.5 per cent. increase in the average balance of loans and advances to customers between the two years from US\$507.4 million in 2011 to US\$1,093.4 million in 2012, which was partially offset by a decrease in the average rate on TCS's loans and advances to customers from 65.2 per cent. in 2011 to 60.0 per cent. in 2012. The split between interest income and penalties on the one hand and various types of fees on the other hand remained practically unchanged between the two years.

In 2011, interest income increased by US\$193.2 million, or 139.3 per cent., to US\$331.9 million from US\$138.7 million in 2010. This increase was principally driven by a 123.1 per cent. increase in the average balance of loans and advances to customers between the two years from US\$227.4 million in 2010 to US\$507.4 million in 2011 and, to a lesser extent, by an increase in the average rate on TCS's loans and advances to customers from 60.8 per cent. in 2010 to 65.2 per cent. in 2011. The proportion of cash withdrawal fees in total interest income of TCS decreased from 17.6 per cent. in 2010 to 17.1 per cent. in 2011. This decrease was due to the increase in the proportion of customers acquired through the online channels, who generally tend to withdraw less cash than customers acquired through the offline channels.

The large year-on-year increases in interest income in 2012 as compared to 2011 and in 2011 as compared to 2010 principally resulted from TCS's increasing penetration of the Russian credit card market, as its share of this market grew from 4.2 per cent. as of 1 January 2011 to 5.8 per cent. as of 1 January 2012 and to 7.2 per cent. as of 1 January 2013 according to the CBR.



## Interest Expense

The following table sets out the principal components of TCS's consolidated interest expense in 2012, 2011 and 2010 and average interest-bearing liabilities, calculated as the average of the balances as of 31 December 2011, 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012 for 2012; 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011 for 2011; and 31 December 2009, 31 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010 for 2010:

	Year ended 31 December			Change from the prior year	
	2012	2011	2010	2012/2011	2011/2010
	(in thousands of U.S. dollars)			(in %)	
<b>Interest expense</b>					
Customer accounts	74,050	29,202	11,490	153.6	154.2
U.S. dollar and Swedish krona-denominated bonds	42,439	14,875	—	185.3	n/a
Rouble-denominated bonds	39,171	32,557	7,269	20.3	347.9
Subordinated debt	1,165	—	—	n/a	—
Due to banks	776	234	873	231.6	(73.2)
Syndicated loan	—	1,378	13,766	(100.0)	(90.0)
Euro-denominated bonds	—	—	9,712	—	(100.0)
<b>Total interest expense</b>	<b>157,601</b>	<b>78,246</b>	<b>43,110</b>	<b>101.4</b>	<b>81.5</b>
<b>Average interest-bearing liabilities</b>					
Eurobonds	353,031	116,693	45,550	202.5	156.2
Rouble-denominated bonds	225,517	179,149	47,433	25.9	277.7
Debt securities in issue	578,548	295,842	92,983	95.6	218.2
Due to banks	7,072	3,242	6,124	118.1	(47.1)
Customer accounts	611,892	244,910	83,887	149.8	192.0
Subordinated debt	24,779	—	—	n/a	—
Syndicated loan	—	6,276	53,204	(100.0)	(88.2)
<b>Total average interest-bearing liabilities</b>	<b>1,222,291</b>	<b>550,270</b>	<b>236,198</b>	<b>122.1</b>	<b>133.0</b>

In 2012, interest expense increased by US\$79.4 million, or 101.4 per cent., to US\$157.6 million from US\$78.2 million in 2011. This increase was principally due to an increase in the average balance of TCS's interest-bearing liabilities from US\$550.3 million in 2011 to US\$1,222.3 million in 2012 partially offset by a decrease in the average rate on such liabilities from 14.2 per cent. in 2011 to 12.9 per cent. in 2012.

In 2011, interest expense increased by US\$35.1 million, or 81.5 per cent., to US\$78.2 million from US\$43.1 million in 2010. This increase was principally due to an increase in the average balance of TCS's interest-bearing liabilities from US\$236.2 million in 2010 to US\$550.3 million in 2011 partially offset by a decrease in the average rate on such liabilities from 18.3 per cent. in 2010 to 14.2 per cent. in 2011.

The increases in the average balances of TCS's interest-bearing liabilities in 2012 as compared to 2011 and in 2011 as compared to 2010 are discussed in “*Operating and Financial Review—Selected Statistical Information for the Years Ended 31 December 2012, 2011 and 2010—Interest-Bearing Liabilities—Average Balances*”. The changes in the average interest rates on TCS's interest-bearing liabilities are discussed in “*Operating and Financial Review—Selected Statistical Information for the Years Ended 31 December 2012, 2011 and 2010—Interest-Bearing Liabilities—Average Interest Rates*”.

## Net Interest Income

TCS's net interest income before provision for loan impairment charge increased by US\$246.5 million, or 97.2 per cent., from US\$253.7 million in 2011 to US\$500.2 million in 2012; and by US\$158.1 million, or 165.4 per cent., from US\$95.6 million in 2010 to US\$253.7 million in 2011. The increases in net interest income in 2012 as compared to 2011 and in 2011 as compared to 2010 were primarily caused by large increases in the average balances of loans and advances to customers (a 115.5 per cent. increase in 2012 as compared to 2011 and a 123.1 per cent. increase in 2011 as compared to 2010) driven in each case by significant growth of TCS's credit card loan portfolio in these two years and by decreases in the average interest rates on TCS's interest-bearing liabilities.

## Provision for Loan Impairment Charge

Provision for loan impairment charge consists of provision for loan impairment charge on loans to individuals (credit card loans, including credit card loans being recovered through courts, instalments and online POS loans) and provision for loan impairment charge on corporate loans (which were written-off in early 2011).

The following table sets forth provision for loan impairment charge for TCS in 2012, 2011 and 2010:

	<i>Year ended 31 December</i>			<i>Change from the prior year</i>	
	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2012/2011</i>	<i>2011/2010</i>
	<i>(in thousands of U.S. dollars, except percentages)</i>			<i>(in %)</i>	
Credit card loans	117,835	39,242	26,059	200.3	50.6
Instalments <sup>(1)</sup>	5,616	2,326	1,934	141.4	20.3
POS loans <sup>(2)</sup>	927	—	—	n/a	—
Corporate loans	—	356	(28)	(100.0)	n/a
<b>Total provision for loan impairment</b>	<b>124,378</b>	<b>41,924</b>	<b>27,965</b>	<b>196.7</b>	<b>49.9</b>
Cost of risk ratio <sup>(3)</sup>	10.5%	7.7%	11.1%		

(1) TCS has a restructuring programme for delinquent borrowers who demonstrate a willingness to settle their debt by switching to instalments or fixed monthly repayments of outstanding amounts.

(2) These loans represent point-of-sale unsecured lending to customers making online purchases through Internet retailers.

(3) Represents total provision for loan impairment charge for the year divided by the average balance of gross loans and advances to customers in the same year.

In 2012, provision for loan impairment charge increased by US\$82.5 million to US\$124.4 million from US\$41.9 million in 2011. This 196.7 per cent. increase was much larger than a 117.8 per cent. increase in the average balance of TCS's gross loans and advances to customers between the two years, which was principally due to (i) an increased proportion of loans that were provided to customers acquired through TCS's online customer acquisition platform (such customers, on average, tend to have higher probability of default than customers acquired through the direct mail or other offline distribution channels) and (ii) a significantly higher level of defaults by new customers acquired in March through June 2012 as compared to customers acquired during any other period in 2011 or 2012. The Issuer believes that the principal reason behind this increase in the level of defaults by new customers acquired in March through June 2012 was the launch of TV advertising of TCS's credit cards during this period. New customers attracted through this marketing channel had a significantly higher probability of default than other new customers, but the scoring models used during these four months were not recalibrated in time to take this into account, resulting in higher delinquencies. In addition, the Issuer believes that the collapse of the MMM financial pyramid scheme that occurred during this period had a financial effect on some of TCS's customers. Following the analysis of the circumstances that led to the higher delinquencies during that period, TCS has further tightened its approval rates and introduced additional parameters into its scoring models that better take into account the ability of new and existing customers to service their overall debt.

In 2011, provision for loan impairment charge increased by US\$14.0 million to US\$41.9 million from US\$28.0 million in 2010. This 49.9 per cent. increase was much smaller than a 115.4 per cent. increase in the average balance of TCS's gross loans and advances to customers between the two years. The Issuer believes that TCS's credit risk in 2011 was at an abnormally low level primarily due to low competition in the loan market as most Russian banks were still recovering from the adverse impact of the global financial and economic crisis of 2008-2009 and were not yet ready to resume rapid loan portfolio growth. TCS was, therefore, able to target, and approve applications of, customers with better than average risk profile, reducing the need for new provisions in that year.

### ***Customer Acquisition Expenses***

In 2012, customer acquisition expenses increased by US\$30.7 million to US\$85.3 million from US\$54.5 million in 2011. This 56.4 per cent. increase was lower than a 115.5 per cent. increase in the average balance of TCS's net loans and advances to customers between the two years because (i) in that year, TCS was increasingly relying on getting new customers through its online customer acquisition platform, which is less expensive on a per customer basis than the offline distribution channels and (ii) TCS achieved a significant proportion of the overall growth in its credit card loan portfolio by increasing credit limits to its existing customers. The significant shift in the use of different distribution channels from direct mail (which accounted for 29.4 per cent. of newly issued credit cards in 2011, but for only 9.8 per cent. in 2012) to the online customer acquisition platform (which accounted for 52.2 per cent. of newly issued credit cards in 2011 and for 78.8 per cent. in 2012) resulted in (i) a decrease of personalisation, printing and distribution expenses (expenses associated primarily with the direct mail distribution channel) from US\$20.5 million in 2011 to US\$16.7 million in 2012 and (ii) a significant increase in marketing and advertising expenses (expenses associated primarily with the online customer acquisition platform) from US\$15.4 million in 2011 to US\$41.4 million on 2012. Staff costs increased from US\$9.6 million in 2011 to US\$18.7 million in 2012 principally due to a rapid growth in the number of TCS's employees whose compensation was accounted for in customer acquisition expenses from 598 as of 31 December 2011 to 1,564 as of 31 December 2012.

In 2011, customer acquisition expenses increased by US\$32.5 million, or 147.9 percent., to US\$54.5 million from US\$22.0 million in 2010. This increase primarily resulted from a significant increase in the number of acquisitions of new customers in 2011 as compared to 2010. Marketing and advertising expenses increased over four times by US\$12.5 million between the two years primarily due to the rapid increase in customer acquisitions through TCS's online platform, which became the largest distribution channel in 2011 and for which marketing and advertising expenses are particularly important. Expenses on personalisation, printing and distribution increased by US\$10.5 million, or 103.8 per cent., between the two years, reflecting the continued use of the direct mail distribution channel in 2011. Staff costs increased from US\$4.1 million in 2010 to US\$9.6 million in 2011 principally due to growth in the number of TCS's employees whose compensation was accounted for in customer acquisition expenses from 371 as of 31 December 2010 to 598 as of 31 December 2011.

#### ***Losses Less Gains/Gains Less Losses from Operations with Foreign Currencies***

The following table sets forth information on TCS's losses less gains/gains less losses from operations with foreign currencies in 2012, 2011 and 2010:

	<i>Year ended 31 December</i>			<i>Change from the prior year</i>	
	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2012/2011</i>	<i>2011/2010</i>
	<i>(in thousands of U.S. dollars)</i>			<i>(in %)</i>	
Foreign exchange translation gains less losses/(losses less gains) .....	9,106	(18,969)	7,993	n/a	n/a
(Losses less gains)/gains less losses from derivative revaluation .....	(17,024)	16,731	(1,849)	n/a	n/a
(Losses less gains)/gains less losses from trading in foreign currencies .....	(403)	2,047	96	n/a	2,032.3
<b>(Losses less gains)/gains less losses from operations with foreign currencies .....</b>	<b>(8,321)</b>	<b>(191)</b>	<b>6,240</b>	<b>4,256.5</b>	<b>n/a</b>

Losses less gains or gains less losses from operations with foreign currencies are attributable to movements in foreign exchange rates and TCS's efforts to manage such movements. TCS's assets are predominantly denominated in roubles while its wholesale funding sources are denominated, in large part, in foreign currency, including in euro for most of 2010 and in U.S. dollars, and, to a lesser extent, in Swedish krona in 2011 and 2012. Some of TCS's customer accounts are also denominated in foreign currencies (1.4 per cent. as of 31 December 2010, 10.6 per cent. as of 31 December 2011 and 14.1 per cent. as of 31 December 2012).

Net foreign exchange translation gains of US\$9.1 million in 2012 and of US\$8.0 million in 2010 and net foreign exchange translation losses of US\$19.0 million in 2011 were the result of revaluation of liabilities less assets denominated in foreign currencies such as U.S. dollar, euro and Swedish krona.

The net losses from derivative revaluation in 2012 in the amount of US\$17.0 million were principally attributable to foreign exchange swap contracts revaluation reflecting the appreciation of the rouble against the U.S. dollar. The net gains from derivative revaluation in 2011 in the amount of US\$16.7 million were principally attributable to the appreciation of the U.S. dollar against the rouble during the period from June (date of the purchase of the derivatives) to December 2011.

#### ***Fee and Commission Expense***

The following table sets out the principal components of TCS's fee and commission expense in 2012, 2011 and 2010:

	<i>Year ended 31 December</i>			<i>Change from the prior year</i>	
	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2012/2011</i>	<i>2011/2010</i>
	<i>(in thousands of U.S. dollars)</i>			<i>(in %)</i>	
<b>Fee and commission expense, including .....</b>	<b>7,417</b>	<b>6,328</b>	<b>2,726</b>	<b>17.2</b>	<b>132.1</b>
Service fees .....	7,051	5,116	2,116	37.8	141.8
Banking and other fees .....	366	1,212	610	(69.8)	98.7

In 2012, fee and commission income increased by US\$1.1 million, or 17.2 per cent., to US\$7.4 million from US\$6.3 million in 2011. This 17.2 per cent. increase was significantly smaller than a 115.5 per cent. increase in the average balance of TCS's loans and advances to customers between 2011 and 2012 principally because of the growing importance of the online customer acquisition platform, which accounted for 52.2 per cent. of all newly issued credit cards in 2011 and for 78.8 per cent. of all newly issued credit cards in 2012. As customers acquired through this distribution channel often do not require paper statements, TCS was able to slow down the growth of printing and mailing costs, and hence its overall fee and commission expense, significantly as compared to the rate of growth of its loan portfolio.

In 2011, fee and commission expense increased by US\$3.6 million, or 132.1 per cent., to US\$6.3 million from US\$2.7 million in 2010. This increase in fee and commission expense was in line with a 123.1 per cent. increase in the average balance of TCS's loans and advances to customers between 2010 and 2011.

## *Administrative and Other Operating Expenses*

The following table sets out the principal components of TCS's administrative and other expenses in 2012, 2011 and 2010:

	<i>Year ended 31 December</i>			<i>Change from the prior year</i>	
	<i>2012</i>	<i>2011</i>	<i>2010</i>	<i>2012/2011</i>	<i>2011/2010</i>
	<i>(in thousands of U.S. dollars)</i>			<i>(in %)</i>	
Staff costs .....	68,554	38,514	22,019	78.0	74.9
Taxes other than income tax .....	19,493	11,558	6,086	68.7	89.9
Communication services .....	10,485	4,298	2,045	144.0	110.2
Depreciation of fixed assets .....	5,040	2,531	1,453	99.1	74.2
Rental expenses .....	4,263	2,098	1,372	103.2	52.9
Amortisation of intangible assets .....	3,365	2,131	1,278	57.9	66.7
Information services .....	2,547	1,952	1,115	30.5	75.1
Expenses on deposits insurance .....	2,375	779	159	204.9	389.9
Professional services .....	1,934	1,557	1,578	24.2	(1.3)
Stationery and office expenses .....	1,372	774	778	77.3	(0.5)
Transportation .....	359	263	127	36.5	107.1
Fixed assets write-off .....	—	—	1,343	—	(100.0)
Other administrative expenses .....	2,740	3,199	731	(14.3)	337.6
<b>Total .....</b>	<b>122,527</b>	<b>69,654</b>	<b>40,084</b>	<b>75.9</b>	<b>73.8</b>

In 2012, TCS's administrative and other expenses increased by US\$52.9 million, or 75.9 per cent., to US\$122.5 million from US\$69.7 million in 2011. In 2011, administrative and other expenses increased by US\$29.6 million, or 73.8 per cent., to US\$69.7 million from US\$40.1 million in 2010. These increases were principally due to increases in staff costs, taxes other than income tax, costs of communication services and depreciation charges, which collectively accounted for 88.3 per cent. of the total increase in administrative and other expenses in 2012 as compared to 2011 and for 85.6 per cent. of the total increase in administrative and other expenses in 2011 as compared to 2010. While TCS's administrative and other expenses increased by 75.9 per cent. in 2012 compared to 2011 and by 73.8 per cent. in 2011 compared to 2010, this increase was still significantly smaller than the increase in TCS's interest income, which was 98.2 per cent. in 2012 as compared to 2011 and 139.3 per cent. in 2011 as compared to 2010.

### *Staff Costs*

In 2012, staff costs increased by US\$30.0 million, or 78.0 per cent., to US\$68.6 million from US\$38.5 million in 2011, which was principally the result of a large increase in the number of TCS's employees whose compensation was included in administrative and other operating expenses from 1,016 as of 31 December 2011 to 2,278 as of 31 December 2012.

In 2011, staff costs increased by US\$16.5 million, or 74.9 per cent., to US\$38.5 million from US\$22.0 million in 2010, which was also principally the result of a large increase in the number of TCS's employees whose compensation was included in administrative and other operating expenses from 668 as of 31 December 2010 to 1,016 as of 31 December 2011.

The Issuer anticipates that staff costs will further increase in the future as TCS continues to expand its business and, therefore, will need to further increase its headcount to adequately support its expanded operations.

### *Taxes Other than Income Tax*

Taxes other than income tax consist mainly of value-added tax on certain services purchased by TCS (mainly acquisition-related) and tax on property and fixed assets. In 2012, TCS's taxes other than income tax increased by US\$7.9 million, or 68.7 per cent., to US\$19.5 million from US\$11.6 million in 2011. In 2011, taxes other than income tax increased by US\$5.5 million, or 89.9 per cent., to US\$11.6 million from US\$6.1 million in 2010. The increases in 2012 and 2011 were largely due to an increase in the provision of services subject to VAT and increases in taxes on property and fixed assets owned by TCS.

### *Communication Services*

In 2012, costs of TCS's communication services increased by US\$6.2 million, or 144.0 per cent., to US\$10.5 million from US\$4.3 million in 2011. In 2011, costs of communication services increased by US\$2.3 million, or 110.2 per cent., to US\$4.3 million from US\$2.0 million in 2010. The increases in 2012 and 2011 reflected increased costs associated with servicing the much larger credit card loan portfolio such as expenses for telephone lines and Internet and other costs.

### *Depreciation of Fixed Assets*

In 2012, TCS's depreciation charges increased by US\$2.5 million, or 99.1 per cent., to US\$5.0 million from US\$2.5 million in 2011. In 2011, depreciation charges increased by US\$1.1 million, or 74.2 per cent., to US\$2.5 million from US\$1.5 million in 2010. These increases were primarily due to the purchase of software, inseparable improvements of the leased property and purchase of servers and other equipment by TCS.

### *Release of Provision for Liabilities and Charges*

In 2010, TCS released provision in respect of uncertain taxes, related penalties, primarily with respect to administrative expenses, in the amount of US\$1.8 million. This provision was fully released as of 31 December 2011 (in the amount of US\$4.9 million). The last audit by the Russian tax authorities was conducted in 2012 with respect to OOO "TCS", a Russian legal entity owned by TCS, which is a party to the agreements with TCS's partners entered into in connection with customer acquisitions, and covered the years 2007, 2008 and 2009. No significant additional tax liabilities were revealed during this tax audit. There have been no tax audits of TCS Bank.

### *Income Tax Expense*

In 2012, TCS's income tax expense increased by US\$15.8 million, or 78.0 per cent., to US\$36.2 million from US\$20.3 million in 2011. In 2011, income tax expense increased by US\$16.5 million, or 432.8 per cent., to US\$20.3 million from US\$3.8 million in 2010. The corporate tax rate applicable to TCS Bank and other Russian subsidiaries of TCS was 20 per cent. in 2012, 2011 and 2010. TCS's effective tax rate was 22.9 per cent. in 2012, 22.9 per cent. in 2011 and 29.5 per cent. in 2010. The difference between the effective tax rate and the statutory rate was principally due to non-deductible expenses (including part of interest expense incurred on deposits and certain administrative expenses, such as advertising) in the amount of US\$4.9 million, US\$2.0 million and US\$0.6 million in 2012, 2011 and 2010, respectively.

### *Profit for the Year*

For the reasons discussed above, in 2012, TCS's profit for the year increased by US\$53.5 million, or 78.3 per cent., to US\$121.9 million from US\$68.4 million in 2011. In 2011, TCS's profit for the year increased by US\$59.3 million, or 649.5 per cent., to US\$68.4 million from US\$9.1 million in 2010.

## **Financial Position of TCS**

### *Assets*

The following table sets out the breakdown of total assets of TCS as of 30 June 2013 and as of 31 December 2012, 2011 and 2010:

	<i>As of 30 June</i>		<i>As of 31 December</i>					
	<i>2013</i>	<i>% of total assets</i>	<i>2012</i>	<i>% of total assets</i>	<i>2011</i>	<i>% of total assets</i>	<i>2010</i>	<i>% of total assets</i>
<i>(in thousands of U.S. dollars, except percentages)</i>								
Cash and cash equivalents	279,908	11.6%	457,382	21.1%	163,191	17.8%	50,892	12.6%
Mandatory cash balances with the CBR	27,424	1.1%	22,560	1.0%	6,975	0.8%	2,463	0.6%
Due from banks	—	—	—	—	2,236	0.2%	—	—
Loans and advances to customers	1,951,609	80.7%	1,573,266	72.4%	663,413	72.5%	316,418	78.1%
Financial derivatives	22,222	0.9%	826	0.0%	15,271	1.7%	—	—
Current income tax assets	2,030	0.1%	—	—	—	—	409	0.1%
Deferred income tax assets	11,722	0.5%	11,370	0.5%	1,356	0.2%	529	0.1%
Guarantee deposits with payment systems	48,196	2.0%	33,592	1.6%	24,030	2.6%	12,555	3.1%
Fixed assets	22,128	0.9%	17,952	0.8%	4,511	0.5%	4,427	1.1%
Intangible assets	12,889	0.5%	13,460	0.6%	7,695	0.8%	4,646	1.1%
Other financial assets	39,847	1.7%	38,995	1.8%	21,963	2.4%	10,501	2.6%
Other non-financial assets	829	0.0%	4,068	0.2%	4,482	0.5%	2,296	0.6%
<b>Total assets</b>	<b>2,418,804</b>	<b>100%</b>	<b>2,173,471</b>	<b>100%</b>	<b>915,123</b>	<b>100%</b>	<b>405,136</b>	<b>100%</b>

### *Loans and Advances to Customers*

Loans and advances to customers (after provision for loan impairment) were the largest category of TCS's assets throughout the period under review and represented 80.7 per cent., 72.4 per cent., 72.5 per cent. and 78.1 per cent. of total assets as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010,



respectively. TCS's net loans and advances to customers increased to US\$1,951.6 million as of 30 June 2013 as compared to US\$1,573.3 million as of 31 December 2012, US\$663.4 million as of 31 December 2011 and US\$316.4 million as of 31 December 2010.

During the period under review, TCS's net loans and advances to customers increased due to organic growth in the number of TCS's credit card customers and increases in credit card limits for long-standing customers with good payment discipline. As economic conditions in Russia and the quality of TCS's overall lending portfolio improved in 2010, TCS removed some of the lending restrictions introduced after the onset of the global financial and economic crisis and started to lend more beginning in the second quarter of that year, while maintaining its conservative risk management approach. The rapid growth in credit card lending continued in 2011, except for September and October of that year when TCS temporarily suspended the acquisition of new customers to accumulate a cash safety cushion to protect itself against a potential new wave of the financial crisis, 2012 and the six months ended 30 June 2013.

*Composition of Loan Portfolio by Types of Loans.* The following table sets out (i) the breakdown of TCS's gross loans and advances to customers, (ii) provision for loan impairment and (iii) TCS's net loans and advances to customers as of 30 June 2013 and as of 31 December 2012, 2011 and 2010:

	<i>As of</i> <i>30 June 2013</i>	<i>As of 31 December</i>		
		<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in thousands of U.S. dollars)</i>			
Credit card loans	2,109,208	1,674,651	696,897	332,599
Instalments <sup>(1)</sup>	46,371	29,349	12,831	6,786
POS loans <sup>(2)</sup>	11,743	8,854	—	—
Corporate loans	—	—	—	2,238
<b>Total loans and advances to customers before impairment:</b>	<b>2,167,322</b>	<b>1,712,854</b>	<b>709,728</b>	<b>341,623</b>
Less: Provision for loan impairment	(215,713)	(139,588)	(46,315)	(25,205)
<b>Total loans and advances to customers</b>	<b>1,951,609</b>	<b>1,573,266</b>	<b>663,413</b>	<b>316, 418</b>

<sup>(1)</sup> TCS has a restructuring programme for delinquent borrowers who demonstrate a willingness to settle their debt by switching to instalments or fixed monthly repayments of outstanding amounts.

<sup>(2)</sup> These loans represent point-of-sale unsecured lending to customers making online purchases through Internet retailers.

For the breakdown of TCS's credit card loan portfolio by credit limits on issued, activated and used cards, see "*Business—Principal Business Activities—Consumer Lending: Credit Cards*". For the regional distribution of TCS's credit card loan portfolio by outstanding principal amount, see "*Business—Principal Business Activities—Consumer Lending: Credit Cards—Customer Base—Regional Distribution*".

*Composition of Loan Portfolio by Loan Status.* The following table sets out the composition of the gross loan portfolio of TCS as of 30 June 2013 and as of 31 December 2012, 2011 and 2010 by the status of such gross loans (new or non-overdue, less than 30 days overdue, 30 to 90 days overdue, 90 to 180 days overdue, 180 to 360 days overdue and over 360 days overdue):

	<i>As of</i> <i>30 June 2013</i>	<i>As of 31 December</i>		
		<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in thousands of U.S. dollars)</i>			
<b>Credit card loans:</b>				
New <sup>(1)</sup>	109,094	88,321	36,250	18,780
Non-overdue	1,724,077	1,393,421	606,357	278,278
Less than 30 days overdue	82,240	70,655	17,954	17,101
30 to 90 days overdue	68,043	45,587	13,039	7,366
90 to 180 days overdue	60,798	41,784	11,857	5,153
180 to 360 days overdue	18,219	10,450	1,439	5,362
Over 360 days overdue	393	190	2,021	559
Loans in courts	46,344	24,243	7,980	—
<b>Total gross credit card loans</b>	<b>2,109,208</b>	<b>1,674,651</b>	<b>696,897</b>	<b>332,599</b>
<b>Instalments:</b>				
New	—	—	—	—
Non-overdue	36,297	21,477	8,706	5,310
Less than 30 days overdue	4,145	2,827	680	797
30 to 90 days overdue	3,515	1,892	722	401
90 to 180 days overdue	2,248	2,018	665	278
180 to 360 days overdue	26	201	1,353	—
Over 360 days overdue	140	934	705	—
<b>Total gross instalments</b>	<b>46,371</b>	<b>29,349</b>	<b>12,831</b>	<b>6,786</b>
<b>POS loans:</b>				
New	1,827	3,964	—	—
Non-overdue	6,417	3,790	—	—
Less than 30 days overdue	397	495	—	—
30 to 90 days overdue	473	295	—	—
90 to 180 days overdue	1,394	234	—	—
180 to 360 days overdue	1,154	76	—	—
Over 360 days overdue	81	—	—	—
<b>Total gross POS loans</b>	<b>11,743</b>	<b>8,854</b>	<b>—</b>	<b>—</b>
<b>Corporate loans:</b>				
Loans individually determined to be impaired (over 360 days overdue)	—	—	—	2,238
<b>Total gross loans</b>	<b>2,167,322</b>	<b>1,712,854</b>	<b>709,728</b>	<b>341,623</b>

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

The following table sets out the split of the gross loan portfolio of TCS into performing and non-performing and provides certain ratios involving non-performing loans as of 30 June 2013 and as of 31 December 2012, 2011 and 2010:

	<i>As of</i> <i>30 June 2013</i>	<i>As of 31 December</i>		
		<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in thousands of U.S. dollars)</i>			
Performing loans	2,036,525	1,632,724	683,708	328,033
Non-performing loans <sup>(1)</sup>	130,797	80,130	26,020	13,590
<b>Gross loans</b>	<b>2,167,322</b>	<b>1,712,854</b>	<b>709,728</b>	<b>341,623</b>
Less accumulated provisions for impairment of loans	(215,713)	(139,588)	(46,315)	(25,205)
<b>Net loans</b>	<b>1,951,609</b>	<b>1,573,266</b>	<b>663,413</b>	<b>316,418</b>
Provision for impairment of loans as a percentage of gross loans	10.0%	8.1%	6.5%	7.4%
Provision for impairment of loans as a percentage of non-performing loans	164.9%	174.2%	178.0%	185.5%
Non-performing loans as a percentage of gross loans	6.0%	4.7%	3.7%	4.0%

(1) TCS treats as non-performing loans that are 90 days or more past due.

The proportion of non-performing loans in TCS's gross loans portfolio increased from 3.7 per cent. as of 31 December 2011 to 4.7 per cent. as of 31 December 2012 and to 6.0 per cent. as of 30 June 2013 principally for two reasons. First, as discussed in "Operating and Financial Review—Significant Factors Affecting Results of Operations—Change in the Mix of Distribution Channels", customers acquired through the online customer acquisition platform tend to default more frequently on their loan payments and thus present a higher risk for TCS as compared to customers acquired through the direct mail channel or other offline distribution channels. As

the proportion of new credit card customers acquired through the online customer acquisition platform increased from 52.2 per cent. in 2011 to 78.8 per cent. in 2012 and 90.0 per cent. in the six months ended 30 June 2013, the proportion of non-performing credit card loans in TCS's gross credit card loans also increased. Second, TCS experienced a significantly higher level of defaults by new customers acquired in March through June 2012 as compared to customers acquired during any other period in 2011 or 2012 as discussed in "Operating and Financial Review—Results of Operations in 2012, 2011 and 2010—Provision for Loan Impairment Charge".

*Changes in Provision for Loan Impairment.* The following table sets out changes in provision for loan impairment of TCS in the six months ended 30 June 2013 and in 2012, 2011 and 2010:

	<i>Six months ended 2013</i>	<i>Year ended 31 December</i>		
		<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in thousands of U.S. dollars)</i>			
<b>Provision for loan impairment at the beginning of the period</b>	<b>139,588</b>	<b>46,315</b>	<b>25,205</b>	<b>18,590</b>
Effect of translation	(15,266)	4,877	(3,347)	(254)
Write-off of bad debts	—	—	(356)	(1,429)
Sales of bad debts	(49,005)	(35,982)	(17,111)	(19,667)
Provision for impairment during the period	140,396	124,378	41,924	27,965
<b>Provision for loan impairment at the end of the period</b>	<b>215,713</b>	<b>139,588</b>	<b>46,315</b>	<b>25,205</b>

### *Liabilities*

The following table sets out the breakdown of total liabilities of TCS as of 30 June 2013 and as of 31 December 2012, 2011 and 2010:

	<i>As of 30 June</i>		<i>As of 31 December</i>					
	<i>2013</i>	<i>% of total</i>	<i>2012</i>	<i>% of total</i>	<i>2011</i>	<i>% of total</i>	<i>2010</i>	<i>% of total</i>
	<i>(in thousands of U.S. dollars, except percentages)</i>							
Due to banks	16,602	0.8%	16,930	0.9%	—	—	—	—
Customer accounts	977,293	47.4%	878,146	46.8%	361,664	45.3%	174,149	48.2%
Debt securities in issue	806,273	39.2%	762,414	40.7%	412,875	51.8%	143,591	39.7%
Subordinated debt	198,354	9.6%	123,897	6.6%	—	—	—	—
Syndicated loan	—	—	—	—	—	—	31,378	8.7%
Provision for liabilities and charges	—	—	—	—	—	—	4,747	1.3%
Financial derivatives	921	0.0%	11,927	0.6%	—	—	—	—
Current income tax liabilities	—	—	2,779	0.1%	4,950	0.6%	—	—
Other financial liabilities	52,362	2.5%	70,570	3.8%	13,687	1.7%	6,424	1.8%
Other non-financial liabilities	11,136	0.5%	8,541	0.5%	4,857	0.6%	982	0.3%
<b>Total liabilities</b>	<b>2,062,941</b>	<b>100%</b>	<b>1,875,204</b>	<b>100%</b>	<b>798,033</b>	<b>100%</b>	<b>361,271</b>	<b>100%</b>

### *Customer Accounts*

Customer accounts represent one of the two of TCS's principal sources of funding (the other one being debt securities issued on domestic and international capital markets). Customer accounts amounted to US\$977.3 million, or 47.4 per cent. of TCS's total liabilities, as of 30 June 2013; US\$878.1 million, or 46.8 per cent. of TCS's total liabilities, as of 31 December 2012; US\$361.7 million, or 45.3 per cent. of TCS's total liabilities, as of 31 December 2011 and US\$174.1 million, or 48.2 per cent. of TCS's total liabilities, as of 31 December 2010, reflecting TCS's current policy to maintain the proportion of deposits in its total liabilities within the range of 40 to 60 per cent.

As economic conditions in Russia improved in 2010, TCS was able to benefit from positive macroeconomic developments by rapidly increasing its deposit base. Initially, TCS relied on providing interest rates on newly open deposit accounts that were significantly above the prevailing market rates at the time. However, as deposits reached the targeted 40 to 60 per cent. of total liabilities range, interest rates became more closely aligned with the market. Average interest rates on customer accounts decreased from 13.7 per cent. in 2010 to 11.9 per cent. in 2011, then increased slightly to 12.1 per cent. in 2012 and marginally decreased to 12.0 per cent. in the six months ended 30 June 2013.

The following table sets out the composition of customer accounts of TCS as of 30 June 2013 and as of 31 December 2012, 2011 and 2010:

	As of 30 June		As of 31 December					
	2013	% of total	2012	% of total	2011	% of total	2010	% of total
	(in thousands of U.S. dollars, except percentages)							
<b>Legal entities</b>								
Current/settlement accounts of corporate entities	1,900	0.2%	189	0.0%	358	0.1%	299	0.2%
Term deposits of corporate entities	35,784	3.7%	35,144	4.0%	6,528	1.8%	4,324	2.5%
<b>Individuals</b>								
Current/settlement accounts of individuals	137,825	14.1%	79,360	9.0%	19,439	5.4%	11,430	6.6%
Term deposits of individuals	801,784	82.0%	763,453	87.0%	335,339	92.7%	158,096	90.7%
<b>Total liabilities</b>	<b>977,293</b>	<b>100%</b>	<b>878,146</b>	<b>100%</b>	<b>361,664</b>	<b>100%</b>	<b>174,149</b>	<b>100%</b>

As of 30 June 2013, the average deposit amount was equal to RUB 552 thousands and approximately 60 per cent. of retail deposits were below the RUB 700,000 level and, accordingly, fully protected by the Russian mandatory deposit insurance system. A change of regulations to increase the deposit insurance threshold from RUB 700,000 to RUB 1,000,000 that is currently being considered by the Russian parliament would further increase the proportion of TCS's deposits fully covered by the mandatory deposit insurance system.

*Composition of Customer Accounts by Maturity.* The following table sets out the breakdown of TCS's customer accounts as of 30 June 2013 and as of 31 December 2012, 2011 and 2010 by maturity of deposits:

	As of 30 June 2013		As of 31 December					
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in thousands of U.S. dollars, except percentages)							
Demand and less than one month	278,925	28.5%	178,432	20.3%	20,297	5.6%	22,225	12.8%
From one to three months	251,566	25.7%	267,124	30.4%	42,637	11.8%	33,825	19.4%
From three to six months	149,570	15.3%	198,249	22.6%	97,885	27.1%	48,172	27.7%
From six to 12 months	206,364	21.1%	162,471	18.5%	122,415	33.8%	39,447	22.6%
From one year to five years	90,868	9.4%	71,870	8.2%	78,430	21.7%	30,480	17.5%
<b>Total</b>	<b>977,293</b>	<b>100%</b>	<b>878,146</b>	<b>100%</b>	<b>361,664</b>	<b>100%</b>	<b>174,149</b>	<b>100%</b>

The decrease in the proportion of longer-term deposits in 2012 and the six months ended 30 June 2013 was the result of TCS's campaign to attract short-term deposits by offering customers interest rates on such deposits that were higher than market rates. The Issuer expected that such new customers would stay with TCS and subsequently convert their short-term deposits into longer-term deposits. However, once the trend of decreasing average term of deposits became clear, management reduced interest rates on short-term deposits in the spring of 2013 and abolished deposits with a three-month term seeking to reverse this trend.

While the table above sets out contractual maturities, in accordance with the Russian Civil Code, individuals have a right to withdraw their term deposits prior to maturity if they forfeit their right to the contractually agreed accrued interest (but in this instance they will still be entitled to accrued interest at the rate applicable to call deposits at the bank). Should a large portion of TCS's customers withdraw their deposits simultaneously or nearly simultaneously, particularly during a banking, financial or economic crisis in Russia, this may have a material adverse effect on TCS's liquidity and business and financial condition in general. To avoid such a situation, TCS relies primarily on the following three elements of its liquidity risk management. First, it maintains a deposit liquidity cushion calculated as at least 15 per cent. of total retail deposits at all times (however, in practice this cushion is usually maintained at a level between 20 and 25 per cent.) See "Asset, Liability and Risk Management—Liquidity Risk". Second, a large proportion of deposits (61 per cent. of all deposits as of 31 December 2012 and 60 per cent. of all deposits as of 30 June 2013) are deposits below the RUB 700,000 threshold, all of which are fully protected under the Russian mandatory deposit insurance system. A change of regulations to increase the deposit insurance threshold from RUB 700,000 to RUB 1,000,000 that is currently being considered by the Russian parliament will further increase the proportion of TCS's deposits fully covered by the mandatory deposit insurance system and thus help to further stabilise the retail deposits base. Third, all TCS's retail depositors have a free option to convert at any time deposited funds into U.S. dollars or euro without losing accrued interest, which could be particularly useful in circumstances when the rouble's exchange rate against the main foreign currencies is falling and depositors are tempted to withdraw their funds and convert them into such foreign currencies to avoid losses.

## Debt Securities in Issue

The following table sets out outstanding amounts of TCS's rouble-denominated bonds and U.S. dollar- and Swedish krona-denominated bonds as of 30 June 2013 and 31 December 2012, 2011 and 2010:

	As of 30 June 2013		As of 31 December					
			2012		2011		2010	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in thousands of U.S. dollars, except percentages)								
U.S. dollar denominated bonds issued in September 2012 .....	254,203	31.5%	252,627	33.1%	—	—	—	—
U.S. dollar denominated bonds issued in April 2011 .....	177,173	22.0%	176,341	23.1%	166,087	40.2%	—	—
Rouble-denominated bonds issued in May 2013 .....	91,959	11.4%	—	—	—	—	—	—
Rouble-denominated bonds issued in July 2012 .....	64,769	8.0%	69,440	9.1%	—	—	—	—
U.S. dollar-denominated euro commercial paper issued in March 2013 .....	47,444	5.9%	—	—	—	—	—	—
Rouble-denominated bonds issued in April 2012 .....	46,571	5.8%	50,283	6.6%	—	—	—	—
Rouble-denominated bonds issued in July 2010 .....	46,343	5.8%	49,550	6.5%	42,950	10.4%	44,868	31.2%
Rouble-denominated bonds issued in November 2010 ...	37,875	4.7%	40,747	5.3%	29,563	7.2%	49,524	34.5%
Rouble-denominated bonds issued in February 2011 .....	21,078	2.6%	22,548	3.0%	49,021	11.9%	—	—
Rouble-denominated bonds issued in September 2010 ...	18,858	2.3%	19,710	2.6%	48,177	11.7%	49,199	34.3%
SEK denominated bonds issued in December 2011 .....	—	—	81,168	10.7%	73,693	17.8%	—	—
Promissory notes issued .....	—	—	—	—	3,384	0.8%	—	—
<b>Total .....</b>	<b>806,273</b>	<b>100%</b>	<b>762,414</b>	<b>100%</b>	<b>412,875</b>	<b>100%</b>	<b>143,591</b>	<b>100%</b>

After the global financial and economic crisis of 2008-2009, TCS was able to renew its access to the domestic debt capital markets beginning in 2010. In that year, TCS issued three series of rouble-denominated domestic bonds with the total nominal value of RUB 4.5 billion. The issuance of rouble-denominated domestic bonds continued throughout the period under review and the Issuer considers this type of funding (with maturities ranging from one to three years) very important for the success of its business. However, the Issuer also remains interested in having access to even longer-term financing. Beginning in April 2011, TCS was able to resume the issuance of foreign currency-denominated bonds in the international capital markets. While interest rates on foreign-currency denominated bonds are lower than on rouble-denominated domestic bonds, TCS manages its exposure to foreign currency exchange risk and such hedging adds four to six per cent. per year to the cost of such foreign currency-denominated bonds, typically making them more expensive than rouble-denominated domestic bonds. Beginning in 2013, TCS has also started issuing euro commercial paper, which offers considerably lower interest rates than both foreign currency-denominated bonds and rouble-denominated domestic bonds, but the term of such commercial paper is limited to 364 days.

### Subordinated Debt

On 6 December 2012, TCS issued U.S. dollar-denominated subordinated bonds with a nominal value of US\$125 million maturing in June 2018. The coupon rate on these subordinated bonds is 14.0 per cent. per annum. On 18 February 2013, TCS issued additional U.S. dollar-denominated subordinated bonds with a nominal value of US\$75 million fungible with the subordinated bonds issued in December 2012.

TCS is also currently considering the possibility of issuing U.S. dollar-denominated subordinated bonds in the fourth quarter of 2013. The exact timing and the amount of the issuance will depend on market conditions.

## Contingent Liabilities and Credit Commitments

TCS's contingent liabilities and credit commitments primarily consist of unused limits on credit cards.

### Unused Limits on Credit Cards

The primary purpose of TCS's credit-related commitments is to ensure that funds are available as required by credit card customers. Unused limits on credit cards represent unused portions of authorisations to extend credit in the form of loans. The total outstanding contractual amount of unused limits on credit lines does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

With respect to credit risk on commitments to extend credit, TCS is potentially exposed to a loss in the amount equal to the total of unused irrevocable commitments. However, the likely amount of loss is less than the total unused commitments since most of the commitments to extend credit are contingent upon customers maintaining specific credit standards and, for example, could be terminated in the event of customer default. TCS 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.



The following table sets out TCS's credit-related commitments as of 30 June 2013 and as of 31 December 2012, 2011 and 2010:

	<i>As of</i> <i>30 June</i>	<i>As of 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in thousands of U.S. dollars)</i>			
Unused limits on credit card loans .....	1,000,370	833,026	417,003	191,487
<b>Total credit related commitments .....</b>	<b>1,000,370</b>	<b>833,026</b>	<b>417,003</b>	<b>191,487</b>

The increases in credit-related commitments primarily reflected increased demand for, and issuance of, credit cards and related increases in unused limits on credit card loans.

### **Operating Lease Commitments**

The following table sets out the future minimum lease payments under non-cancellable operating leases for which TCS is the lessee as of 30 June 2013 and as of 31 December 2012, 2011 and 2010:

	<i>As of</i> <i>30 June</i>	<i>As of 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in thousands of U.S. dollars)</i>			
Not later than one year .....	11,055	6,462	2,426	1,656
<b>Total operating lease commitments<sup>(1)</sup> .....</b>	<b>11,055</b>	<b>6,462</b>	<b>2,426</b>	<b>1,656</b>

(1) TCS operates a number of premises and pieces of equipment under operating leases. Lease payments are usually increased annually to reflect market trends. None of these leases include contingent rentals.

### **Derivative Financial Instruments**

TCS uses derivative transactions to manage its foreign currency risks that arise because TCS's assets are predominantly denominated in roubles while a significant proportion of its funding is denominated in U.S. dollars (and, in the past, in Swedish krona or euro). The following table sets out fair values, as of 30 June 2013, of currencies receivable or payable under foreign exchange swap contracts entered into by TCS. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after 30 June 2013. These contracts are short term in nature.

	<i>As of 30 June 2013</i>	
	<i>Contracts with</i> <i>positive fair value</i>	<i>Contracts with</i> <i>negative fair value</i>
	<i>(in thousands of U.S. dollars)</i>	
<b>Foreign exchange forwards and swaps:</b>		
<b>fair values as of 30 June 2013 of</b>		
—US\$ receivable on settlement (+) .....	426,159	164,740
—RUB payable on settlement (-) .....	(395,671)	(162,661)
—SEK payable on settlement (-) .....	(8,266)	(3,000)
<b>Net fair value of foreign exchange forwards and swaps .....</b>	<b>22,222</b>	<b>(921)</b>

Foreign exchange derivative financial instruments entered into by TCS are generally net settled derivatives traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

### **Capital Adequacy**

TCS's CAR is calculated (i) on a consolidated basis under the methodology set by the Basel Committee with capital adjustments as set out in Basel III ("**Basel CAR**") and (ii) under CBR requirements (for TCS Bank), which apply a methodology set by the CBR based on stand-alone accounting records prepared in accordance with RAS ("**N1 CAR**"), with the relevant ratios for the period under review set out at the end of this subsection.

TCS's Tier I capital is represented by net assets of TCS and decreased by intangible assets. TCS's Tier II capital is represented by subordinated loans, up to a limit of 50 per cent. of Tier I capital.

The following table sets out the principal components of TCS's Basel CAR as of 30 June 2013 and as of 31 December 2012, 2011 and 2010:

	<i>As of 30 June</i>	<i>As of 31 December</i>		
	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>(in thousands of U.S. dollars, except percentages)</i>			
<b>Risk-weighted assets</b> .....	<b>2,282,788</b>	<b>2,037,325</b>	<b>906,630</b>	<b>464,766</b>
Tier I capital .....	342,974	284,807	109,395	39,219
Tier II capital .....	158,684	123,898	—	—
<b>Total capital</b> .....	<b>501,658</b>	<b>408,705</b>	<b>109,395</b>	<b>39,219</b>
Tier I capital ratio .....	15.0%	14.0%	12.1%	8.4%
Tier II capital ratio ratio .....	7.0%	6.1%	—	—
Total capital ratio .....	22.0%	20.1%	12.1%	8.4%

Although TCS is not bound to comply with capital adequacy ratios calculated under the methodology set by the Basel Committee, TCS regularly monitors its compliance with these ratios on a voluntary basis. Despite growth in risk-weighted assets throughout the period under review, TCS was able to maintain a Basel CAR significantly above the minimum capital requirements of 4.5 per cent. for the Tier I capital ratio and 8 per cent. for the total capital ratio set by the Basel Committee as of each period end under review.

Given the broad and evolving nature of Basel III rules, recommendations and calculation methodologies, TCS's management can exercise a significant degree of discretion over their application. Moreover, given that TCS has commenced calculating and reporting figures related to Basel III capital adequacy only this year, it may not have the same resources and experience in this area as banks that had adopted Basel III a longer time ago. As such, there can be no assurance that figures related to Basel III capital adequacy as reported by TCS are fully comparable to similar figures reported by other banks, or that Basel III methodologies and calculations currently used by TCS would not be amended in the future.

On 1 March 2013, Regulation No. 395-P entered into force in Russia. Pursuant to the recently published draft amendments to the relevant banking regulations, the CBR will start applying the new capital adequacy ratios from 1 January 2014. See *"Banking regulation in Russia—Reform of the Banking Sector"*. Until that time, Regulation No. 395-P operates in a test regime during which Russian banks are required to calculate their capital and assess capital adequacy in accordance with the new methodology set out in Regulation No. 395-P and submit the relevant accounting forms to the CBR. TCS Bank has been submitting such forms to the CBR since April 2013. In addition, during this period, Russian banks (including TCS Bank) must continue to calculate regulatory capital and determine its sufficiency in accordance with the CBR Regulation *"On Methodology of Determination of Own Funds (Capital) of Credit Institutions"* No. 215-P dated 10 February 2003 (**"Regulation No. 215-P"**), which remains intact. In addition, new regulatory capital requirements are expected to come into full effect between 2013 and 2018.

TCS Bank's N1 CAR, on a stand-alone RAS basis, was 13.55 per cent. as of 1 January 2011, 14.04 per cent. as of 1 January 2012, 17.41 per cent. as of 1 January 2013 and 17.14 per cent. as of 1 July 2013. The CBR requires banks to maintain a N1 CAR of 10 per cent. or more calculated based on RAS. The CBR has increased risk-weighting coefficients on new unsecured high interest rate consumer loans with effect from 1 July 2013 and has proposed even higher risk-weighting coefficients for such loans recently as well as higher provisioning for consumer loans. These changes may adversely impact TCS Bank's N1 CAR in the future. For more information, see *"Risk Factors—Risks Related to TCS's Business and the Russian Financial Sector—TCS Bank's inability to comply with capital adequacy requirements may have a negative effect on TCS's business, results of operations, financial condition and prospects and lead to a need for additional capital"* and *"Business—Recent Developments—Changes in Risk-Weighting Coefficients on Higher Rate Loans"*.

### Critical Accounting Estimates and Judgments

In the application of TCS's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. As a result of the volatility in the global and Russian financial markets, management's estimates may change and result in a significant impact on TCS. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### ***Impairment Losses on Loans and Advances***

The Issuer regularly reviews TCS's loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Issuer 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 Issuer 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 management's view and experience that the time lag between a possible loss event that could lead to impairment and the non- or underpayment of a monthly instalment is minimal. The Issuer uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling the future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In accordance with internal methodology for the provision estimation, TCS 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 credit card losses.

### ***Offsetting of Intercompany Transactions Transferred Through Third Parties Based on the Substance of Transactions***

The Issuer applies judgment in assessing whether intercompany transactions performed via non-related third parties should be offset in the consolidated financial statements based on the substance of the transactions. The principal considerations that the Issuer analyses are the substance of transactions, the management's intention to settle these transactions simultaneously after the year end, matching maturity, currency and interest rates of the respective financial assets and liabilities, level of credit and liquidity risks and underlying business reasons of the transactions. The Issuer believes that offsetting of intercompany transactions transferred through third parties in the consolidated financial statements by showing the net financial result of the deal, i.e. the administration fee of a third party, will not detract from investors' ability both to understand the transactions and conditions that have occurred and to assess the entity's future cash flows. Financial assets and liabilities attributable to intercompany transactions performed via non-related intermediary entities that were offset in the consolidated financial statements in 2011 amounted to US\$29.5 million (in 2010: US\$45.1 million), with an interest rate ranging from three per cent. to five per cent. and maturity from 18 January 2012 to 7 March 2012 (in 2010: from four per cent. to seven per cent. and maturity ranging from 26 January 2011 to 23 August 2011). TCS incurred administrative fees for these transactions in the amount of US\$460 thousand in 2011 (in 2010: US\$386 thousand), recorded within banking and other fee expenses.

### ***Entities Controlled in Substance, but not in Form***

Judgment is applied in determining that certain entities, though not legally owned, were controlled by TCS in substance, and are therefore consolidated, as described in Note 1 in the Annual Financial Statements. The Issuer considers that, although TCS has no legal title to the entities' assets, the substance of the relationships between TCS and the entities is such that TCS has the power to govern the financial and operating policies of the entities.

### ***Employee Share Option Plan (ESOP)***

In determining the carrying value of TCS's ESOP and the original long-term incentive plan (which was amended in September 2013 to become the Equity LTIP), the Issuer makes estimates based on a number of assumptions.

The principal assumptions underlying the estimation of the fair value are those relating to the projected loan portfolio growth and appropriate discount rate. These valuations are regularly compared to actual and projected market data as well as actual transactions involving TCS Bank's shares and market pricing of the traded peers. The impact on the aggregate valuations of reasonably possible changes of the main assumptions, with all other variables held constant, is set out below:

The discount rate was assumed to be in the range of 15.3 per cent. to 16.3 per cent. in the forecast period from 2013 to 2018 in 2012 and in the range of 16.7 per cent. to 18.7 per cent. in the forecast period from 2012 to 2018 in 2011. Should this discount rate increase/decrease by one percentage point, the carrying value of the share-based payment would be US\$594 thousand lower/US\$694 thousand higher in 2012 and US\$175 thousand lower/US\$104 thousand higher in 2011.

The projected loan portfolio growth rate was assumed to be in the range of 3.0 per cent. to 51.6 per cent. in the forecast period from 2013 to 2018 in 2012 and in the range of 4.0 per cent. to 24.0 per cent. in the forecast period from 2012 to 2018 in 2011. Should this growth rate increase/decrease by 10 per cent., the carrying value of the share-based payment would be US\$560 thousand higher/US\$549 thousand lower in 2012 and US\$114 thousand higher/US\$204 thousand lower in 2011.

## **Tax Legislation**

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 TCS. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

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

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

The Issuer estimates that as of 31 December 2011 the total amount of TCS's possible obligations from exposure to other than remote tax risks comprised EUR 1.5 million and US\$595 thousand (in 2010: US\$3,375 thousand). As of 31 December 2012 no such tax risks were identified.

## **BUSINESS**

### **Overview**

TCS is an innovative provider of online retail financial services operating in Russia through a high-tech branchless platform. Since its inception in 2006, TCS has grown into a leader in credit cards and has developed a successful online retail deposits programme. While credit cards and online retail deposits are the mainstay of TCS's business, it is broadening its product offering to bring other online products and services to Russian consumers.

TCS has built an advanced high-tech retail financial services platform that is highly suited for the Russian market and operating environment. TCS's platform is entirely branchless, with a low fixed cost base and high degree of operating flexibility to ramp the business up or slow the business down according to the external environment. This business model also enables TCS to take advantage of what it believes to be a significant growth opportunity in Russia. The Issuer believes that the low level of retail financial services penetration, relatively high margins and barriers to entry for TCS's competitors make its business model attractive in terms of growth potential and competitive edge. TCS's remote customer service through its award-winning Internet banking as well as through mobile banking and its high-volume call centres sets it apart from its competitors, facilitates its rapid growth and helps to keep operational costs at a relatively low level.

Operating flexibility and reach are further enhanced by TCS's use of direct marketing channels that enable it to attract new customers throughout Russia. TCS's primary distribution channels are its online (Internet, mobile and telesales), direct mail and direct sales agents channels. The Issuer believes that TCS's online offer is one of the most efficient ways to reach new customers in Russia, particularly in underserved parts of the country. TCS also uses "bring a friend" network marketing (a bonus system encouraging existing customers to recommend TCS) and other distribution channels.

TCS continuously develops and introduces new financial services products to retail customers in Russia. With respect to credit cards, which are its core product, TCS was the first and only bank in Russia to use direct mail as a key acquisition channel. TCS was also among the first to originate new credit cards and attract deposits online in large volumes. Other examples of TCS's innovations being used in connection with its existing products include the "click-to-meet" Internet application allowing delivery of the card within a few days through TCS's in-house "smart courier" network and the only distributed call centre among financial services providers in Russia that processes significant volumes of calls. TCS's Home Call Centre had over a thousand operators working from home as of 30 June 2013.

The Issuer believes that TCS's online platform is capable of supporting additional innovative financial products that TCS regularly brings to the market. In 2012 and the six months ended 30 June 2013, TCS launched a number of such new financial products, including:

- an ALL Airlines rewards programme for the mass affluent segment of the credit card market;
- point-of-sale lending to customers making online purchases through Internet retailers;
- sales of third-party insurance through its website;
- a comprehensive suite of online and mobile payment and transaction services using customers' bank accounts and "virtual" online credit cards in cooperation with Visa and MasterCard;
- prepaid cards in partnerships with Yandex.Money and Money@Mail.ru; and
- the "Bravo" in-house targeted loyalty platform.

According to CBR data, as of 1 July 2013, TCS had the third largest credit card loan portfolio in Russia, with a market share of 7.7 per cent. based on non-delinquent receivables and with 3.5 million issued credit cards as of 30 June 2013. As of 30 June 2013, TCS's total assets, loans and advances to customers and customer accounts (deposits) amounted to US\$2,418.8 million, US\$1,951.6 million and US\$977.3 million, respectively. In the six months ended 30 June 2013, TCS generated profit for the period of US\$79.3 million, as compared to US\$52.3 million in the six months ended 2012. As of 31 December 2012, TCS's total assets, loans and advances to customers and customer accounts (deposits) amounted to US\$2,173.5 million, US\$1,573.3 million and US\$878.1 million, respectively. In 2012, TCS generated profit for the year of US\$121.9 million, as compared to US\$68.4 million in 2011 and US\$9.1 million in 2010.

### **Incorporation and History**

TCS Bank is a Russian bank organised as a closed joint stock company under the laws of the Russian Federation, with its registered office located at Perviy Volokolamskiy proezd 10, building 1, 123060 Moscow, Russian



Federation. TCS Bank is registered with the Unified State Register of Legal Entities of the Russian Federation with the Principal State Registration Number 1027739642281. The telephone number of TCS Bank's registered office is +7 495 648 1000.

As of the date of this Prospectus, TCS Bank operates under banking licences (No. 2673) received from the CBR that cover a wide range of banking activities. These licences were issued on 28 January 1994 and were last re-issued on 15 April 2013 (the re-issue was due to a change in regulations relating to certain banking operations). TCS Bank's banking licences allow it to conduct banking operations that include, but are not limited to, operations in roubles and foreign currencies, acceptance of deposits from individuals and legal entities in roubles and foreign currencies, opening and maintaining bank accounts of individuals and legal entities, wire transfers and settlements. TCS Bank has been a member of the Russian mandatory deposit insurance system (for retail deposits) registered under No. 696 since February 2005.

TCS Bank was incorporated in January 1994, and was initially known as Joint Stock Company AKB Khimmashbank ("**Khimmashbank**"). Khimmashbank was a small bank focused on customers from the pharmaceutical and chemical industries primarily operating in Moscow and the Moscow region.

In November 2006, the Issuer, a Cypriot company at that point under the sole control of Mr Tinkov, acquired 100 per cent. of the share capital of Khimmashbank. In December 2006, Khimmashbank was renamed "Tinkoff Credit Systems" (TCS Bank).

From late 2006 to early 2007, TCS hired its core management team, put in place its core IT systems and key business processes. In the spring of 2007, it launched its credit card lending programme using direct mail as the primary customer acquisition channel.

In October 2007, ELQ Investors II Ltd acquired a 10.0 per cent. stake in the Issuer together with an option to increase its stake. In September 2008, Vostok Nafta acquired a 15.0 per cent. stake in the Issuer. Concurrently, ELQ Investors II Ltd exercised its additional option and acquired a further 5.0 per cent. stake in the Issuer, increasing its share to 13.6 per cent. after dilution.

In 2009, as part of its strategy to diversify its funding sources, TCS launched its retail deposit programme in four regions of the Russian Federation. This programme was expanded to all other regions in 2010. As of 30 June 2013, TCS's total retail deposits amounted to US\$939.6 million.

In mid-2010, TCS Bank redesigned its website to create a new tool for customer acquisition and made it possible for its potential customers to submit credit card applications through the Internet, which allowed it to speed up the processing of such applications, reduce the average cost of new customer acquisitions, target younger customers more effectively and significantly increase the potential for faster growth of its credit card business. In 2011, TCS launched the mobile and telesales sub-channel of its online customer acquisition platform. In the same year, the online channel became the largest customer acquisition channel for TCS.

In 2012, Baring Vostok and Horizon Capital acquired minority stakes in the Issuer by making investments in May 2012 and October 2012, respectively.

## **Recent Developments**

### ***Changes in Indebtedness***

On 10 July 2013, TCS issued U.S. dollar-denominated euro commercial paper with a nominal value of US\$20 million at 5.25 per cent. coupon rate maturing on 9 July 2014. Also on 10 July 2013, TCS issued U.S. dollar-denominated euro commercial paper with a nominal value of US\$75 million at 4.5 per cent. coupon rate maturing on 10 January 2014.

On 18 July 2013, TCS redeemed a portion of its rouble-denominated bonds issued in July 2012 through a public tender offer at the purchase price equal to their nominal value of RUB 1.1 billion. TCS subsequently resold these bonds.

On 28 July 2013, TCS redeemed in full its rouble-denominated bonds issued in July 2010 at their nominal value of RUB 1.4 billion.

On 20 September 2013, TCS redeemed the remaining outstanding rouble-denominated bonds issued in September 2010 at their nominal value of RUB 0.6 billion.

TCS is also currently considering the possibility of issuing U.S. dollar-denominated subordinated bonds in the fourth quarter of 2013. The exact timing and the amount of the issuance will depend on market conditions.

### ***Acquisition of Insurance Subsidiary***

On 7 August 2013, TCS acquired a 100 per cent. ownership interest in JSC Insurance Company “Moskva”. The purchase consideration amounted to US\$12.1 million. Subsequent to this acquisition, the name of the subsidiary was changed to OOO “Tinkoff Online-Insurance”. The Issuer plans that this subsidiary will provide insurance services to TCS’s customers. The carrying values of its total assets and net assets as of the date of the acquisition measured in accordance with RAS were US\$10.9 million and US\$10.6 million, respectively. As at the date of the acquisition, JSC Insurance Company “Moskva” held an insurance licence but conducted no material insurance operations and, as such, was not required to publish any financial statements apart from statutory accounting reports which were required to be submitted by Russian insurance authorities. This company had no material profit or loss in the six months ended 30 June 2013. While its financial results have not yet been consolidated into the Issuer’s financial statements, the Issuer expects that such consolidation will take place in the third quarter of 2013.

### ***Changes in Risk-Weighting Coefficients on Higher Rate Loans***

From 1 July 2013, pursuant to the Mandatory Economic Ratios Instruction issued by the CBR, Russian banks are required to increase risk weightings for new loans with an annual effective interest rate above 25 per cent. for the purpose of calculating such banks’ risk-weighted assets under the CBR’s mandatory economic ratios. The risk weightings (all of which were previously set at 100 per cent.) for new loans granted after 1 July 2013 have increased to (i) 110 per cent. for loans with annual effective interest rates ranging from above 25 per cent. to 35 per cent., (ii) to 140 per cent. for loans with annual effective interest rates ranging from above 35 per cent. to 45 per cent., (iii) to 170 per cent. for loans with annual effective interest rates ranging from above 45 per cent. to 60 per cent. and (iv) to 200 per cent. for loans with annual effective interest rates over 60 per cent. (in each case at the time the loan is provided).

In September 2013, the CBR published a draft of amendments to the Mandatory Economic Ratios Instruction which, among other things, included a further increase in the risk-weighting coefficients to be applied to higher rate consumer loans for the purpose of calculating the relevant bank’s risk-weighted assets under the CBR’s economic ratios. In particular, the CBR proposed to increase the risk-weighting coefficients for new loans granted after 1 January 2014 to (i) 160 per cent. (from 140 per cent.) for loans with annual effective interest rates ranging from 35 per cent. to 45 per cent., (ii) to 300 per cent. (from 170 per cent.) for loans with annual effective interest rates ranging from 45 per cent. to 60 per cent. and (iii) to 600 per cent. (from 200 per cent.) for loans with annual effective interest rates over 60 per cent. The annual effective interest rate must be determined at the time the loan is provided. These proposed amendments reflect the CBR’s rising concern regarding the scale of consumer lending growth in recent years and the adverse impact of such rapid growth on creditworthiness of retail customers. There remains some uncertainty regarding the final form of the amendments to the Mandatory Economic Ratios Instruction as the CBR has been collecting comments to the draft amendments from market participants until 27 September 2013 and may potentially revise the amendments based on such feedback.

If the CBR’s proposed risk-weighting coefficients are implemented in the form of the currently published amendments, TCS may have to reduce the rate of growth of its loan portfolio, seek to raise additional capital or do both in order to maintain sufficient capital. The Issuer does not currently expect to pay dividends in the nearest years as it accumulates additional capital to maintain its N1 capital adequacy ratio above the levels required by TCS’s financing arrangements. See *“Risk Factors—Risks Related to TCS’s Business and the Russian Financial Sector—TCS Bank’s inability to comply with capital adequacy requirements may have a negative effect on TCS’s business, results of operations, financial condition and prospects and lead to a need for additional capital”*.

While the Issuer believes that these potential new rules on risk-weighting coefficients will cause some pressure on its profit margins, particularly in the near term, it also believes that TCS may potentially benefit from these new rules, as implementation of such rules is likely to make the Russian consumer finance business less competitive and eventually reduce the cost of risk, thus potentially allowing TCS to attract better quality customers at a lower acquisition cost in the future.

### ***Recent Initiatives Contemplating Limitation of Interest Rates on Consumer Loans***

A proposal contemplating limitation of interest rates on consumer loans was submitted by the CBR to the Russian Ministry of Finance in September 2013. According to this proposal, interest rates on consumer loans may not exceed 30 per cent. of the average market interest rate determined by the regulatory authorities. If the CBR’s proposal is adopted and becomes effective, TCS Bank would have to limit the maximum rates charged on the loans that it grants to customers. As a result of this, the interest margin of TCS Bank could be negatively impacted.

## **Strategy**

TCS's strategic goal is to become an integrated retail financial services provider serving customers through a high-tech online platform that offers premium-quality service and convenience, while maintaining high growth rates, profitability and effective data-driven risk management. This overall strategic goal is underpinned by the following seven pillars:

### ***Maintain Emphasis on Further Developing the High-Growth Credit Card Platform and Other Products for the Consumer Lending Market***

The Issuer expects that credit card lending will remain TCS's core business for the foreseeable future and intends to continue to extend the range of its credit card products, strengthen TCS's existing credit card distribution channels and develop new distribution channels (such as retail partners with large distribution networks, affinity programmes and cross-selling to customers using new products such as e-wallets). For example, in April 2013, TCS introduced the Tinkoff ALL Airlines rewards programme to target the mass affluent segment of the credit card market in Russia.

In addition, the Issuer intends to continue growing its recently introduced additional consumer lending products, such as point-of-sale lending to customers making online purchases through Internet retailers and cash loans to TCS's existing customers. This is expected to increase convenience for customers by providing them with a one-stop lending shop, help in the retention of TCS's customer base and increase TCS's revenue per customer. The Issuer expects that the addition of these and potentially other lending products, as well as of the widening set of non-lending products and services, will enable TCS to continue to rapidly grow its customer base.

### ***Develop and Deploy Transactional and Payment Products to Acquire New Customers and Increase Retention Rates for Existing Customers***

The technology and experience acquired by TCS in building its high-tech online customer acquisition and service platform helped it to expand into transactional and payment products, which currently include stand-alone debit cards (used primarily for transactional convenience), prepaid cards in partnerships with Yandex.Money and Money@Mail.ru, TCS's own e-wallet to be launched by the end of 2013 and its Internet and mobile applications enabling customers to check their card or deposit balances and carry out payment and transfer transactions. The Issuer intends to support the growth of these transactional and payment products that constitute an important channel for acquiring new customers for TCS and for cross-selling to them its other products, particularly credit cards. These transactional and payment products are also being offered to existing customers of TCS. The Issuer expects that customers with multiple accounts will be more likely to remain with TCS as their preferred provider of retail financial services, helping to boost retention rates for existing customers.

### ***Sell or Cross-Sell Other New Financial and Non-Financial Products***

TCS currently sells insurance products on behalf of four insurance companies and receives commission income relating to these sales. Insurance products sold consist of credit insurance, property insurance, personal accident insurance and travel insurance. The Issuer plans to start selling its own insurance products by the end of 2013 through its recently acquired wholly-owned subsidiary Insurance Company "Moskva" (renamed OOO "Tinkoff Online-Insurance" after the acquisition), which holds an insurance licence but conducted no material insurance operations as of the date of the acquisition (7 August 2013). As well as its own subsidiary's insurance products (property insurance, personal accident insurance, car insurance, travel insurance and credit insurance), TCS will continue to sell third party insurers' products on a commission basis. TCS is also currently testing sales of third-party pension plan products on a commission basis and is piloting an online aggregator portal to distribute air travel tickets, hotel rooms and car rentals through its website.

By cross-selling insurance, pension funds and other new products to its existing customers, the Issuer expects to diversify TCS's revenue streams, increase its revenue per customer and increase its customer retention rates.

### ***Maintain Leadership in Customer Service***

The Issuer believes that high-quality customer service has been a key driver of TCS's rapid growth. Elements of TCS's premium-level service include, among others, simple application processes, streamlined documentation requirements, convenient and free twenty-four hour, seven days a week access to accounts via the Internet, mobile phone and call centres from wherever the customer chooses to be, whether at home, in the office or while travelling; the reach of its "smart courier" service contributing to fast processing of applications and card delivery; free loan repayments or account replenishments through a wide network of partners; and quick and straightforward problem and complaints resolution. The Issuer intends to maintain and further improve each of these components of its customer service in the future.

### ***Continue to Support Its Business Expansion by Using Advanced IT Systems***

TCS operates a low-cost branchless model and seeks to outsource wherever feasible while retaining in-house core functions. The Issuer believes that this complimentary outsourcing strategy allows it to retain focus on and develop its core competences with respect to TCS's main operations, to economise on capital expenditures, to manage workflow during peak and low periods and to maintain a flexible cost base with low fixed expenses.

TCS's in-house IT team develops a significant part of the software used by TCS, including software used in its online customer acquisition and service platform, and TCS employed 46 of its own software programmers as of 30 June 2013. The Issuer believes that this enables TCS to regularly roll-out new products and services to customers or new versions of existing products and services with enhancements. The Issuer intends to increase its technological advantages over traditional Russian banks in the future.

### ***Effectively Manage Credit Risk in Reliance on Sophisticated Data Analysis and Modelling***

As a data-driven organisation, TCS uses a wide range of its own and third-party databases in its loan approval processes and portfolio management and is constantly in search of new sources of relevant data. TCS takes its loan approval decisions based on a range of available information, including credit bureau data and scores, proprietary scoring models (which are frequently updated), a proprietary application verification process and sophisticated NPV models discussed below. As part of its online origination process, TCS uses online data and behavioural profiles extensively, which the Issuer believes gives TCS an edge over competitors in terms of underwriting. It has built an online scoring capability based on IBM Websphere iLog to enhance the speed and efficiency of its decisions. TCS uses sophisticated data analysis and modelling techniques to build NPV models at the acquisition channel or sub-channel level, which enables it to make loan approval decisions taking into account the cost of acquisition, cost of servicing, cost of funding and probability of default. The Issuer will continue to develop credit risk management capabilities and to use increasingly more sophisticated data analysis and modelling to achieve this goal. Credit risk management remains one of the core strengths of TCS and will remain critical to sustaining its competitive advantage in the future.

### ***Further Improve Cost-Efficiency of TCS's Operations***

TCS's high-tech online customer acquisition and service platform allows TCS to have relatively low operating and customer acquisition costs, which tend to decrease further as a proportion of net interest income due to economy of scale effects arising from the rapid growth in the size of TCS's credit card loan portfolio. The absence of an expensive branch network and the beneficial effects of increasing the proportion of customers who have been acquired and are serviced online (resulting, for example, in no or decreased need for paper statements and a smaller number of calls per account) helped to decrease TCS's cost/income ratio from 64.9 per cent. in 2010 to 48.9 per cent. in 2011, 41.5 per cent. in 2012 and 38.5 per cent. in the six months ended 30 June 2013. Among the most recent successful innovations that further increase cost efficiency is TCS's Home Call Centre that commenced operations in 2013. As of 30 June 2013, more than a thousand operators worked in it from home via the Internet, with the cost per outbound call being significantly lower than for TCS's other call centres. The Issuer intends to further increase the cost-efficiency of TCS's operations by placing an even greater emphasis on its Internet banking, mobile banking and Home Call Centre operations in the future and constantly seeking new ways to achieve further reductions in operating and customer acquisition costs.

### ***Strengths***

The Issuer believes that TCS enjoys an exceptional position among retail financial services providers and is transforming the Russian financial services market currently dominated by traditional banks through a combination of the following strengths:

### ***Substantial Growth Opportunities in the Russian Consumer Market and Retail Financial Services***

Russia is a vast country with Europe's largest population at 143.3 million as of 1 January 2013, according to Rosstat. According to the data and forecasts of the IMF, Russia is also one of the fastest growing large global economies. At US\$2,030 million gross domestic product in 2012, Russia was the eighth largest economy in the world. Its average GDP growth of close to 3.8 per cent. per annum since 2009 was ahead of larger developed economies such as the United States or the large EU countries, and the IMF expects Russia to outstrip most developed economies in the period between 2012 and 2015, with real GDP cumulative growth rate of 3.6 per cent. during that period versus 2.8 per cent. for the United States, 1.4 per cent. for the United Kingdom or 1.1 per cent. for Germany. At the same time, according to the IMF, Russia's average income per capita in 2012 was still far below the levels of developed economies, amounting to US\$14,247 per year versus US\$49,922 for the United States or US\$38,589 for the United Kingdom, which implies room for substantial further growth in Russia as development levels converge.



An important factor in Russia's growth has been personal consumption, which grew at an average annual rate of 14.1 per cent. in 2009-2012, and is expected to increase by a further 10.7 per cent. average per annum in 2012-15 as per data and projections from the Economist Intelligence Unit ("EIU"). The Issuer believes that such high level of consumption growth would also drive growing demand for credit from individuals, in turn leading to substantial growth opportunities in the retail lending space. At the same time, the level of adoption of retail financial services in Russia is very low. It lags not only advanced economies such as the United States, the United Kingdom or Germany, but also certain large emerging economies, such as China or Poland in terms of the ratio of retail loans or retail deposits or insurance premiums to GDP. On the other hand, Russia enjoys relatively high levels of adoption of online and mobile technologies, with its 2012 internet penetration of 52 per cent., according to Euromonitor, outstripping China and Brazil, and 2012 mobile phone penetration of 165 per cent. being ahead of virtually all large advanced and emerging global economies, according to the World Cellular Information Service.

The combination of low penetration and vast growth potential in Russia's retail financial services with the country's high level of adoption of online/mobile consumer technology represents a tremendous opportunity for an innovative, IT-driven retail financial services provider such as TCS. Its upside looks particularly attractive in light of its focus on and leadership in one of the most dynamically growing areas of retail financial services—credit card lending—where the number of active credit cards (including plastic cards with overdraft) in circulation is expected to rise by 11.2 per cent. per year in the period from 2012 to 2015 according to the Frank Research Group.

### ***One-of-a-Kind High-Tech Branchless Platform Underpinning Rapid Growth of Operations***

TCS has built an advanced high-tech retail financial services platform that is adapted for the Russian market and operating environment. This platform is entirely branchless, thereby giving TCS a low fixed cost base and high degree of operating flexibility to ramp the business up or slow the business down according to the external environment.

Operating flexibility and reach are further enhanced by TCS's use of direct marketing channels that enable it to attract new customers practically anywhere in Russia. TCS's primary distribution channels are its online (Internet, mobile and telesales), direct mail and direct sales agents channels. The Issuer believes that direct marketing and online customer acquisition platform are one of the most efficient ways to reach new customers in Russia, particularly in underserved parts of the country. TCS also uses "bring a friend" network marketing (a bonus system encouraging existing customers to recommend TCS) and other distribution channels. Commercial partnerships through which TCS acquires new customers include arrangements with, among others, the Russian Federal Post Office, retailers, mail order companies, loyalty programme providers, airlines and insurance companies. This wide range of direct customer acquisition channels enables TCS to attract high volumes of new customers, reach deep into Russia's regions and to tap into new population segments.

The branchless model is a core feature of operations that affords flexibility and allows TCS to attract and service customers virtually anywhere in Russia. TCS's high-volume call centres, its award-winning Internet banking platform and its mobile banking platform enable it to reach customers in substantially all regions, cities and towns of Russia without having to set up branches or sales offices there. TCS also uses third-party electronic payments networks (such as QIWI, the money transfer system CONTACT, the Russian Federal Post Office and international card schemes) for payments and transfers from customers. As a result, TCS is not constrained by the economics of opening a branch in a particular location, while enjoying significantly lower operational costs as compared to traditional banks relying on their branch networks. In addition, TCS can achieve loan portfolio diversification throughout Russia with limited concentration of credit risk in specific large cities or regions. As of 30 June 2013, based on the number of customers, no region of the Russian Federation accounted for more than ten per cent. of TCS's credit card customer base. The Issuer believes that its traditional competitors are unable to attain the same deep reach as TCS in terms of acquiring and servicing customers in all parts of Russia, or offer the same level of service.

The ability to rely on its successful online customer acquisition and service platform helped TCS become one of the fastest growing retail financial businesses in Russia and allowed it to significantly increase its share of the Russian credit card market. According to CBR's data, TCS's market share of the Russian credit card market increased from 2.5 per cent. as of 1 January 2010 to 7.7 per cent. as of 1 July 2013. As of that date, TCS had the third largest credit card loan portfolio in Russia after Sberbank and Russian Standard Bank, up from being the ninth as of 1 January 2010.

### ***Innovative Product and Services Development***

TCS continuously develops and introduces new financial services products to retail customers in Russia. With respect to credit cards, which are its core product, TCS was the first and only bank in Russia to use direct mail as



a key acquisition channel. TCS was among the first to originate new credit cards and attract deposits online in large volumes. Other examples of TCS's innovations being used in connection with its existing products include the "click-to-meet" Internet application allowing delivery of the card within a few days through TCS's in-house "smart courier" network and the only distributed call centre among financial services providers in Russia that processes significant volumes of calls. TCS's Home Call Centre had over a thousand operators working from home as of 30 June 2013.

The Issuer believes that TCS's online platform is capable of supporting additional innovative financial products that TCS regularly brings to the market. In 2012 and the six months ended 30 June 2013, TCS launched a number of such new financial products, including:

- an ALL Airlines rewards programme for the mass affluent segment of the credit card market;
- point-of-sale lending to customers making online purchases through Internet retailers;
- sales of third-party insurance through its website;
- a comprehensive suite of online and mobile payment and transaction services using customers' bank accounts and "virtual" online credit cards in cooperation with Visa and MasterCard;
- prepaid cards in partnerships with Yandex.Money and Money@Mail.ru; and
- the "Bravo" in-house targeted loyalty platform which allows customers to earn reward points that can be redeemed in cash or used for travel- or entertainment-related purchases.

TCS is also actively developing new products such as electronic wallets and has recently acquired an insurance company to enable it to underwrite and sell its own insurance products (see "*Business—Recent Developments*").

In order to develop better products, TCS regularly runs small tests to gauge customer interest and the effect of proposed innovations on its operating results. TCS rolls out only those innovations or products that prove successful in these tests, such as the deposit programme, the online credit card customer acquisition platform or new tariffs that are introduced from time to time. In order to measure the results of these tests and obtain the necessary data for introducing new products or changing the existing ones, TCS uses sophisticated data analysis and modelling.

#### ***Expertise in Data Management, Analysis and Advanced Risk Management Capabilities***

To effectively carry out its key functions, including marketing across different acquisition channels, sourcing of potential customers, potential customer evaluation and selection, credit risk monitoring and management or collections, TCS has built extensive and complex data management and analysis capabilities. It extensively uses its own and third party databases (including databases of credit bureaus, government agencies and marketing partners) in its scoring models, NPV models, portfolio forecast models, provisions forecasting and a variety of other sophisticated analytical tools that are essential for the success of its operations. The Issuer believes that the significant investment and substantial operating experience that would be necessary to replicate these capabilities represent a meaningful competitive advantage and a barrier to new entrants.

TCS considers risk management to be one of its most important core competencies and a differentiating factor vis-a-vis its competitors in retail financial services. TCS uses its own and third-party databases and analytical models to extensively evaluate, appropriately price and effectively control the credit risk of individual customers as well as entire segments of its loan portfolio. Its rigorous loan approval process is based on four pillars—pre-selection of a large proportion of customers, sophisticated use of information from credit bureaus, verification of customer data and low initial credit limits that are increased on a regular basis for non-delinquent customers. TCS runs well-functioning and tested collections programmes, which combine in-house "soft" collections that rely on sophisticated data analysis to appropriately prioritise accounts and determine cost-effective collections strategies, conversion of some credit card debt into personal instalment loans, a "legal" collections programme whereby TCS initiates and conducts numerous court actions remotely through standardised mailed claims and, to a lesser extent, outsourced collections by external collection agencies. TCS sets loan loss provisions conservatively at over 1.6x coverage of 90+ day overdue loans (as of 30 June 2013) and quickly writes off bad loans after 180 to 240 days by selling them to third-party collectors. TCS also applies a conservative approach to its market risk management, taking virtually no positions in financial investments and hedging its key cross-currency exposures.

#### ***Premium-Level Service and Brand***

TCS is unusual among Russian retail financial services providers in offering a premium-level service to mass-market customers, who have been accustomed to receiving poor-quality services from traditional Russian banks.

TCS's customers enjoy convenient 24 hours a day, seven days a week access to their accounts and financial transaction services through the combination of free TCS's Internet, mobile and call centres service platforms. TCS's cards are accepted universally around the world wherever the global MasterCard and Visa networks reach, and offer "platinum" benefits, including discounts at partner merchants or rewards points. TCS maintains a focus on ensuring customer satisfaction through a well-developed complaints resolution programme and by extensively training its call centre staff to offer friendly and helpful service. As of 1 July 2013, TCS had the fourth highest rating among all Russian banks in terms of overall quality and service on the basis of an ongoing survey of users of the website banki.ru.

TCS's brand recognition is very strong due to the high profile persona of its founding shareholder Mr Tinkov, from whose last name the brand originates. The name "Tinkoff" is associated with Mr Tinkov's well-known entrepreneurial activity that has given birth to a number of successful businesses and brands in Russia, including beer, restaurants and frozen foods. TCS's marketing and public relations divisions are highly attuned to the latest consumer and online trends and use new communication channels, including its website ([www.tcsbank.ru](http://www.tcsbank.ru)) and social networks (Livejournal.com, Twitter.com, Facebook.com, Odnoklassniki.ru and V Kontakte.ru) to further enhance TCS's brand recognition. According to Livejournal.com, Mr Tinkov's personal blog is one of the most read Russian blogs, which provides TCS with another popular channel to promote itself. TCS believes that its brand strategy will continue to strengthen its customer acquisition campaigns, particularly as its online customer acquisition platform has become TCS's most significant distribution channel.

### ***Experienced and Dynamic Management and Shareholders Driving Culture of Innovation***

TCS is run by a young and entrepreneurial, yet already highly-experienced management team. Its top management has had previous experience at leading financial, banking and consumer companies in Russia, and most of senior managers have been with TCS since inception, providing a great degree of continuity and stability. TCS has two share-based incentive plans for its managers, which align their interests with those of shareholders in terms of developing and growing the business to create long-term value. The organisational structure of TCS is flat, which, in addition to cost benefits, also encourages fast decision making, quick communications and participation of non-managerial employees in the contribution of ideas. TCS's corporate culture is characterised by strong emphasis on teamwork, clear roles for managers and employees and culture of accountability that does not, however, prevent people from being proactive or willing to experiment.

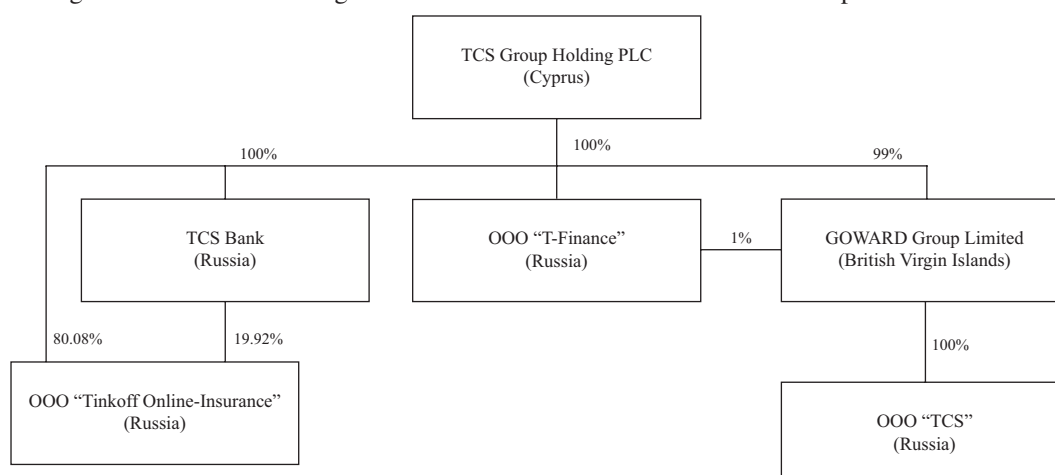
As the founding shareholder, chairman of the Board of Directors and one of the best known Russian entrepreneurs, Mr Tinkov plays, and will continue to play, an important role in driving TCS's dynamic strategic vision and fostering a culture of initiative and innovation, living up to his proven record of developing successful businesses.

### ***Strong Financial Performance***

TCS has produced strong financial results over the last few years, growing net interest income by a cumulative 423.4 per cent. from 2010 to 2012 and by 89.7 per cent. from the six months ended 30 June 2012 to the six months ended 30 June 2013. Net interest margin exceeded 37 per cent. in 2010, 2011, 2012 and the six months ended 30 June and 2013. TCS's cost/income ratio decreased from 64.9 per cent. in 2010 to 41.5 per cent. in 2012 and from 46.4 per cent. in the six months ended 30 June 2012 to 38.5 per cent. in the six months ended 30 June 2013. In large part as a result of net interest income increasing much faster than the sum of administrative and other operating expenses and customer acquisition expenses, net profit increased from US\$9.1 million in 2010 to US\$121.9 million in 2012 and from US\$52.3 million in the six months ended 30 June 2012 to US\$79.3 million in the six months ended 30 June 2013. Return on equity increased from 23.4 per cent. in 2010 to 59.7 per cent. in 2012 and 48.7 per cent. in the six months ended 30 June 2013.

## Ownership and Organisational Structure of TCS

The following chart sets out TCS's organisational structure as of the date of this Prospectus.



TCS Group Holding PLC is a public limited company that was incorporated, and is domiciled, in Cyprus. As of the date of this Prospectus, Mr Tinkov, the chairman of the TCS Bank's board of directors since June 2006; Vostok Nafta; ELQ Investors II Ltd; Baring Vostok; Horizon Capital; and Altruco Trustees Limited, which acts as trustee for the ESOP and the Equity LTIP, were the Issuer's shareholders holding 60.5 per cent. (and 100 per cent. of the Class B Shares), 13.18 per cent., 12.28 per cent., 7.92 per cent., 3.96 per cent. and 2.16 per cent. of the Issuer's issued share capital, respectively.

As of the date of this Prospectus, the Issuer owns 100 per cent. of the share capital of TCS Bank.

OOO "T-Finance" is a Russian limited liability company 100 per cent. owned by the Issuer. OOO "T-Finance" owns certain hardware used in TCS's business.

OOO "TCS" is a Russian limited liability company 100 per cent. indirectly owned by the Issuer. OOO "TCS" was established during the start-up phase of TCS Bank to handle customer acquisition and partner programmes. OOO "TCS" retains many of the contractual relationships with customer acquisition partners. Expenses incurred by OOO "TCS" in the course of customer acquisition process are reimbursed by TCS Bank under a number of service contracts between TCS Bank and OOO "TCS".

GOWARD Group Limited ("GOWARD") was originally incorporated as a special purpose vehicle through which Mr Tinkov indirectly controlled TCS's two operating companies in Russia (OOO "TCS" and OOO "T-Finance"). Once the business of TCS was fully set up and TCS reached the break-even point, TCS's structure was streamlined and control over GOWARD was transferred to the Issuer. As of the date of this Prospectus, GOWARD owned 100 per cent. in OOO "TCS" and was not involved in any other material operations.

OOO "Tinkoff On-Line Insurance" (formerly JSC Insurance Company Moskva) is a Russian limited liability company owned by the Issuer (80.08 per cent.) and TSC Bank (19.92 per cent.). The Issuer intends to utilize this subsidiary to provide insurance services to TCS's customers.

## Principal Business Activities

TCS divides its principal current business activities and activities into which it is aiming to expand in the near future into (i) consumer lending, (ii) transactional and payment services and deposit-taking and (iii) other financial and non-financial activities, such as sales of insurance, pension funds and travel services, that are principally intended for cross-selling to its existing customers or for attracting new customers to whom TCS would be able to cross-sell its core products at a later stage.

### *Consumer Lending: Credit Cards*

TCS provides credit card loans to individuals who are resident in the Russian Federation. TCS offers its own Tinkoff-branded and co-branded credit cards and targets principally the mass market segment (customers with income approximately equal to the average wage in Russia who use credit cards primarily as a loan product, rather than as a payment tool), but also increasingly the mass affluent segment of the market (see "*Business—Principal Business Activities—Consumer Lending: Credit Cards—Tinkoff ALL Airlines credit card—an Airline Rewards Programme for Mass Affluent Segment of the Credit Card Market*").

As of 30 June 2013, TCS received in aggregate 10.5 million credit card applications, of which 7.6 million (72 per cent.) came through online channels (the Internet, mobile and telesales) and 2.9 million (28 per cent.) through offline channels (principally direct mail and direct sales agents), and had issued an aggregate of over 3.5 million credit cards, out of which nearly 2.5 million have been activated. Slightly over 2.0 million credit cards remained active as of the same date. In the six months ended 30 June 2013, TCS issued 710 thousand credit cards, of which 639 thousand (90 per cent.) were issued to customers who submitted their applications through online channels and 71 thousand (10 per cent.) were issued to customers who were acquired through offline channels.

TCS's credit card loans are denominated in roubles. They offer a 55-day grace period, low introductory rates and free repayments through a wide network of partners. The initial credit limit approximately equals the average monthly wage in Russia and does not exceed RUB 120,000 (RUB 200,000 for Tinkoff ALL Airlines credit card) in any circumstances. The average initial limit was approximately RUB 30 thousand in the six months ended 30 June 2013 (up from RUB 27 thousand in 2012, RUB 23 thousand in 2011 and RUB 20 thousand in 2010). This credit limit can be raised for the first time after three successful payments by the customer and then can be increased again up to twice per year depending on the behaviour of the customer, with each new increase offered after six months from the previous credit limit increase. The maximum credit limit cannot exceed RUB 150,000 (RUB 200,000 for Tinkoff ALL Airlines credit card) or four times the customer's monthly salary (whichever is lower).

The following table sets out the breakdown of TCS's limits on issued, activated, utilised and active credit cards as of 31 December 2010, 2011 and 2012 and as of 30 June 2013:

<i>Credit card limits</i> (in thousands of roubles)	<i>As of 31 December</i>			<i>As of 30 June</i>
	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
	<i>(number of borrowers)</i>			
Up to 10 .....	59,638	122,112	260,840	339,709
10-20 .....	134,849	170,326	196,312	195,407
20-30 .....	129,147	225,191	254,379	242,523
30-40 .....	72,396	145,453	209,698	231,358
40-50 .....	37,034	105,793	186,634	204,217
50-60 .....	34,119	70,901	143,124	180,579
60-80 .....	21,921	70,435	210,745	271,643
80-100 .....	11,823	57,847	159,806	190,702
More than 100 .....	850	836	64,926	172,727
<b>Total cards</b> .....	<b>501,777</b>	<b>968,894</b>	<b>1,686,464</b>	<b>2,028,865</b>

As of 30 June 2013, the annual percentage interest rate on credit cards issued by TCS typically ranged between 24.9 per cent. and 45.9 per cent. for purchases and between 32.9 per cent. and 45.9 per cent. for cash advances depending on the tariff plan. Customers also have to pay an annual fee (RUB 590), a cash withdrawal fee (RUB 290 plus 2.9 per cent. of the amount of cash advance), late payment fees, which vary depending on how many payments were missed, SMS fees (RUB 39 to RUB 59), which are charged for receipt of a confirmation of any transaction made utilising a credit card, and penalty interest at a rate of 0.2 per cent. per day for missed payments. TCS's credit cards require a minimum monthly payment of six per cent. (or at least RUB 600) of the outstanding balance. All TCS's credit card loans are unsecured.

TCS Bank has been a principal member of MasterCard International since 2007 and re-launched the issuance of VISA credit cards in December 2012. All of TCS's credit cards are accepted internationally.

TCS's distribution channels are divided into online (with two sub-channels: (i) the Internet and (ii) mobile and telesales) and offline (direct mail, direct sales agents and "bring a friend" programme).

The following table sets out information on the number of credit card applications received by TCS since the commencement of its credit card lending operations and the total number of TCS's credit cards issued, activated, utilised and active as of 31 December 2010, 2011 and 2012 and as of 30 June 2013:

	<i>As of 31 December</i>			<i>As of 30 June</i>
	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
	<i>(in millions)</i>			
Total number of credit card applications received .....	1.8	3.7	7.5	10.5
Total number of credit cards issued .....	0.8	1.6	2.8	3.5
Total number of utilised and active cards .....	0.5	1.0	1.7	2.0

The following table sets out information on the number of credit card applications received by TCS in 2010, 2011, 2012 and the six months ended 30 June 2013 by online and offline distribution channels:

<i>Distribution Channels and Sub-Channels</i>	<i>Year ended 31 December</i>			<i>Six months ended 30 June 2013</i>
	<i>2010</i>	<i>2011</i>	<i>2012</i>	
	<i>(number of applications)</i>			
Online (Internet, mobile and telesales) . . . . .	381,139	1,136,973	3,258,403	2,765,695
Offline (direct mail, direct sales agents and “bring a friend”) . . . . .	568,132	755,908	494,555	210,806

The following table set out information on the number of credit cards issued by TCS in 2010, 2011, 2012 and the six months ended 30 June 2013 by online and offline distribution channels:

<i>Distribution Channels and Sub-Channels</i>	<i>Year ended 31 December</i>			<i>Six months ended 30 June 2013</i>
	<i>2010</i>	<i>2011</i>	<i>2012</i>	
	<i>(number of cards)</i>			
Online (Internet, mobile and telesales) . . . . .	108,531	392,148	920,284	639,389
Offline (direct mail, direct sales agents and “bring a friend”) . . . . .	322,374	359,778	248,254	70,660

The volume of transactions (cash withdrawals and POS operations) made by TCS’s credit card customers amounted to RUB 11,204 million in 2010, RUB 30,080 million in 2011, RUB 64,389 million in 2012 and RUB 44,644 million in the six months ended 30 June 2013.

#### *Tinkoff ALL Airlines credit card—an Airline Rewards Programme for the Mass Affluent Segment of the Credit Card Market*

Tinkoff ALL Airlines credit card is an up-market product that allows cardholders to earn air miles for all purchases that they make with the card. These miles can be redeemed for an air travel ticket on any airline, with no blackout dates, booking fees or restrictions. This programme was introduced in April 2013. As of 30 June 2013, TCS issued approximately 3,500 such cards.

#### *Distribution Channels*

Between the spring of 2007 when it had issued its first credit cards and 2010, TCS relied exclusively on offline distribution channels, primarily direct mail. In 2010, TCS started accepting credit card applications through TCS Bank’s website and, in 2011, it launched its mobile and telesales sub-channel of the online customer acquisition platform. In 2011, online customer acquisition platform became TCS’s principal distribution channel and, in the six months ended 30 June 2013, it accounted for 90 per cent. of all newly issued credit cards.

*Online Customer Acquisition Platform: the Internet.* In mid-2010, TCS Bank redesigned its website to create a new tool for customer acquisition, initially for acquisition of retail deposits only. Subsequently, TCS enabled potential customers to submit credit card applications through the Internet, which allowed it to speed up the processing of such applications, reduce the average cost of new customer acquisitions, target younger customers more effectively and significantly increase the potential for faster growth of its credit card business.

TCS considers customers who submitted a completed application through TCS Bank’s website as customers acquired through the Internet sub-channel of its online customer acquisition platform. Once the full application is received, it can be processed very quickly. TCS is often able to issue preliminary decisions on whether an application is approved or not within two minutes. Verification can be completed in one day and credit card delivery can be made on the next day.

*Online Customer Acquisition Platform: Mobile and Telesales.* TCS considers customers who submitted a completed application through one of TCS’s call centres as customers acquired through the mobile and telesales sub-channel of its online customer acquisition platform. Customers submit applications through a call centre by communicating the details required by TCS to a call centre operator. Similar to the applications submitted through the Internet, applications submitted through TCS’s call centres can be processed very quickly, with customers receiving their cards as early as on the second day after submitting an application.

Customers acquired through TCS’s online customer acquisition platform (Internet, mobile and telesales) on average tend to be younger and have a higher probability of default than customers acquired through offline channels. The Issuer believes, however, that this risk is offset by lower customer acquisition and servicing costs, which generally makes their NPV higher than that of the customers acquired through offline channels.

For the period from 1 January 2013 to 30 June 2013, TCS acquired 90.0 per cent. of its total new credit card customers through its online customer acquisition platform. As of 30 June 2013, TCS acquired 67.3 per cent. of the total number of its credit card customers acquired since 1 January 2010 through this channel. The Issuer believes that TCS is currently the number one online credit card originator in Russia by the number of credit cards issued.



*Direct Sales Agents.* TCS also acquires new credit card customers through direct sales agents using a series of partners. This channel involves TCS distributing application forms via agents who visit worksites and retail locations, targeting candidates according to strict selection criteria laid down by TCS. TCS's employees closely monitor individual agents' marketing activities using a set of daily reports specially created for these purposes. For the period from 1 January 2013 to 30 June 2013, TCS acquired 5.7 per cent. of its total new credit card customers through the direct sales agents channel.

*Direct Mail.* To obtain information about potential customers to whom direct mail offers can be sent, TCS uses third-party databases and distribution lists, which are either "rented" (without TCS having access to personal data of customers on such lists), or supplied as part of partner programmes such as co-brands (including, for example, Mir Knigi, Russia's largest mail order company and book retailer) or commercial partnerships with various retail companies (catalogue operators such as La Redoute, Le Mont) and loyalty programmes. For the period from 1 January 2013 to 30 June 2013, TCS acquired 3.2 per cent. of its total new credit card customers through the direct mail channel.

*Bring a Friend Programme.* TCS also actively markets to its own existing customer base through its "bring a friend" programme, which offers bonuses to existing customers. For the period from 1 January 2013 to 30 June 2013, TCS acquired 1.1 per cent. of its total new credit and customers through the "bring a friend" channel.

#### *Customer Base*

*Regional Distribution.* TCS's high-tech branchless platform gives it universal coverage of the entire country and the ability to address underserved parts of Russia, in which competition and supply of quality financial services are lower and unsatisfied demand and response rates are higher than in Moscow and St. Petersburg, the two largest markets in the country.

The following table sets out the distribution of TCS's credit card loan portfolio in Moscow (which TCS did not target through its direct mail channel but the importance of which began to increase with the launch of the online customer acquisition platform in 2010), St. Petersburg and the rest of Russia by outstanding principal amount (net of provisions for loan impairment, and excluding accrued interest and other deferrals) as of 30 June 2013:

<u>Region</u>	<u>Principal Balance</u> <u>(in billions of roubles)</u>
Moscow .....	6.9
St. Petersburg .....	3.7
Other .....	51.6
<b>Total</b> .....	<b>62.2</b>

The following table sets out the regional distribution (by federal district) of TCS's credit card loan portfolio by outstanding principal amount (net of provisions for loan impairment, and excluding accrued interest and other deferrals) as of 30 June 2013:

<u>Federal District</u>	<u>Principal Balance</u> <u>(in millions of roubles)</u>
Central Federal District (including Moscow) .....	17,625
Siberian Federal District .....	9,874
Volga Federal District .....	9,757
Northwestern Federal District (including St. Petersburg) .....	7,981
Urals Federal District .....	5,799
Southern Federal District .....	5,649
Far Eastern Federal District .....	3,817
North Caucasian Federal District .....	1,651
<b>Total</b> .....	<b>62,153</b>

The Issuer believes that, as of 30 June 2013, approximately 50 per cent. of TCS's customers lived in communities with less than 200,000 inhabitants.

*Gender and Age.* TCS generally issues credit card loans to customers aged between 20 and 55 years.

The following table sets out gender and age breakdown for TCS's credit card customers acquired through the online customer acquisition platform and through the offline channels as of 31 December 2010, 2011 and 2012 and as of 30 June 2013:

<i>Gender and age</i>	<i>As of 31 December</i>			<i>As of 30 June 2013</i>
	<i>2010</i>	<i>2011</i>	<i>2012</i>	
<b><i>Online (Internet, mobile and telesales):</i></b>				
Gender (percentage of male customers) . . . . .	50%	49%	48%	46%
Average age of customers . . . . .	36 years	32 years	36 years	37 years
<b><i>Offline (direct mail, direct sales agents and “bring a friend”)</i></b>				
Gender (percentage of male customers) . . . . .	29%	34%	33%	34%
Average age of customers . . . . .	43 years	39 years	41 years	40 years

The much higher percentage of women as compared to men among TCS customers acquired through the offline channels is principally due to the extensive use of mail order databases, in which women tend to constitute a higher proportion of customers.

**Income.** The following table sets out monthly self-reported income breakdown for TCS's new customers acquired through the online customer acquisition platform (Internet, mobile and telesales) as of 31 December 2010, 2011 and 2012 and as of 30 June 2013:

<u>Monthly income</u>	<u>As of 31 December</u>			<u>As of 30 June 2013</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u> (in %)	
Less than RUB 15,000 .....	12	14	13	9
RUB 15,000 to RUB 30,000 .....	37	41	41	36
RUB 30,000 to RUB 50,000 .....	28	27	28	31
More than RUB 50,000 .....	23	18	18	24
<b>Total</b> .....	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

The following table sets out monthly self-reported income breakdown for TCS's new customers acquired through the offline channels (direct mail, direct sales agents and "bring a friend") as of 31 December 2010, 2011 and 2012 and as of 30 June 2013:

<u>Monthly income</u>	<u>As of 31 December</u>			<u>As of 30 June 2013</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u> (in %)	
Less than RUB 15,000 .....	36	35	31	25
RUB 15,000 to RUB 30,000 .....	42	43	44	44
RUB 30,000 to RUB 50,000 .....	15	15	18	22
More than RUB 50,000 .....	7	7	7	9
<b>Total</b> .....	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

As can be seen from the two tables above, income of customers who obtained TCS's credit cards through online channels (Internet, mobile and telesales) was consistently higher than income of customers who obtained cards through offline channels (direct mail, direct sales agents and "bring a friend") throughout the whole period from 31 December 2010 to 30 June 2013.

#### *Loan Repayment*

The minimum monthly payment on TCS credit cards is six per cent. of the outstanding balance or RUB 600 (whichever is greater). Monthly statements are sent to credit card customers each month by post, SMS and/or e-mail. Customers can also call the call centres free-of-charge at any time to check their balance and receive payment information. While TCS conducts loan servicing and billing internally, the actual mailing of monthly statements is outsourced to a number of third-party firms specialising in mailing services.

TCS loans may be repaid through a variety of channels with a combined total of over 350,000 payment locations, including networks of payment systems and terminal providers, the Russian Federal Post Office, Russian banks, "card-to-card" payments and direct debit arrangements.

**Networks of Payment Systems and Terminals.** Credit card repayments may be made through a variety of online payment systems and payment terminal providers including payment terminal providers "Elecsnet" and "QIWI" and money transfer systems "CONTACT", "Giperkassa", "Gorod", "Platforma" and "Rapida" among others. TCS has agreements with these payment providers which allow credit card loan repayments to be free-of-charge to TCS's customers with TCS bearing these costs. In most cases, TCS's competitors pass this charge directly to their customers. In the six months ended 30 June 2013, approximately 73 per cent. of credit card loan repayments (by value) were made through online payment systems and payment terminals.

*Russian Federal Post Office.* TCS has an agreement with the Russian Federal Post Office that allows TCS's customers to make credit card loan repayments without paying commission at over 40,000 Russian Federal Post Office branches. TCS pays the Russian Federal Post Office a fee for this service. The Issuer estimates that approximately 14 per cent. of loan repayments (by value) in the six months ended 30 June 2013 were made through the Russian Federal Post Office branches.

*Russian Banks.* TCS's customers can pay their credit card bills through branches or Internet banking facilities of any bank in Russia through the national Raschotnye Kassovye Tsentry (RKT) settlements system. This system includes Sberbank, which has the largest branch network in Russia (with approximately 20,000 branches). Russian banks usually charge a small commission to TCS's customers for processing such payments. In the six months ended 30 June 2013, approximately nine per cent. of loan payments (by value) were made through regional branches of Russian banks.

*"Card-to-Card" Payments.* TCS also allows payment of credit card bills through an analogue of direct debit in other markets. The customer instructs TCS to make a debit from a debit card (to which salary is paid, or linked to a savings or current account) or a credit card issued by any other bank. In order to initiate the payment, the customer makes a free call to one of TCS's call centres and provides the number of his or her credit card and the number of the account or card from which payment should be debited. This service is proving increasingly popular and is an important value-added service to customers seeking convenience in their banking relationships.

*Monthly Debit.* TCS allows customers to use salary payment arrangements through their employer whereby the customer's monthly credit card payment is automatically debited from their salary and is transferred to TCS.

### ***Consumer Lending: Other Products***

#### ***E-Commerce Lending***

TCS launched point-of-sale unsecured lending to customers making online purchases through Internet retailers in 2012. TCS has relationships with over 300 such Internet retailers. The portfolio of such loans is still small, amounting to US\$11.7 million as of 30 June 2013. This product is used to target not just existing customers, but also new customers without other accounts with TCS. The primary reason for the launch of TCS's e-commerce lending was to attract new customers to whom TCS's core products (for example, credit cards) or new transactional and payment products (for example, e-wallets) could be cross-sold. The Issuer believes that it is also an important future source of portfolio and revenue growth as the e-commerce segment grows rapidly in Russia.

#### ***Cash Loans***

TCS started making unsecured cash loans to its existing customers in July 2013. Such loans will initially be a defensive measure designed to prevent other banks from offering large cash loans to TCS's best customers and either undermining such customers' creditworthiness by offering loans that are too large for the customers' income levels or using such cash loans as an introduction to other consumer lending products offered by such banks, including credit cards. Cash loans are currently offered to TCS customers without loan products with other banks. The size of the loan depends on the customer's income and his or her behavioural risk score and currently cannot exceed RUB 200,000. The term of cash loans ranges from three to 36 months. If the current cash loans programme is successful, the Issuer intends to roll-out cash loans more widely, potentially including new customers.

### ***Transactional and Savings Products***

TCS's transactional and savings products primarily consists of (i) retail deposits, (ii) stand-alone debit cards (used primarily for transactional convenience and not as a savings product), (iii) prepaid cards being issued in partnerships with Yandex.Money and Money@Mail.ru (the e-wallets of Yandex.Money and Money@Mail.ru the functionality of which is broadened using TCS's physical card) and (iv) TCS's own e-wallets.

#### ***Retail Deposits***

In June 2009, TCS launched its retail deposit programme in three regions (Kemerovo, Chelyabinsk and Perm regions) in cooperation with the Russian Federal Post Office. It then added the Ulyanovsk region to the programme in November 2009. In February 2010, TCS launched a programme to attract retail deposits via the Internet and its call centre in Moscow, St. Petersburg and all other locations in Russia in which TCS either had its own "smart courier" service operating at that time or in which customers could complete verification procedures necessary to open deposit accounts at a branch of the Russian Federal Post Office.

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

TCS's retail deposits have increased significantly from US\$169.5 million as of 31 December 2010 to US\$354.8 million as of 31 December 2011, US\$842.8 million as of 31 December 2012 and US\$939.6 million as of 30 June 2013.

The following table sets out the average deposit amount, the percentage of deposits below the RUB 700,000 threshold, all of which are protected under the Russian mandatory deposit insurance system (as well as the percentage of deposits below the RUB 1,000,000 threshold that is currently being considered by the Russian parliament as a replacement for the RUB 700,000 threshold) as of 30 June 2013, and the average maturity of deposits as of 31 December 2010, 2011 and 2012 and as of 30 June 2013 as well as the average nominal and accrued interest rates in 2010, 2011, 2012 and the six months ended 30 June 2013:

	<i>As of or for the year ended 31 December</i>			<i>As of or for the six months ended 30 June</i>
	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Average deposit amount (in thousands of roubles) .....	360	496	588	552
Percentage of deposits below the RUB 700,000 threshold (in %) .....	74	69	61	60
Percentage of deposits below the RUB 1,000,000 threshold (in %) .....	n/a	n/a	n/a	66.7
Average term (in months) .....	14	15	13	12
Average nominal interest rate (in %) .....	12.4	10.2	9.5	8.8
Average accrued interest rate (in %) .....	13.1	11.7	12.2	11.3

The Issuer believes that there is potential for further growth in the number of its deposit accounts over the next few years.

*Regional Distribution.* The following table sets out the distribution of TCS's deposits in Moscow, St. Petersburg and the rest of Russia as of 30 June 2013:

<i>Region</i>	<i>Principal Balance (in billions of roubles)</i>
Moscow .....	14,772
St. Petersburg .....	3,049
Other .....	8,394
<b>Total</b> .....	<b>26,215</b>

The following table sets out the regional distribution (by federal district) of TCS's deposits as of 30 June 2013:

<i>Federal District</i>	<i>Principal Balance (in millions of roubles)</i>
Central Federal District (including Moscow) .....	18,676
Siberian Federal District .....	737
Volga Federal District .....	1,503
Northwestern Federal District (including St. Petersburg) .....	3,592
Urals Federal District .....	840
Southern Federal District .....	659
Far Eastern Federal District .....	208
North Caucasian Federal District .....	0
<b>Total</b> .....	<b>26,215</b>

*Gender and Age of Customers.* The following table sets out gender and age breakdown of customers who had retail deposits with TCS as of 31 December 2010, 2011 and 2012 and as of 30 June 2013:

	<i>As of 31 December</i>			<i>As of 30 June</i>
<i>Gender and age</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Gender (percentage of male customers) .....	60%	63%	62%	63%
Percentage of customers aged between 25 and 40 years .....	48%	55%	58%	60%

*Distribution.* The main distribution channel for attracting retail deposits is TCS's online customer acquisition platform which is supported by debit card and document delivery using "smart couriers" who are full-time employees of TCS. Necessary requirements for deposit account opening can also be satisfied at the Russian Federal Post Office branches in those locations that currently cannot be reached through TCS's "smart courier" network in almost 600 cities and towns in Russia.

### *Stand-Alone Debit Cards*

TCS introduced stand-alone debit cards (cards not linked with a term deposit) as a separate product under the “Tinkoff black” brand in September 2012. Customers use these debit cards primarily for transactional convenience and not as a savings product, but the Issuer expects to be able to cross-sell its term deposits to at least some holders of such cards. By 30 June 2013, the number of issued “Tinkoff black” debit cards exceeded 143,000 while the number of active accounts was over 50,000.

Customers’ funds deposited into an account linked to the Tinkoff black debit card earn interest at a nominal interest rate of 10 per cent. on the first RUB 300,000 in the account and at a nominal rate of five per cent. on amounts in excess of RUB 300,000. The card has several other attractive features such as one per cent. cash back on all purchases (increasing to 20 per cent. for special-programme partners of TCS or to five per cent. within a specified purchase type list). Free top-up and free cash withdrawals which, in combination with relatively high interest rates on funds deposited in the account, make the Tinkoff black debit card a popular product. TCS charges its Tinkoff debit card customers a monthly fee of RUB 99.

### *Pre-Paid Cards*

TCS issues prepaid cards in partnership with Yandex.Money and Money@Mail.ru. This product is linked to customers’ e-wallet accounts at Yandex.Money or Money@Mail.ru and broadens the existing functionality of these e-wallets by attaching them to a TCS card that allows acceptance globally and usage with offline merchants and ATMs. As of 30 June 2013, TCS issued approximately 135,000 prepaid cards in partnership with Yandex.Money and approximately 1,500 prepaid cars in partnership with Money@Mail.ru.

### *E-Wallet*

In the fourth quarter of 2013, the Issuer expects to launch TCS’s own electronic wallet product that the Issuer believes will add a new revenue stream and serve as an additional customer acquisition channel. TCS is developing its marketing efforts for the e-wallet distribution strategy based on person-to-person money transfers and payments. The sender will not need to know the receiver’s bank or card details. The sender will only need a mobile, e-mail or social network name/number in order to transfer the money. Neither the sender nor the receiver will need to sign an agreement with TCS Bank or visit its office. Instead they use the service either through the mobile or web interface. TCS plans to distribute its e-wallet product among its current customers initially in order to establish an initial customer base for person-to-person transfers. The Issuer expects that the new service enabling customers to send money to anyone will give TCS access to friends and relatives of current customers.

### ***Other New Financial and Non-Financial Products with Significant Cross-Sell Potential***

TCS currently sells insurance products on behalf of four insurance companies (RESO-Garantia, ALICO (MetLifeAlico) Renaissance Insurance and Soglasie) and receives commission income relating to these sales. Insurance products sold consist of credit insurance, property insurance, personal accident insurance and travel insurance. The Issuer currently plans to start selling its own insurance products in 2013 through its recently acquired wholly-owned subsidiary Insurance Company “Moskva” (renamed OOO “Tinkoff Online-Insurance” after the acquisition), which holds an insurance licence but conducted no material insurance operations as of the date of the acquisition (7 August 2013). As well as its own subsidiary’s insurance products (property insurance, personal accident insurance, car insurance, travel insurance and credit insurance), TCS will continue to sell third-party insurers’ products on a commission basis. TCS is also currently testing sales of third-party pension plan products on a commission basis and is piloting an online aggregator portal to distribute air travel tickets, hotel rooms and car rentals through its website.

### ***New Product Development***

In order to develop new products and services, TCS regularly runs small tests to gauge customer interest and the effect of the proposed innovations on its operating results. TCS rolls out only those innovations or products that prove successful in these tests, such as the retail deposit programme, the online customer acquisition platform for its credit card customers, the “smart courier” network or new tariffs that are introduced from time to time.

TCS’s recently introduced products include Tinkoff ALL Airlines credit card, e-commerce lending, cash loans for existing customers, commission sales of insurance, stand-alone Tinkoff black debit cards and prepaid cards in partnership with Yandex.Money and Money@Mail.ru.



## **Customer Service: Call Centres, Internet Banking, Mobile Banking and “Smart Courier” Service**

The Issuer believes that high-quality customer service is crucial for maintaining TCS’s competitive position in the Russian retail financial services market and leads to increased response rates to its product offers and customer retention rates. Since maintaining high-quality customer service is an important part of TCS’s strategy, TCS seeks ongoing improvements in service levels and regularly introduces new, innovative services.

Given TCS’s branchless model, its two call centres (the first call centre opened in 2007 and the second one opened in June 2013) are a core component of TCS’s customer service platform. Both calls centres are located in Moscow, operate 24 hours-a-day, seven days-a-week and were staffed by more than 1,300 employees and managers as of 30 June 2013. Around-the-clock coverage is provided so that all regions of the Russian Federation, which are located in nine time zones, are properly serviced. In addition to providing informational support to prospective and existing customers, call centre operators are also responsible for, among other things, card activation and blocking, updating/ activating additional services, providing balance information and information on payment service providers. The call centres maintain an average call handling time of approximately four minutes, including post-call procedures. The Issuer believes that TCS’s call centres are currently the only financial services call centres in Russia that offer “callback assist” service for customers who would like to be called back rather than wait in a queue. TCS is also currently using voice recognition software whereby customers can instruct the interactive voice response (“IVR”) system by use of voice commands. Approximately five per cent. of calls are monitored for quality control purposes. TCS closely monitors the quality of the call centre staff and motivates all personnel to provide the highest possible level of service through performance-based pay, bonuses and other motivational schemes. The distributed Home Call Centre, which commenced operations in 2013 and had over a thousand operators working from home as of 30 June 2013, is currently primarily focused on customer acquisition, but its role in customer service is also expected to grow in the future. The total number of calls handled by TCS’s call centres (including automated calls) reached 8.0 million outbound calls and 2.2 million inbound calls in June 2013. In addition, TCS also sent out 18.4 million SMS messages and 4.0 million e-mails to its customers in June 2013. TCS’s call centres processing capacity stood at up to 100,000 applications per day in June 2013.

TCS’s Internet banking platform allows customers to manage their accounts online at any time (reducing the number of calls related to account management), relies on paperless statements (reducing the need to print and mail paper statements), allows customers to make payments and transfers, and enables TCS to cross-sell its own and third-party products to customers who use Internet banking. TCS received “Best Internet Bank” award from Global Finance for 2012, reflecting high-quality of services provided to its customers through its Internet banking platform, and its Internet banking also received an award from banki.ru.

Mobile banking was first launched by TCS in 2011 and then re-launched on a new platform (currently available to customers with iPhone, iPad, Blackberry devices and phones using Android and Windows platforms only) in 2013. TCS’s mobile banking platform mirrors the Internet banking platform functionality and all services provided through this platform are free to TCS’s customers.

TCS’s “smart courier” service, which operates in almost 600 cities and towns in Russia and had 828 couriers as of 30 June 2013, provides critical support for the online customer acquisition and service platform and, in particular, constitutes the backbone of TCS’s popular “click-to-meet” service. This service allows a customer to apply for a credit card, debit card or open a deposit account through TCS Bank’s website or by phone. In one or two days after making an application, TCS’s representative (a “smart courier”) will meet the customer at his or her place of choice to sign documents and to deliver the relevant card. Initially, the “smart courier” service was established nationwide specifically for TCS’s online deposits programme. The couriers allowed TCS to satisfy customer identification and other regulatory requirements set by the CBR. The operations of “smart courier” service were then extended to the delivery of credit cards, which allowed TCS to cut the time between card approval and card delivery generally to one or two days, created a foundation for moving credit card acquisitions online and significantly improved the credit card activation rates. The couriers do not accept or handle any cash, all repayments and deposits transactions must be conducted through a variety of channels discussed in “*Business—Principal Business Activities—Consumer Lending: Credit Cards—Loan Repayment*”. TCS’s “smart couriers” collectively had over 6,000 meetings with customers per working day on average in June 2013.

TCS’s customer service team regularly conducts customer satisfaction surveys in order to track customer service levels. TCS is consistently in the top four in the ranking of all Russian banks in terms of overall quality and service on the basis of an ongoing survey of users of the website banki.ru.

### ***Outsourcing of Certain Business Functions***

The Issuer believes that outsourcing helps TCS to retain focus on, and develop its core competences with respect to, TCS’s main operations, to limit capital expenditures and to increase the flexibility of its cost base. TCS

outsources various business functions to third parties wherever feasible. Outsourced functions currently include, among others, loan repayments, physical issuance of credit cards, mailing of monthly payment statements, data centre management and some collections. TCS has built close working relationships with a broad group of trusted service providers and awards service contracts to them through a regular tender process.

TCS retains core functions, including sales and marketing, underwriting, risk management, core IT and data management and financial and portfolio management. Since 2011, TCS outsources some of its call centre functions where feasible and where such outsourcing does not affect the quality of customer service. Outsourcing is thus used for peak load periods, certain marketing campaign-related calls and for less sophisticated services.

## Market Position and Competition

### *Credit Card Lending*

During 2009, as a result of the economic downturn, there was an overall lull in consumer lending in Russia. According to CBR data, between the fourth quarter of 2008 and the beginning of 2010, total outstanding credit card loans in Russia remained largely flat at approximately RUB 180 billion. As the economic situation started to improve in 2010, there was also a revival in consumer lending and total outstanding credit card loans increased to RUB 220 billion by the end of 2010. As of 1 June 2013, the total volume of the Russian banks' credit card loan portfolios amounted to RUB 811.1 billion. According to the CBR, as of 1 January 2013, there were 22.5 million active credit cards in the Russian market (with the total population of Russia equal to 143.3 million as of that date according to Rosstat). The Issuer, therefore, believes that the Russian retail financial services market, and specifically its credit card segment, are at an early stage of development and there is room for significant growth in the coming years. TCS's branchless, remote-service model enables it to tap into this growth potential by offering credit cards and other retail financial services products to Russians in virtually all locations reached by the Internet, mobile phone service or the Russian Federal Post Office branch network, including smaller regional urban centres where, based on the Issuer's experience, traditional banks are not as densely represented, demand for banking services is stronger and response rates to credit card offers are higher. Moreover, the Issuer believes that its online platform allows TCS to effectively market to younger, more affluent and tech-savvy urban Russian customers in major cities who value the ease and convenience of the Internet and mobile banking and online payments.

The Issuer believes that its principal competitors in the credit card market are the consumer lending specialists, such as Russian Standard Bank, Orient Express Bank, Home Credit & Finance Bank, Renaissance Credit and OTP Bank, and retail divisions of the largest state banks and leading universal banks including Sberbank, VTB 24, Rosbank and Alfa-Bank, as well as Svyaznoy Bank, a relatively new market participant that may become a significant player in this market because of its access to the distribution chain of Svyaznoy, the Russian mobile phone and electronics retailer.

Despite TCS's comparatively short track record (it commenced credit card lending in the spring of 2007) and the overall slow-down in consumer lending, including credit card lending, in 2008 and 2009, in the Issuer's view, TCS quickly emerged as one of the leading operators in the Russian credit card market.

The following table sets out market shares, as percentage of the total market, of the ten largest (as of 1 July 2013) Russian credit card issuers based on non-delinquent credit card receivables according to data provided by the CBR:

	<i>As of 1 January</i>				<i>As of 1 July</i>
	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2013</i>
	<i>(in %)</i>				
Sberbank .....	4.3	11.2	17.1	22.2	23.1
Russian Standard Bank .....	29.2	21.7	16.1	15.0	16.0
TCS Bank .....	2.5	4.2	5.8	7.2	7.7
VTB 24 .....	10.0	10.9	9.4	7.2	6.8
Alfa-Bank .....	4.5	4.7	3.7	4.6	5.0
Orient Express Bank .....	0.8	1.4	6.3	6.7	4.5
Svyaznoy Bank .....	0.0	0.1	3.4	4.8	4.0
OTP Bank .....	3.6	5.5	5.2	4.5	4.0
Home Credit & Finance Bank .....	8.6	4.9	3.8	2.9	3.3
Rosbank .....	1.8	2.6	3.0	2.3	2.1

According to CBR's data, TCS's market share of the Russian credit card market increased from 2.5 per cent. as of 1 January 2010 to 4.2 per cent. as of 1 January 2011, 5.8 per cent. as of 1 January 2012, 7.2 per cent. as of 1 January 2013 and 7.7 per cent. as of 1 July 2013. As of 1 July 2013, TCS had the third largest credit card loan portfolio in Russia after Sberbank and Russian Standard Bank, up from being the ninth as of 1 January 2010.

## Retail Deposits

According to the CBR, as of 1 July 2013, the volume of the retail deposits attracted by Russian banks amounted to RUB 15,632 billion as compared to RUB 14,251 billion as of 1 January 2013, RUB 11,853 billion as of 1 January 2012, RUB 9,818 billion as of 1 January 2011 and RUB 7,485 billion as of 1 January 2010. In the retail deposit market, the Issuer believes that TCS's principal competitors are state banks, principally Sberbank, VTB 24 and the Bank of Moscow; privately-owned banks specialising in consumer finance, principally Home Credit & Finance Bank, Russian Standard Bank and Orient Express Bank; large universal banks, principally Raiffeisenbank, Alfa-Bank and Promsvyazbank; and certain other banks including Svyaznoy Bank and regional banks. See also *"Risk Factors—Risks Related to TCS's Business and the Russian Financial Sector—Increased competition in the Russian retail banking market may result in a decrease in TCS's market share and/or profitability"*.

## Employees

As of 30 June 2013, TCS had a total of 5,900 employees (including part-time employees and employees receiving compensation in the form of commission), most of whom were based in Moscow. Of these 5,900 employees, the Issuer considers 453 to be core personnel (top management and employees in IT, operations and administrative functions). The following table sets out information on the breakdown of TCS's personnel by job description as of 31 December 2010, 2011 and 2012 and as of 30 June 2013:

	As of 31 December			As of 30 June 2013
	2010	2011	2012	
Call centres management	—	—	160	205
Other call centres personnel <sup>(1)</sup>	382	561	1,476	1,127
Telemarketing <sup>(2)</sup>	—	—	—	221
Telesales	—	—	—	449
Home Call Centre <sup>(3)</sup>	—	—	—	1,054
Data entry	82	143	455	219
"Smart couriers"	73	171	536	828
Sales agents	—	—	—	168
Verification management	—	—	31	53
Other verification personnel <sup>(4)</sup>	185	240	476	683
Collections management	—	—	58	73
Other collections personnel <sup>(5)</sup>	103	194	270	367
Administrative staff	53	63	89	104
Operations	98	141	133	155
Insurance	—	—	—	4
IT	43	81	133	156
Top managers	15	14	14	14
Other	5	6	11	20
<b>Total</b>	<b>1,039</b>	<b>1,614</b>	<b>3,842</b>	<b>5,900</b>

(1) Includes call centres management as of 31 December 2010 and 2011.

(2) Personnel responsible for agents meetings and for outgoing calls to customers during marketing campaigns.

(3) Operators are paid on a per application basis.

(4) Includes verification management as of 31 December 2010 and 2011.

(5) Includes collections management as of 31 December 2010 and 2011.

TCS's human resources policy is based on the following core principles:

- building up teams of well-educated, adaptable and open-minded specialists and managers;
- effective and dynamic learning system for employees in customer services, underwriting and collection departments;
- efficiency with minimum bureaucracy; and
- team spirit.

For personnel training purposes, TCS runs a number of courses, including those for employees in customer service functions (primarily for the call centres), underwriting, collections and IT departments, as well as special courses for the development of management skills targeted at lower- to mid-level managers. For example, TCS's entry level call centre training consists of one week of introductory training, followed by one week of traineeship and four half-a-day workshops in subjects such as effective communication, sales and time management during the first year of work. Group leaders and junior managers receive four days of training sessions a year.

TCS also has access to external courses aimed at key employees and regularly sends its staff to various professional conferences, training sessions and seminars. TCS's sales course runs for two weeks with follow-up training and development at least twice per year. This course provides an overview of TCS's credit card loan products and sales techniques and procedures.

### **IT Infrastructure**

Given TCS's branchless, data-driven and service-oriented model, information technology plays a critical role in TCS's business and is an integral part of TCS's day-to-day operations.

#### ***Platform, Hardware and Software***

TCS operates a flexible IT platform customised for the credit card and transactional businesses. TCS uses powerful HP servers in combination with Symantec High-Availability Cluster software, VMware virtualisation software and NetApp metro clusters storages that provide a consolidated platform tailored for mission-critical business applications, large-scale databases used for business intelligence purposes, a data warehouse and customer relationship management ("CRM") functions. In May 2013, all IT systems were migrated to a geographically distributed private cloud.

TCS's IT system is based on service-oriented architecture ("SOA") principles and includes Oracle's Siebel for CRM and collections; TSYS CTL Prime and Online for card management and transaction processing; Inversion XXI for core banking, short-term deposits, accounting and CBR reporting, Avaya Call Centre Elite and NICE Perform for call centre management and voice recording; and SAS Banking Intelligent Solution for data warehousing, analytics, marketing campaign management and decision-making support. For the purpose of communications with its customers, TCS uses Web2.0 Portal which is a modern platform that helps to combine content, data and functionality from different underlying systems within customer-centric Internet banking services. In 2012, the analytical banking magazine Global Finance recognised TCS's Internet banking as the top Internet retail banking platform in Russia. Since TCS Bank is the only branchless bank with remote customer service in Russia, the development of remote client services, including mobile banking, is a high-priority area for TCS's IT department. In June 2013, TCS launched a completely new mobile application with advanced consumer functionality such as personal finance management and "Target" loyalty programme. The Issuer believes that new mass technologies such as crowd sourcing will improve the efficiency of existing business processes and has developed a web system ScanDoc for the facilitation of the digitisation of any paper documents (for example, application forms, contracts or bills) by data-entry staff hired through an online labour market. The system can also track the quality of employees' work through the comparison of data entered by individual data-entry staff.

Encouraged by the success and scalability of the ScanDoc system, TCS, in early 2013, applied this approach to build a similar system for the distributed Home Call Centre. As of 30 June 2013, more than a thousand agents worked via the Internet in the Home Call Centre system that is built on open-source software and is separate from the existing call centre facilities.

For integrating IT systems, improving business processes and decision engine and Internet banking, TCS uses IBM Websphere family middleware solutions. The decision engine is built on Business Rule Management Systems ("BRMS") and Operational Decision Manager ("ODM"), which make the development and maintenance of an application that uses business logic more efficient both for developers and for the business users of the applications. With BRMS and ODM, the business logic can be externalised from the traditional code of an application in the form of business rules. For instance, at TCS, the credit scoring strategy is the package of rules that has been designed and maintained by risk managers themselves. TCS built an online scoring capability based on IBM Websphere iLog to enhance the speed and efficiency of its decisions. IBM Lombardi BRMS is used to improve business performance by automating and continuously improving business processes to increase efficiency. IBM ESB helps TCS to enable fast and flexible applications integration with reduced cost and bridging to next-generation interconnectivity that decouples complex integration logic from each application with a central, integration solution eliminating point-to-point connectivity programming.

#### ***Online Customer Acquisition and Service Platform***

TCS's online customer acquisition and service platform operates on virtual VMware's machines over Red Hat Linux and HP commodity hardware that form a parallel grid computing to get the greatest scalability of the online financial services at lower costs. Each node of the grid runs open-source Apache Tomcat application servlet for Java, while web acceleration, load balancing and traffic management between them is provided by an open-source NGINX solution, one of the most popular web servers in the world.

TCS's online customer acquisition and service platform is based on the Backbase Bank 2.0 Portal solution that presents financial content and functionality in a personalised and customer-friendly manner. At the heart of the Bank 2.0 Portal are widgets (such as, among others, filling out an application form, transaction history, feedback and special offers), which are modular mini applications that reuse and combine content and functionality from different underlying systems into a new composite presentation, or the so-called mashup application. Widgets run within the platform, but also can be reused on third-party websites or on mobile devices. TCS uses widgets to create modular and flexible user interfaces.

All online services, products and functionalities of TCS's online customer acquisition and service platform were designed, developed and maintained by TCS's IT Department. For building new functionality, TCS's developers use programming language called Scala.

In order to measure online sales and conversions and get fresh insights into how visitors use TCS's website, how they arrived on TCS's website and how to keep them coming back, TCS uses Google Analytics. In order to determine where visitors are navigating away and identify critical success metrics for online marketing campaigns, TCS uses Adobe Omniture Sitecatalyst.

TCS attaches great importance to the integrity and accessibility of the online data. For these purposes, TCS uses the Oracle Enterprise databases powered by Symantec Veritas HA Clusters for the consistency of financial transactions and NoSQL distributed databases MongoDB for high availability and caching.

### ***Data Centres***

In order to ensure business continuity in case of disruption to IT systems and provide reliable and continuous access to business data and services, TCS'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 more 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 days a week power, cooling, connectivity and security capabilities to protect critical operations and preserve business continuity for IT systems.

TCS uses the Juniper Qfabric System that flattens the entire data centres network to a single tier, in which all access points are equal, eliminating the effects of network locality and making it the convenient network foundation for private cloud, virtualised data centres. Communications between the two data centres and between each data centre and TCS's headquarters take place via a 10 Gbps redundant dark fibre optic network based on Cisco WAN technologies. This enables TCS to provide its services efficiently and reliably and maintain constant availability of IT systems.

### ***Security and Fraud Prevention***

TCS maintains a system of controls designed to keep operational risk at or below acceptable levels. For example, in order to prevent fraud, in March 2012, TCS implemented a new online system (available 24 hours a day, seven days a week) for monitoring suspicious cards activities. This monitoring system allows detection of suspicious transactions, as well as declining such transactions at the authorisation stage.

To manage its corporate data and strengthen information security, TCS uses an information lifecycle management infrastructure. This includes a NetApp FAS6280 series storage systems with the highest availability and proven performance deeply integrated with CommVault Simpana data protection suite to deliver reliable cost-efficient data recovery. This software with object-level capabilities makes it easy to find and restore quickly a single data object rather than an entire system. TCS's IT infrastructure can be modified by adding new modules to increase capacity.

### ***Expansion and Upgrading***

TCS's IT systems can readily be upgraded and expanded to support its growing customer base, the introduction of new products and business volumes due to the combination of following features:

- Elastic private cloud infrastructure based on Vmware virtualisation software running on the top of HP commodity servers' farms and NetApp enterprise storages. Virtualisation environment abstracts the physical infrastructure and makes it available as a soft component that is easy to use and manage. By doing so, virtualisation provides the agility required to speed up TCS's IT operations and reduces cost by increasing TCS's infrastructure utilisation. Each component of the TCS's private cloud infrastructure is readily expandable by adding more capacity. TCS's physical layer is hosted and managed in several data centres with Tier-III facilities. Armed guards, biometric scans, twenty-four-hours a day, seven days a week surveillance, redundant power and cooling and advanced security architecture and layered defences offer the latest in physical and logical security.



- On premises sophisticated core solutions designed for large organisations with complex requirements that include the ability to scale on a global basis, manage end-to-end business processes, integrate into complex legacy environments and manage large volumes of customer-related data. Most of them (for example, Oracle Siebel CRM, SAS Customer Analytics and Campaign Management, SAP BI, DWH Greenplum or IBM Websphere) target multiple industries, able to support global businesses using multiple languages and have robust capabilities for customisation.
- Flexible software-as-a service applications (Salesforce CRM, Exacttarget, Qualsys and Social apps) can instantly meet the demand for more bandwidth than usual or quickly ramp up capacity. Public cloud applications are paid incrementally (pay-as-you-go model), much faster than traditional to deploy and have minimal project implementation costs. This allows TCS to concentrate on innovation in business.

TCS regularly develops and improves the capacity and security of operations of its call centres. TCS uses sophisticated call centre systems including IVR, Open Speech Recogniser (voice recognition software whereby customers can instruct the IVR system by use of voice commands), predictive dialing system, skill-based routing, over-the-phone PIN, call back assist, workforce management and speech analytics tools. In 2013, TCS has started the project of using voice biometrics in the real-time authentication process of its customers, which is the first such project in Russia.

### **Litigation**

There are no governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this Prospectus a significant effect on the financial position or profitability of TCS.

## ASSET, LIABILITY AND RISK MANAGEMENT

The purpose of TCS's asset, liability and risk management ("risk management") strategy is to evaluate, monitor and manage the risks arising from TCS's activities. The main types of risk inherent in TCS's business are credit risk, market risk, which includes foreign currency exchange risk, interest rate risk and liquidity risk. TCS 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**

TCS'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 TCS's risk management organisation consists of the Board of Directors, the Management Board, the Finance Committee, the Credit Committee and the Business Development Committee of TCS Bank.

These bodies perform the following functions:

#### ***Board of Directors***

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

#### ***Management Board***

The Management Board, which, in addition to its Chairman, also includes TCS's Risk Director, Chief Financial Officer, Chief Accountant, Chief Legal Counsel, Chief Operational Officer and Head of Payment Systems, has overall responsibility for TCS'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 TCS's risk management structure. Chairman of the Management Board appoints members of the Finance Committee and Credit Committee.

#### ***Finance Committee***

The purpose of the Finance Committee is to ensure the long-term economic effectiveness and stability of TCS's operations. The Finance Committee establishes TCS's policy with respect to capital adequacy and market risks, including market limits, manages TCS's assets and liabilities, establishes TCS'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 consist of at least five members (currently there are seven members) and the Chairman of the Management Board acts as the Chairman of the Finance Committee. The Finance Committee meets on a weekly basis and makes its decisions by simple majority provided that a quorum of at least half of the members of the Finance Committee is present.

#### ***Credit Committee***

The Credit Committee supervises and manages TCS'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. The Credit 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. The Credit Committee meets when necessary, but not less frequently than once each month, and makes its decision by a simple majority vote of all the members present provided that a quorum of at least half of the members of the Credit Committee is present.

#### ***Business Development Committee***

The Business Development Committee is responsible for the development, design and marketing of TCS's financial products and provides recommendations to TCS's risk management bodies with respect to changes to TCS's lending policies and procedures and the pricing of TCS's loan products. The Business Development

Committee consists of 12 members appointed by the Management Board. The Business Development Committee meets on a weekly basis and makes its decisions by a simple majority provided that a quorum consisting of at least half of the appointed members of the Business Development Committee is present.

### ***Policy Implementation Bodies***

The policy implementation level of TCS'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 CBR's liquidity ratios.

The Finance Department is also responsible for closing international and local transactions in accordance with TCS's limits as approved by the Finance Committee and in compliance with the CBR'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 TCS'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 TCS customers. The Management Board approves TCS'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 CBR regulations. The Internal Control Service is controlled by, and reports to, the Board of Directors.

### ***Management Reporting Systems***

TCS has implemented an online analytical processing management reporting system based on a common SAS data warehouse that is updated on a daily basis. The set of daily reports includes (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 CBR'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 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 TCS's credit card business accompanied by management commentary and analysis and reports on TCS's performance versus budget and operational risk reports.

### ***Credit Risk***

TCS 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 TCS's consumer lending activities.

The general principles of TCS's credit policy are outlined in the Credit Policy approved by the Board of Directors. This document also outlines credit risk controls and monitoring procedures and TCS'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.

TCS 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 (direct mail, direct sales agents and "bring a friend") customer acquisition channels and sub-channels. Such risks are monitored on an ongoing basis and are subject to quarterly or more frequent review with the approval of the Management Board.

TCS uses automated systems to evaluate an applicant's creditworthiness ("scoring"). The system is regularly modified to incorporate past experience and new data acquired on an iterative basis. TCS performs close credit risk monitoring throughout the life of a loan.

### ***Loan Approval Criteria and Procedures***

TCS is primarily focused on reducing incoming credit risk at the acquisition stage. TCS'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 21 to 70 inclusive;
- Possession of a mobile phone;
- Permanent employment for at least three months; and
- Monthly income above five thousand roubles.

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, TCS'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. TCS'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, TCS'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, TCS'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. In the six months ended 30 June 2013, TCS verified approximately 93 per cent. of all approved applications. In the six months ended 30 June 2013, 14.9 per cent. of all completed applications were rejected as a result of the verification exercise described immediately above.
- *Credit Bureaus*—Subject to the prior consent of the applicants, TCS 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 both applicants' credit histories and their credit bureaus scores (primarily, FICO and Equifax scores). Typically, approximately 20 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, TCS 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 TCS'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). In the six months ended 30 June 2013, 23.7 per cent. of all completed applications were rejected on the grounds of suspected fraud as a result of the investigation and analysis described immediately above.

- *Scoring Models for the Application*—TCS 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) credit bureaus scores (primarily, FICO and Equifax scores) and (iv) 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). In the six months ended 30 June 2013, 32.7 per cent. of all completed applications were rejected after the credit score of an applicant obtained through the application of the relevant scoring model turned out to be below the appropriate channel-specific cut-off levels.
- *Application of the NPV Model and Final Decision*—TCS has developed acquisition channel-specific models that, among other things, estimate a potential customer's net present value from one used credit card. The key component of every NPV model is the customer's probability of default, which is calculated using internal scoring models and credit scores provided by the credit bureaus. For potential customers incoming from a particular acquisition channel, and taking into account such customers' probability of default, initial credit limit and tariff plan, the models estimate TCS'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. TCS 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.

TCS also maintains a flexible initial limit allocation system that allows it to reduce or increase the average initial limits in order to manage anticipated loan losses and liquidity.

#### ***Credit Line Management Procedures***

Credit line management procedures for credit card products include 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. TCS's average initial limit amounted to RUB 30 thousand in the six months ended 30 June 2013. The initial limit cannot exceed three monthly salaries of the customer or RUB 120,000, whichever is lower.

##### ***Regular Update of Credit Line***

Once TCS has received at least three minimum payments from a new customer and each six months thereafter, TCS reviews the customer's credit limit. As part of the process, TCS 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, but still cannot exceed the equivalent of four months of the customer's salary or RUB 150,000, whichever is lower. In the six months ended 30 June 2013, there were approximately 143,000 credit line increases per month on average.

##### ***Loan Collection***

TCS 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 TCS's internal Collections Department. Loans that are overdue by more than 90 but less than 180 days are either (i) subject to collection in-house or (ii) outsourced to external collection agencies or (iii) in certain circumstances when it is clear that the first two methods of collections are unlikely to be effective, restructured into instalment loans (which is the option preferred by TCS), transferred to collections through courts or sold to external collection agencies. With respect to loans that are overdue by more than 180 days, TCS's preferred option is the restructuring of credit card debt to personal instalment loans. If customers do not agree to such restructuring, then TCS either continues collection efforts through the courts or sells non-performing loans to collection agencies and writes them off its balance sheet.

TCS's collections methodology is based on customer behaviour and corresponding collection scores that are updated daily. Under this approach, at each initial stage of collections (pre-collections, early collections and "soft" 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 TCS 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 TCS 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 overall effectiveness of TCS's collection services improved slightly between 2010 and 2011. As a result, TCS was able to collect overdue amounts before they became more than 90 days overdue in 93.03 per cent. of cases in 2010 and in 93.40 per cent. of cases in 2011. The overall effectiveness of TCS's collection services decreased to 90.86 per cent. in 2012 and further decreased to 88.40 per cent. in the six months ended 30 June 2013 principally due to the change in customer acquisition channel mix with a higher proportion of customers coming from online channels where the risk is slightly higher. For the six months ended 30 June 2013 this decrease in the effectiveness of collection services was also due to protracted holidays in Russia in January and May.

The monthly delinquency rate (the number of delinquent accounts that were non-delinquent at the end of the previous month) was 11.18 per cent. as of 31 December 2009, 9.33 per cent. as of 31 December 2010, 9.11 per cent. as of 31 December 2011, 10.28 per cent. as of 31 December 2012 and 10.52 per cent. as of 30 June 2013. The decrease in the monthly delinquency rate between 31 December 2009 and 31 December 2011 resulted primarily from the establishment of the pre-collection programme (a set of preparatory measures based on sending an early reminder to all customers) and as a consequence of the better quality of new customers. The increase in the monthly delinquency rate between 31 December 2011 and 30 June 2013 resulted primarily from the change in the customer acquisition channel mix.

TCS'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 NPL levels and provisions might change in the future. The average monthly second payment default rate was equal to 3.61 per cent. in 2010, 5.88 per cent. in 2011, 7.09 per cent. in 2012 and 6.12 in the six months ended 30 June 2013. The Issuer believes that the decrease in the average monthly second payment default rate between 2012 and the six months ended 30 June 2013 as well as within the latter period over time (the monthly second payment default rate reached 5.41 per cent., the lowest level in this period, in June 2013) may indicate that the growth in provisions in 2012 and the six months ended 30 June 2013 could slow down in the future as asset quality (as measured by the monthly second payment default rate) showed signs of improvement during the first half of 2013.

*Pre-Collections (Four Days Prior to Due Date).* TCS 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 call (either autodial or from one of the pre-collections teams), a SMS and/or an e-mail. 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 autodial calls and 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 TCS and external credit bureaus scores) to ensure efficient use of collections resources. When payment becomes more than three days overdue, the customer is sent a written notification of the missed payment.

*"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 31<sup>st</sup> 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 autodial calls and calls by members of the "soft" collections team. TCS'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, TCS 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, but this amount cannot be less than RUB 500. As of 30 June 2013, such loans comprised approximately one per cent. of TCS's credit card loan portfolio.

*Non-Performing Loans Management.* TCS treats as non-performing loans that are 90 days or more past due. Loans that are overdue by more than 90 but less than 180 days are either (i) subject to collection in-house or (ii) outsourced to external collection agencies or (iii) in certain circumstances when it is clear that the first two methods of collections are unlikely to be effective, restructured into instalment loans (which is the option preferred by TCS), transferred to collections through courts or sold to external collection agencies as described below. Outsourcing to collection agencies used to be a significant part of the overall collections process for TCS in the past. Currently, such outsourcing is used primarily to benchmark the effectiveness of the other collection

methods used by TCS and the amount of non-performing loans outsourced for collection to external collection agencies is relatively small. In the six months ended 30 June 2013, the average commission rate charged by such external collection agencies was in the range of 13 per cent. to 24 per cent. of recovered amounts depending on the quality of the portfolio. Overdue loans remain on TCS's balance sheet during this phase unless they are sold to external collection agencies.

When loans are overdue by more than 180 days, TCS collection efforts consists of (i) the restructuring of credit card debt to personal instalment loans, which is the preferred option of TCS 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 collection agencies.

*Conversion of Credit Card Debt to Personal Instalment Loans.* Conversion of credit card debt to personal instalment loans was first introduced by TCS in 2010. This programme is based on regular instalments paid by delinquent customers. After consultations with the delinquent customer, TCS 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 24 months. TCS was able to collect at least 15 per cent. of outstanding indebtedness on 89.6 per cent., 81.6 per cent. and 72.0 per cent. of all accounts converted from credit card debt to personal instalment loans in 2010, 2011 and 2012, respectively. Among all loans overdue by more than 180 days, accounts converted to instalment loans constituted 9.7 per cent., 10.2 per cent. and 11.2 per cent. of the total number of accounts on which TCS achieved recoveries in 2010, 2011 and 2012, respectively. In terms of amounts recovered, accounts converted to instalment loans constituted 11.5 per cent., 13.9 per cent. and 17.3 per cent. of such total amounts in 2010, 2011 and 2012, respectively. Historically (with respect to four quarterly vintages starting in the third quarter of 2009), the instalment loans approach is demonstrated between 60 to 85 per cent. recovery ratio.

*Recoveries through the Courts.* Since the third quarter of 2010, TCS has been more active in submitting and pursuing claims against delinquent borrowers in courts. TCS applies to courts through mailing standardised claims rather than appearing before a court to enforce overdue loans. The Issuer 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 TCS within this time framework. As of 30 June 2013, TCS has filed claims against 61,889 customers whose total indebtedness to TCS amounted to approximately RUB 3,039.5 million. As of the same date, TCS had obtained court orders in relation to approximately 94 per cent. of these claims and collected a significant proportion of the outstanding indebtedness under the relevant loans with the help of the Federal Service of Court Bailiffs of the Russian Federation, which has a relatively higher collection rate as compared to collections through collection agencies. In several locations in Russia, for example in Kazan, the capital of the Republic of Tatarstan, courts are not responsive to claims submitted by TCS. After attempting to resolve problems with such courts and being unable to obtain positive results, TCS stopped sending cases to such courts and had resorted to using other collection strategies in such locations. TCS continues to monitor the situation in such courts and often re-initiates submission of claims in case of significant developments, such as the appointment of a new judge.

TCS received at least one payment on 52.5 per cent., 45.0 per cent. and 29.0 per cent. of all loans overdue by more than 180 days the claims on which were submitted to the courts in 2010, 2011 and 2012, respectively. Accounts on which recoveries were obtained through the courts constituted 3.5 per cent., 14.5 per cent. and 19.9 per cent. of the total number of accounts on which TCS achieved recoveries in 2010, 2011 and 2012, respectively. In terms of amounts recovered, accounts on which recoveries were obtained through the courts constituted 4.3 per cent., 18.3 per cent. and 26.6 per cent. of such total amounts in 2010, 2011 and 2012, respectively. Historically (with respect to four quarterly vintages starting in the first quarter of 2010), the collections through courts approach is demonstrated 45 to 60 per cent. recovery ratio.

*Sales of Non-Performing Loans to Collection Agencies.* Typically, loans delinquent for more than 180 days and not converted into instalment loans or being resolved through claims submitted to the courts are sold to collection agencies. With the growth of non-performing loans in 2012 primarily due to the change in customer acquisition channel mix and, to a lesser extent, due to higher delinquency rates among new customers acquired in March through June 2012, TCS began selling its bad loans again on a significant scale in September 2012 and continued such sales through monthly tender offers in all subsequent months other than January 2013. TCS sold bad loans with a gross amount of US\$49.0 million in the six months ended 30 June 2013 and US\$36.0 million in 2012. The recoveries on such sales amounted to 13.7 per cent. of the gross amount of bad loans sold in the six months ended 30 June 2013 and 14.2 per cent. of the gross amount of bad loans sold in 2012. The difference between the carrying amount of bad debt (usually at zero because loans overdue by more than 180 days are 100 per cent. provisioned) and the consideration received is recorded in profit and loss as gain from sale of bad debts at the settlement date.

Accounts on which recoveries were obtained through sales of non-performing loans to collection agencies constituted 86.9 per cent., 75.3 per cent. and 69.5 per cent. of the total number of accounts on which TCS achieved recoveries in 2010, 2011 and 2012, respectively. In terms of amounts recovered, accounts on which recoveries were obtained through outsourcing collections to external collection agencies or sales of non-performing loans to collection agencies constituted 84.2 per cent., 67.9 per cent. and 56.2 per cent. of such total amounts in 2010, 2011 and 2012, respectively.

**Card Fraud Prevention.** TCS uses a number of fraud-prevention measures, including early warning systems and regular investigations to identify the most common types of fraud. One of the most important tools in combating unsanctioned card use is the sending of SMS messages to customers' mobile phones during the card lifecycle including at card activation, card usage (transactions), card blocking and change of user details. Call centres are also an important source of potential card fraud alerts and information gathered from customers is carefully captured and transferred to the monitoring team.

Following a number of fraud incidents involving compromised payment terminals in 2009 and 2010, TCS strengthened its monitoring system to allow it to react to fraud attacks more quickly and to block compromised terminals. The system now provides several alert reports that are sent to the fraud officers (by SMS and e-mail) and a new upgrade has been added to the online card processing system (TSYS) that allows TCS to block suspicious terminals, acquirers or countries in which fraudsters are active.

### **Provisioning Policy**

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

### **IFRS provisioning**

TCS 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 Issuer 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 Issuer considers as objective evidence of impairment is the overdue status of the loan.

In general, loans with no defaults in loan servicing are considered to be unimpaired. Given the nature of the borrowers and the loans, the Issuer believes, based on past experience, that the time lag between a possible loss event that could lead to impairment and the non-payment or underpayment of a monthly instalment is minimal. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when calculating its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In accordance with internal methodology for the provision estimation, TCS uses all available loss statistics for the whole period of its operations. Starting from 2010, the Issuer 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.

The table below sets out the loan loss provisioning rates that TCS applied for its IFRS financial reporting as of 30 June 2013:

<u>Days Overdue</u>	<u>Provisioning range</u> <u>(in %)</u>
0 (new) .....	0.0
0 .....	1.6
1-30 .....	25.8
31-60 .....	59.1
61-90 .....	79.0
91-120 .....	94.3
121-150 .....	97.2
151-180 .....	99.3
Over 180 .....	100.0

As of 30 June 2013, TCS's provision for impairment of loans and advances to customers as a percentage of gross loans and advances to customers was 10.0 per cent., while non-performing loans and advances to customers totalled US\$130.8 million, and the total ratio of provision for impairment of loans and advances to customers to total non-performing loans and advances to customers was 164.9 per cent.

## CBR Provisioning

For CBR regulatory purposes, TCS currently applies a methodology based on RAS to calculate loan provisioning and determine expected losses. Under CBR 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, TCS 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.

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

<u>Loan classification</u>	<u>Status of loan and loss potential</u>	<u>Provisioning range</u> <u>(in %)</u>
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

Under CBR regulations, as of 30 June 2013, TCS's provisioning was 8.91 per cent. of its gross loans and advances to customers as compared to 7.13 per cent. as of 31 December 2012, 6.09 per cent. as of 31 December 2011 and 7.25 per cent. as of 31 December 2010.

## 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 TCS's balance sheet.

## Market Risk

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

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

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

## Foreign Currency Exchange Risk

TCS suffered from the rouble devaluation in November 2008 to February 2009 and has implemented a "low foreign exchange risk tolerance" policy aiming 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.

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

	<u>As of 30 June 2013</u>				<u>As of 31 December 2012</u>			
	<u>Monetary</u>	<u>Monetary</u>		<u>Net</u>	<u>Monetary</u>	<u>Monetary</u>		<u>Net</u>
	<u>financial</u>	<u>financial</u>	<u>Derivatives</u>	<u>balance</u>	<u>financial</u>	<u>financial</u>	<u>Derivatives</u>	<u>balance</u>
	<u>assets</u>	<u>liabilities</u>		<u>sheet</u>	<u>assets</u>	<u>liabilities</u>		<u>sheet</u>
				<u>position</u>				<u>position</u>
	<i>(in thousands of U.S. dollars)</i>							
Roubles .....	2,053,409	(1,210,381)	(558,332)	284,696	1,713,902	(1,058,138)	(408,802)	246,962
U.S. dollars .....	249,778	(805,079)	590,899	35,598	378,346	(677,106)	308,952	10,192
Euro .....	34,935	(35,424)	—	(489)	33,376	(35,545)	—	(2,169)
Swedish krona .....	8,862	—	(11,266)	(2,404)	171	(81,168)	88,749	7,752
<b>Total .....</b>	<b><u>2,346,984</u></b>	<b><u>(2,050,884)</u></b>	<b><u>21,301</u></b>	<b><u>317,401</u></b>	<b><u>2,125,795</u></b>	<b><u>(1,851,957)</u></b>	<b><u>(11,101)</u></b>	<b><u>262,737</u></b>

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 represents sensitivities of profit and loss and equity to certain possible changes in exchange rates applied at the end of reporting period, with all other variables held constant:

	<i>As of 30 June 2013</i>		<i>As of 31 December 2012</i>	
	<i>Impact on profit or loss</i>	<i>Impact on equity</i>	<i>Impact on profit or loss</i>	<i>Impact on equity</i>
	<i>(in thousands of U.S. dollars)</i>			
U.S. dollar strengthening by 15 per cent. ....	5,340	5,340	1,521	1,521
U.S. dollar weakening by 15 per cent. ....	(5,340)	(5,340)	(1,521)	(1,521)
Euro strengthening by 15 per cent. ....	(73)	(73)	(323)	(323)
Euro weakening by 15 per cent. ....	73	73	323	323
Swedish krona strengthening by 15 per cent. ....	(361)	(361)	1,163	1,163
Swedish krona weakening by 15 per cent. ....	361	361	(1,163)	(1,163)

The exposure was calculated only for monetary balances denominated in currencies other than the rouble, TCS's functional currency.

### **Interest Rate Risk**

TCS'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 significant unexpected movements arise. The Issuer monitors market interest rates on a regular basis and takes decisions on interest rate re-pricing that may be undertaken on its assets.

The table below summarises TCS's exposure to interest rate risks as of 30 June 2013 and 31 December 2012. The table presents the aggregated amounts of TCS's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

	<i>Demand and less than one month</i>	<i>From one to six months</i>	<i>From six to 12 months</i>	<i>From one to three years</i>	<i>More than three years</i>	<i>Total</i>
	<i>(in thousands of U.S. dollars)</i>					
<b>30 June 2013</b>						
Total financial assets .....	580,231	813,170	975,805	—	—	2,369,206
Total financial liabilities .....	(382,473)	(490,561)	(446,897)	(535,337)	(196,537)	(2,051,805)
<b>Net interest sensitivity gap as of 30 June 2013 ...</b>	<b>197,758</b>	<b>322,609</b>	<b>528,908</b>	<b>(535,337)</b>	<b>(196,537)</b>	<b>317,401</b>
<b>31 December 2012</b>						
Total financial assets .....	684,460	655,528	786,633	—	—	2,126,621
Total financial liabilities .....	(276,709)	(507,167)	(357,766)	(599,512)	(122,730)	(1,863,884)
<b>Net interest sensitivity gap as of 31 December 2012 .....</b>	<b>407,751</b>	<b>148,361</b>	<b>428,867</b>	<b>(599,512)</b>	<b>(122,730)</b>	<b>262,737</b>

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

As of 30 June 2013, if interest rates at that date had been 200 basis points lower, with all other variables held constant, profit for the period would have been US\$6.3 million lower. As of 31 December 2012, if interest rates at that date had been 200 basis points lower, with all other variables held constant, profit for the year would have been US\$5.3 million lower.



TCS monitors interest rates for its financial instruments. The table below sets out interest rates for the six months ended 30 June 2013 and for the years ended 31 December 2012, 2011 and 2010 based on reports reviewed by key management personnel:

	Six months ended 30 June 2013				Year ended 31 December											
					2012				2011				2010			
	U.S.		Swedish		U.S.		Swedish		U.S.		Swedish		U.S.			
	Roubles	dollars	Euro	krona	Roubles	dollars	Euro	krona	Roubles	dollars	Euro	krona	Roubles	dollars	Euro	
<b>Assets:</b>																
Cash and cash equivalents	1.0	—	0.5	—	0.5	0.4	—	0.8	1.0	0.4	1.3	0.7	3.1	—	—	
Due from banks	—	—	—	—	—	—	—	—	6.5	—	—	—	—	—	—	
Loans and advances to customers	58.9	—	—	—	60.0	—	—	—	65.2	—	—	—	60.8	—	—	
<b>Liabilities:</b>																
Due to banks	8.0	—	—	—	8.0	—	—	—	—	—	—	—	—	—	—	
Customer accounts	10.4	6.9	3.7	—	10.4	6.0	6.2	—	11.1	6.4	6.6	—	12.4	15.0	13.1	
Debt securities in issue	15.4	11.8	—	—	17.2	12.7	—	18.1	18.7	13.1	—	18.1	20.1	—	—	
Subordinated debt	—	15.0	—	—	—	15.0	—	—	—	—	—	—	—	—	—	
Syndicated loan	—	—	—	—	—	—	—	—	—	—	—	—	16.9	—	—	

### Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. TCS is exposed to daily calls on its available cash resources from unused limits on issued credit cards, other loan products, term retail deposits and current accounts. TCS does not maintain cash resources to meet all of these needs as experience shows that only a certain level of calls will take place and it can be predicted with a high level of certainty. The chief financial officer of TCS Bank (the “CFO”) is principally responsible for the management of TCS’s liquidity risk.

TCS seeks to maintain a stable funding base primarily consisting of retail customer deposits and debt securities to enable funding of credit card receivables and other loan products. Debt securities in issue consist of rouble-denominated domestic bonds with maturities of up to two years and foreign currency-denominated bonds, with foreign currency exchange risk managed and ideally with maturities of three years or more.

TCS keeps all available cash in diversified portfolios of liquid instruments, such as a correspondent account with the CBR and overnight placements in high-rated commercial banks, in order to be able to respond quickly to unforeseen liquidity requirements. The Issuer 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 Issuer believes that TCS has a proven ability to control loan portfolio cash flows to maintain levels of liquidity reflecting changing market realities. The Issuer 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 TCS 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.

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

TCS Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR, based on stand-alone RAS information of TCS Bank, which is substantially different from TCS’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. This ratio was equal to 131.29 as of 30 June 2013 as compared to 160.92 per cent. as of 31 December 2012, 286.7 per cent. as of 31 December 2011 and 88.5 per cent. as of 31 December 2010. The minimum statutory ratio permitted by the CBR is 15 per cent.
- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. This ratio was equal to 82.67 as of 30 June 2013 as compared to 143.45 per cent. as of 31 December 2012, 323.9 per cent. as of 31 December 2011 and 145.7 per cent. as 31 December 2010. The minimum statutory ratio permitted by the CBR is 15 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. This ratio was equal to 8.87 as of 30 June 2013 as compared to 0.09 per cent. as of 31 December 2012 and 0 per cent. as of 31 December 2011 and 2010. The maximum statutory ratio permitted by the CBR is 120 per cent.

For purposes of managing TCS's liquidity risk, the CFO regularly receives extensive information about the liquidity profile of the financial assets and liabilities. Monitoring of TCS'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 Issuer 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 CBR 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 CBR and overnight deposits with banks, to ensure that sufficient liquidity is maintained within TCS as a whole.

TCS'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.

The following table sets up TCS's financial liabilities as of 30 June 2013 by their remaining contractual maturity. The amounts 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.

	<i>Demand and less than one month</i>	<i>From one to three months</i>	<i>From three to six months</i>	<i>From six to 12 months</i>	<i>More than one year</i>	<i>Total</i>
	<i>(in thousands of U.S. dollars)</i>					
<b>Liabilities</b>						
Due to banks	—	16,722	—	—	—	16,722
Customer accounts	295,141	270,563	151,882	210,000	98,878	1,026,464
Debt securities in issue	86,448	34,577	57,856	354,274	561,272	1,094,427
Subordinated debt	—	—	14,102	14,102	312,715	340,919
Financial derivatives	921	—	—	—	—	921
Other financial liabilities	52,362	—	—	—	—	52,362
Unused limits on credit card loans	1,000,370	—	—	—	—	1,000,370
<b>Total potential future payments for financial obligations</b>	<b>1,435,242</b>	<b>321,862</b>	<b>223,840</b>	<b>578,376</b>	<b>972,865</b>	<b>3,532,185</b>

The maturity analysis of TCS's financial liabilities as of 31 December 2012 is as follows:

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

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 following table sets out the expected maturity analysis of TCS's financial assets and liabilities as of 30 June 2013:

	<i>Demand and less than one month</i>	<i>From one to three months</i>	<i>From three to six months</i>	<i>From six to 12 months</i>	<i>From one to three years</i>	<i>More than three years</i>	<i>Total</i>
	<i>(in thousands of U.S. dollars)</i>						
<b>Assets</b>							
Cash and cash equivalents	279,908	—	—	—	—	—	279,908
Mandatory cash balances with the CBR	27,424	—	—	—	—	—	27,424
Loans and advances to customers	162,634	325,268	487,902	975,805	—	—	1,951,609
Financial derivatives	22,222	—	—	—	—	—	22,222
Guarantee deposits with payment systems	48,196	—	—	—	—	—	48,196
Other financial assets	39,847	—	—	—	—	—	39,847
<b>Total financial assets</b>	<b>580,231</b>	<b>325,268</b>	<b>487,902</b>	<b>975,805</b>	<b>—</b>	<b>—</b>	<b>2,369,206</b>
<b>Liabilities</b>							
Due to banks	—	16,602	—	—	—	—	16,602
Customer accounts	278,951	251,569	149,540	206,364	90,869	—	977,293
Debt securities in issue	50,239	31,947	39,086	240,533	444,468	—	806,273
Financial derivatives	921	—	—	—	—	—	921
Subordinated debt	—	—	1,817	—	—	196,537	198,354
Other financial liabilities	52,362	—	—	—	—	—	52,362
<b>Total financial liabilities</b>	<b>382,473</b>	<b>300,118</b>	<b>190,443</b>	<b>446,897</b>	<b>535,337</b>	<b>196,537</b>	<b>2,051,805</b>
<b>Net liquidity gap as of 30 June 2013</b>	<b>197,758</b>	<b>25,150</b>	<b>297,459</b>	<b>528,908</b>	<b>(535,337)</b>	<b>(196,537)</b>	<b>317,401</b>
<b>Cumulative liquidity gap as of 30 June 2013</b>	<b>197,758</b>	<b>222,908</b>	<b>520,367</b>	<b>1,049,275</b>	<b>513,938</b>	<b>317,401</b>	

The following table sets out the expected maturity analysis of TCS's financial assets and liabilities as of 31 December 2012:

	<i>Demand and less than one month</i>	<i>From one to three months</i>	<i>From three to six months</i>	<i>From six to 12 months</i>	<i>From one to five years</i>	<i>Total</i>
	<i>(in thousands of U.S. dollars)</i>					
<b>Assets</b>						
Cash and cash equivalents	457,382	—	—	—	—	457,382
Mandatory cash balances with the CBR	22,560	—	—	—	—	22,560
Loans and advances to customers	131,105	262,211	393,317	786,633	—	1,573,266
Financial derivatives	826	—	—	—	—	826
Guarantee deposits with payment systems	33,592	—	—	—	—	33,592
Other financial assets	38,995	—	—	—	—	38,995
<b>Total financial assets</b>	<b>684,460</b>	<b>262,211</b>	<b>393,317</b>	<b>786,633</b>	<b>—</b>	<b>2,126,621</b>
<b>Liabilities</b>						
Due to banks	—	—	—	16,930	—	16,930
Customer accounts	178,432	267,124	198,249	162,471	71,870	878,146
Debt securities in issue	8,497	6,651	14,467	186,488	546,311	762,414
Financial derivatives	11,927	—	—	—	—	11,927
Subordinated debt	—	—	1,167	—	122,730	123,897
Other financial liabilities	70,570	—	—	—	—	70,570
<b>Total financial liabilities</b>	<b>269,426</b>	<b>273,775</b>	<b>213,883</b>	<b>365,889</b>	<b>740,911</b>	<b>1,863,884</b>
<b>Net liquidity gap as of 31 December 2012</b>	<b>415,034</b>	<b>(11,564)</b>	<b>179,434</b>	<b>420,744</b>	<b>(740,911)</b>	<b>262,737</b>
<b>Cumulative liquidity gap as of 31 December 2012</b>	<b>415,034</b>	<b>403,470</b>	<b>582,904</b>	<b>1,003,648</b>	<b>262,737</b>	

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 reporting period.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of TCS. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and 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 TCS.

### Operational Risk

TCS is exposed to operational risk which is the risk of losses resulting from inadequate management and control procedures, fraud, poor business decisions, system errors relating to employee mistakes and abuse by employees of their positions, technical failures, settlement errors, natural disasters and misuse of TCS's property.

TCS has established internal control systems intended to comply with Basel guidelines and the CBR's requirements regarding operational risk. The Board of Directors adopts general risk management policy, assesses the efficiency of risk management, approves TCS's management structure, adopts measures designed to ensure continuous business activities of TCS 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 TCS including relevant internal policies, adopts internal regulations on TCS'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 TCS personnel track all problems TCS 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 or issues are recorded in incident log. In order to minimise operational risk, TCS strives to regularly improve its business processes and its organisational structure as well as incentivise its staff.

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

TCS 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, TCS'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, TCS 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 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 CBR promulgated a number of anti-money laundering regulations specifically for the banking sector.

TCS has adopted internal regulations on anti-money laundering that are based on, and are in full compliance with, the requirements of the Russian anti-money laundering regulations, related instructions of the CBR and international standards. The supervision of the Russian anti-money laundering regime is shared by the CBR and the FSFMT. See "*Banking Regulation in Russia—The Anti-Money Laundering Law*".

TCS has created a specialised unit and appointed an authorised officer who coordinates activities aimed at preventing money laundering and terrorism financing. TCS 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 TCS have to take mandatory training on TCS'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 TCS's Internal Control Service. External control is provided by the CBR and, within an annual audit, by a statutory auditor.

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



## MANAGEMENT

### The Issuer

#### Board of Directors

As at the date of this Prospectus, the membership of the board of directors of the Issuer is as set out below.

<u>Name</u>	<u>Date of birth</u>	<u>Current positions</u>	<u>Since</u>
Oleg Tinkov .....	25/12/1967	Director and Chairman	2013
Constantinos Economides .....	22/08/1975	Director	2008
Alexios Ioannides .....	12/02/1977	Director	2008
Maria (Mary) Trimithiotou .....	23/01/1978	Director	2012
Philippe Delpal .....	08/11/1972	Non-executive Director and Member of the Audit Committee and the Remuneration Committee	2013
Jacques Der Megreditchian .....	22/10/1959	Independent Non-executive Director and Chairman of the Remuneration Committee	2013
Martin Cocker .....	19/09/1959	Independent Non-executive Director, Chairman of the Audit Committee and Member of the Remuneration Committee	2013

The biographies of the members of the board of directors of the Issuer, as at the date of this Prospectus, are set out below. Unless otherwise indicated, members of the board of directors of the Issuer do not hold positions with companies outside of TCS.

*Oleg Tinkov* (age 45) has been the Chairman of the board of directors of the Issuer since October 2013 and has been the Chairman of the Board of Directors since June 2006. Mr Tinkov previously owned and operated a number of businesses which were not related to the banking sector, including “Tinkoff Beer”, “Tinkoff Restaurants” and “Daria”. Mr Tinkov studied at the Leningrad Mining Institute, Russia and the University of California, Berkeley, USA.

*Constantinos Economides* (age 38) has been a director of the Issuer since November 2008. Mr Economides has also been the managing director of Orangefield Fidelico Ltd since October 2006. Mr Economides previously worked as an audit manager with both Deloitte Ltd in Cyprus from February 2003 to August 2006 and Ernst & Young in the United Kingdom from August 1999 to December 2002. Mr Economides is a member of the Association of Chartered Accountants in England and Wales (the “ACA”), a member of the Institute of Chartered Accountants in England and Wales (the “ICAEW”) and holds a bachelor of science (honours) degree from Warwick Business School, United Kingdom.

*Alexios Ioannides* (age 36) has been a director of the Issuer since November 2008. Mr Ioannides has also been a director of Epsilou Management Services Limited since May 2013 and a director of Axept Ltd since June 2008. Mr Ioannides is a member of the ACA, the ICAEW and the Institute of Certified Public Accountants of Cyprus, and holds a bachelor of science degree in business administration from the University of Alabama, USA.

*Maria (Mary) Trimithiotou* (age 35) has been a director of the Issuer since May 2012. Mrs Trimithiotou previously worked for Deloitte Ltd holding the position of audit manager from October 2001 to February 2009 and, subsequently, moved to Orangefield Fidelico Ltd as deputy director in 2009 and was promoted to director in 2012. Mrs Trimithiotou is a Fellow Chartered Certified Accountant and a member of the Association of Chartered Certified Accountants.

*Philippe Delpal* (age 40) has been a non-executive director and a member of the Audit Committee and the Remuneration Committee of the Issuer since October 2013. Mr Delpal has also been a member of the board of directors of First Collection Bureau since October 2013, a member of the board of directors of CB Europlan since April 2012, an industry partner for financial services at Baring Vostok Capital Partners since January 2012, a member of the board of directors of Komercijalna Banka, Serbia since April 2011, a member of the board of directors and of the remuneration, management, engagement and audit committees of Blackrock Emerging Europe plc since January 2012, a member of the board of directors of Beta Epsilon SAS since July 2011, a member of the board of directors and of the audit and remuneration committees of HMS Hydraulic Machines and Systems PLC since December 2010 and a member of the board of directors and chairman of the audit committee of Orient Express Bank OJSC since June 2010. Mr Delpal was previously a member of the board of directors of Sencillo SAS from March 2011 to August 2012, AJ Prospect Capital Ltd from December 2010 to March 2013, Arval OOO from January 2008 to March 2010, chairman of the board of directors for BNP Paribas Vostock Bank from October 2007 to March 2010 and chief operating officer of Cetelem in Russia from October 2006 to March 2010. Mr Delpal holds a degree in information technology, telecoms and economics from the Telecom Paris University, France.

*Jacques Der Megreditchian* (age 53) has been an independent non-executive director and Chairman of the Remuneration Committee of the Issuer since October 2013. Mr Der Megreditchian has also been a member of the board of directors and chairman of the Strategic Planning Committee since May 2011, and a member of the Remuneration Committee of the Moscow Exchange since August 2012, and a member of the board of directors of the Russian National Association of Stock Market Participants since May 2006. Mr Der Megreditchian was chief business officer of Troika Dialog from July 2009 to September 2011, chairman of the board of directors of RTS from October 2004 to May 2011, a member of the management board from April 2010 to March 2013 and co-chair from October 2010 to March 2013 of the Commission on Financial Industry of the Russian Union of Industrialists and Entrepreneurs and head of Global Markets and Investment Banking at Troika Dialog from January 2008 to June 2009. 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.

*Martin Cocker* (age 54) has been an independent non-executive director, Chairman of the Audit Committee and a member of the Remuneration Committee of the Issuer since October 2013. Mr Cocker has also been an independent non-executive director, chair of the audit committee and member of the nomination committee at Etalon Group Limited since October 2010, an independent non-executive director, chair of the audit committee and member of the remuneration committee for the Northumberland Tyne and Wear National Health Service Foundation Trust since January 2012 and a independent non-executive director, chair of the remuneration committee and member of the audit committee of EFKO Foods PLC since October 2011. Mr Cocker was previously a partner with Ernst & Young in Moscow, Russia from January 1996 to November 1998 and with Deloitte & Touche CIS Limited from January 2004 to October 2007 in Almaty, Kazakhstan and St Petersburg, Russia. Mr Cocker is a member of the ICAEW and holds a bachelor of science (joint honours) degree in mathematics and economics from the University of Keele, United Kingdom.

### ***Corporate Governance***

As the Class A Shares are not listed on the Cyprus Stock Exchange, the Cypriot corporate governance regime, which only relates to companies that are listed on the Cyprus Stock Exchange, does not apply to the Issuer and, accordingly, the Issuer does not monitor its compliance with that regime. TCS complies with the corporate governance requirements applicable to Russian companies. While the Issuer has not adopted corporate governance measures of the same standard as those adopted by publicly listed companies in the United Kingdom or the United States, the Issuer has implemented corporate governance measures under which it has appointed two independent non-executive directors, four executive directors, one non-executive director, and has established two committees of the board of directors, as described below.

### ***Committees of the Board of Directors***

The Issuer has established two committees of the Issuer's board of directors: the Audit Committee and the Remuneration Committee. A brief description of the planned terms of reference of the committees is set out below.

The Audit Committee assists the board of directors in its oversight of the integrity of the financial statements of the Issuer, the Issuer's systems of internal control, including financial, operational, and compliance systems, the Issuer's compliance with legal and regulatory requirements, of the independence and qualifications of the independent auditor, and of the performance of the Issuer's internal audit function and independent auditors. The Audit Committee is chaired by an independent non-executive director, Martin Cocker; and also consists of a non-executive director, Philippe Delpal.

The Remuneration Committee is responsible for determining and reviewing, among other matters, the remuneration of the executive directors and the Issuer's remuneration policies. The Remuneration Committee is chaired by an independent non-executive director, Jacques Der Megreditchian; and also consists of an independent non-executive director, Martin Cocker, and a non-executive director, Philippe Delpal.

For details of the procedures for appointment and removal of directors of the Issuer, see "*Description of Share Capital—Articles of Association—Appointment, rotation and removal of Directors*".

### ***TCS Bank***

The current structure of corporate governance at TCS Bank is described below.

### ***Governance Bodies***

In accordance with Russian legislation on joint stock companies, banking activities and TCS Bank's charter (the "**Charter**"), the principal governance bodies of TCS Bank are the following:

- the General Shareholders' Meeting;
- the Board of Directors;
- the Management Board; and
- the Chairman of the Management Board.

### *General Shareholders' Meeting*

The General Shareholders' Meeting is the highest governance body of TCS Bank. The General Shareholders' Meeting decides on the most significant matters of TCS Bank's activities including any liquidation or reorganisation. An annual General Shareholders' Meeting must be held every year. Extraordinary General Shareholders' Meetings can be convened upon the request of the Board of Directors, the audit committee or shareholder(s) holding not less than 10 per cent. of the voting shares of TCS Bank.

The following matters, among others, are referred to the competence of the General Shareholders' Meeting:

- alteration of the Charter;
- increase and reduction of the charter capital;
- liquidation and reorganisation;
- formation and early termination of the Board of Directors;
- approval of distribution of dividends;
- approval of annual statutory accounts and reports; and
- approval of certain major and interested party transactions.

The Federal Law No 208-FZ "On Joint Stock Companies" dated 26 December 1995 (the "**JSC Law**") contains requirements with respect to interested party transactions. An "interested party transaction" is a transaction with an "interested party", which is defined as a member of the board of directors of the company, a person performing functions of the sole executive body (including a managing company or a manager, which performs functions of the sole executive body of the company under a contract), a member of the collective executive body of the company or a shareholder, who owns, together with any of its affiliates, at least 20 per cent. of the company's voting shares, or any person able to issue binding instructions to the company, if any of the abovementioned persons, or any of these persons spouses, close relatives, adoptive parents or children or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20 per cent. of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- holds offices in any management body of the company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

The JSC Law defines a "major transaction" as a transaction, or a series of transactions, involving the acquisition or disposal, or the possibility of disposal of property with the value of 25 per cent. or more of the balance sheet value of the assets of the company as determined under RAS as of the latest reporting date, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement by subscription (sale) of ordinary shares, or placement of securities convertible into ordinary shares. Major transactions involving assets ranging from 25 per cent. to 50 per cent. of the book value of the company's assets, as determined according to its financial statement for the latest reporting date, require unanimous approval by all members of the board of directors or, in the absence of such approval, a simple majority vote of a general shareholders' meeting. Major transactions involving assets in excess of 50 per cent. of the balance sheet value of the assets of the company require a three-quarters majority vote of a general shareholders' meeting. The approval of a major transaction is not required if a company has only one shareholder that simultaneously performs the functions of the sole executive body of the company. Any major transaction entered into in breach of the above requirements may be invalidated by a court following an action by the company or any of its shareholders.

### *Board of Directors*

The Board of Directors carries out general management (except for matters referred by law and the Charter to the exclusive competence of the General Shareholders' Meeting) including determination of priorities, election of the Chairman of the Management Board and members of the Management Board and approval of certain major and interested party transactions. The Board of Directors must include at least five members. Members of the Board of Directors are elected by the General Shareholders' Meeting until the following annual General Shareholders' Meeting. The Board of Directors is headed by the Chairman elected by its members. The Board of Directors adopts decisions by a simple majority unless otherwise specified by law or the Charter. The Board of Directors is authorised to decide on the matters of its competence if at least half of its members participate in the meeting.

### *Management Board and Chairman of the Management Board*

The Management Board and the Chairman of the Management Board as a whole are responsible for the day-to-day operations of TCS Bank. The Management Board is authorised to decide on the matters other than referred to the competence of the other governance bodies of TCS Bank. As mentioned above, the Management Board is elected by the Board of Directors. Members of the Management Board serve for a period set by the Board of Directors. The Management Board adopts decisions by a simple majority. The Management Board is authorised to decide on the matters of its competence if at least half of its members participate in the meeting. The Chairman of the Management Board represents TCS Bank and acts as its chief executive officer. As mentioned above, the Chairman of the Management Board is elected by the Board of Directors.

As at the date of this Prospectus, the membership of the Board of Directors is set out below.

<u>Name</u>	<u>Date of birth</u>	<u>Current positions</u>	<u>Since</u>
Oleg Tinkov .....	25/12/1967	Member of the Board of Directors and Chairman	2006
Oliver Hughes .....	27/06/1970	Member of the Board of Directors, Chairman of the Management Board and member of the Credit Committee and the Finance Committee	2013
Sergey Pirogov .....	05/03/1971	Member of the Board of Directors, Head of Corporate Finance	2011
Vadim Stasovsky .....	11/07/1971	Member of the Board of Directors	2006
Konstantin Aristarkhov .....	13/09/1974	Member of the Board of Directors and member of the Credit Committee	2006
Svetlana Ustilovskaya .....	22/02/1966	Independent Director and Chairman of the Audit Committee	2013

The biographies of the Board of Directors, as at the date of this Prospectus, are set out below:

*Oleg Tinkov.* See “*Management—The Issuer—Board of Directors*” above.

*Oliver Hughes* (age 43) has been a member of the Board of Directors since June 2013 and Chairman of the Management Board, the Credit Committee and the Finance Committee of TCS Bank, respectively, since November 2011. Mr Hughes has also been a non-executive director of Elecsnet since February 2008. Mr Hughes was previously President of TCS Bank from July 2011 to November 2011, sole director of Maitland Commercial Inc. from March 2008 to August 2011 and vice-president and head of the representative office in Russia of Visa International (CEMEA) and a member of Visa Russia’s board of directors from June 2004 to April 2007. Mr Hughes completed an accelerated development programme at London Business School, United Kingdom and holds a masters degree in science from City University, United Kingdom, a master of arts degree from Leeds University, United Kingdom and a bachelor of arts (honours) degree from the University of Sussex, United Kingdom.

*Sergey Pirogov* (age 42) has been a member of the Board of Directors since May 2011 and the Head of Corporate Finance of TCS Bank since January 2010. Mr Pirogov previously held the position of director of corporate finance at Citigroup from July 2008 to December 2010. Mr Pirogov holds a degree in international business from the Moscow State Institute for International Relations and holds a masters in business administration (“MBA”) from Darden Graduate School of Business, University of Virginia, USA.

*Vadim Stasovsky* (age 42) has been a member of the Board of Directors since June 2006 and Chief Financial Controller of TCS Bank since February 2007. Mr Stasovsky has also been the sole general director of IC Moscow since August 2013, the sole director of Tasos Invest & Finance Inc. since April 2013, the sole director of Larkpark Services Inc. since April 2013, the sole director of Beckett Group Limited since May 2011 and the sole director of Williams Technologies Inc. since November 2011. Mr Stasovsky was previously the general director of OOO Tinkoff-Invest from February 2005 to December 2007 and a member of the board of directors of OOO Tinkoff Private Breweries from October 2004 to September 2006. Mr Stasovsky holds an economics degree from the St Petersburg University of Cinematography and Television, Russia and an MBA from the International School of Management LETI-Lovanium, Russia.

*Konstantin Aristarkhov* (age 39) has been a member of the Board of Directors since September 2006, a member of the Credit Committee of TCS Bank since January 2011 and Head of Collections Department of TCS Bank since October 2006. Mr Aristarkhov was previously chief executive officer at KonstaCorp Investments from January 2001 to June 2006 and an investment executive at Thomas F. White & Co. from December 1998 to December 2000. Mr Aristarkhov holds a bachelors degree in science from the University of Maryland, USA and an MBA from the Far-Eastern State University, Russia.

*Svetlana Ustilovskaya* (age 47) has been an Independent Director and Chairman of the Audit Committee of TCS Bank since January 2013. Mrs Ustilovskaya was previously a vice-president and head of the Analysis &



Restructuring Division of MDM Bank from September 2009 to April 2011, prior to which she was a partner and head of the M&A Transaction Support Department in Russia at Deloitte & Touche CIS Limited from September 2005 until May 2009. Mrs Ustilovskaya holds a masters degree in international business from the Moscow State University, Russia and a degree in English and French from the Moscow State Pedagogical University, Russia.

### ***Management Board and Senior Management***

As at the date of this Prospectus, the senior management, by function, of TCS Bank is as set out below.

<u>Name</u>	<u>Date of birth</u>	<u>Current positions</u>	<u>Since</u>
Oliver Hughes	27/06/1970	Chairman of the Management Board and member of the Board of Directors, the Credit Committee and the Finance Committee	2011
Sergey Pirogov	05/03/1971	Head of Corporate Finance and member of the Board of Directors	2010
Ilya Pisemsky	26/05/1975	Deputy Chairman of the Management Board, Chief Financial Officer, Deputy Chairman of the Finance Committee and member of the Credit Committee	2010
Dmitry Kobzar	05/08/1979	Deputy Chairman of the Management Board and Chief Legal Counsel	2010
Natalia Izyumova	26/12/1962	Member of the Management Board, Chief Accountant, member of the Finance Committee and the Credit Committee	2011
Evgeny Ivashkevich	02/08/1970	Deputy Chairman of the Management Board and Deputy Chairman of the Credit Committee	2012
Stanislav Bliznyuk	30/06/1980	Deputy Chairman of the Management Board and Chief Operation Officer	2012
Anatoly Makeshin	31/05/1972	Member of the Management Board, Payment Systems Director and Vice President	2012
Artem Yamanov	06/07/1981	Business Development Director, Senior Vice President and member of the Finance Committee	2010
Viacheslav Tsyganov	15/08/1975	Chief Information Officer	2007
Vadim Stasovsky	11/07/1971	Chief Financial Controller	2007
Konstantin Aristarkhov	13/09/1974	Head of Collections Department	2006
Tatiana Kuznetsova	07/12/1968	Head of Human Resources	2006

The biographies of the senior management of TCS, as at the date of this Prospectus, are set out below to the extent that they are not members of the Board of Directors, whose biographies are set out above.

Unless otherwise indicated, senior managers of TCS do not hold positions with companies outside of TCS.

*Ilya Pisemsky* (age 38) has been Deputy Chairman of the Finance Committee of TCS Bank since November 2011, a member of the Credit Committee of TCS Bank since November 2011, Deputy Chairman of the Management Board since April 2010 and Chief Financial Officer of TCS Bank since June 2008. Mr Pisemsky was previously head of Internal Audit and deputy chief financial officer of Bank Soyuz from September 2004 to June 2008 and a manager at Ernst & Young CIS from August 2002 to September 2003. Mr Pisemsky holds a degree in finance and credit from the Finance Academy under the Government of the Russian Federation, Russia and an MBA from the F.W. Olin Business School at Babson College, USA.

*Dmitry Kobzar* (age 34) has been a member of the Management Board since April 2010 and has held the position of Chief Legal Counsel since November 2008. Mr Kobzar was previously a member of the management board and head of legal in City Mortgage Bank (Morgan Stanley Group) from September 2006 to October 2008 and head of legal at International Joint-Stock Bank from September 2003 to September 2006. Mr Kobzar holds a degree in law and a PhD degree in law from the Moscow State University, Russia.

*Natalia Izyumova* (age 50) has been a member of the Management Board since February 2011, a member of the Finance Committee and the Credit Committee of TCS Bank since April 2011 and Chief Accountant of TCS Bank since February 2011. Mrs Izyumova was previously a member of the bank management board, chief accountant and a member of the finance and credit committees of CJSC Bank Sovetsky from September 2009 to January 2011 and chief financial officer, deputy chairman of the bank management committee and a member of the finance and credit committees at Bank Dvizheniye from September 2007 to September 2009. Mrs Izyumova holds a degree in economics from the Lomonosov Moscow State University, Russia and a PhD in economics from the Research Institute of Economy, Russia.



*Stanislav Bliznyuk* (age 33) has been Deputy Chairman of the Management Board since June 2012 and Chief Operation Officer since December 2011. Mr Bliznyuk was previously the Head of Technologies at TCS Bank between December 2006 and June 2012. Mr Bliznyuk holds a degree in mathematics and applied mathematics from the Moscow State University, Russia.

*Evgeny Ivashkevich* (age 43) has been Deputy Chairman of the Management Board since December 2011, Deputy Chairman of the Credit Committee of TCS Bank since November 2011 and Risk Director of TCS Bank since July 2007. Mr Ivashkevich holds a degree in physics from the Moscow Institute of Physics and Technology, Russia and a PhD in theoretical physics from the Joint Institute for Nuclear Research (Dubna), Russia.

*Anatoly Makeshin* (age 41) has been a member of the Management Board since September 2012 and Payment Systems Director and Vice President of TCS Bank from January 2010. Mr Makeshin was previously Head of Payment Systems for TCS Bank from December 2006 to January 2010. Mr Makeshin holds a science degree from the Moscow Power Engineering Institute (Technical University), Russia and a PhD in technical science from the Russian Academy of State Service, Russia.

*Artem Yamanov* (age 32) has been the Business Development Director and Senior Vice President since January 2010 and a member of the Finance Committee of TCS Bank since November 2011. Mr Yamanov was previously the Head of Products at TCS Bank from December 2006 to January 2010. Mr Yamanov holds a masters degree in applied physics & mathematics from the Moscow Institute of Physics and Technology, Russia.

*Viacheslav Tsyganov* (age 38) has been the Chief Information Officer at TCS Bank since February 2009. Mr Tsyganov was previously Head of IT Architecture and Development at TCS Bank from July 2007 to February 2009. Mr Tsyganov holds masters degree in computer science from Southwest State University, Russia.

*Tatiana Kuznetsova* (age 44) has been a Vice President since August 2013 and the Head of Human Resources of TCS Bank since December 2006. Mrs Kuznetsova was previously head of human resources of “MODUL Group” (trade and construction companies) from October 2001 to January 2006 and in the audit-consulting group (business systems development) at the Royal Bank of Scotland from January to September 2006. Mrs Kuznetsova holds a masters degree in psychology from the Moscow State University, Russia.

#### ***Interests of TCS’s Board of Directors and Senior Managers in the ESOP and the Equity LTIP***

In 2011, the Issuer introduced two long-term employee incentive plans as an incentive and retention tool for key managers: (i) a cash-settled share-based payment plan for key management of TCS which was further reviewed in September 2012 and transformed into the ESOP, an equity-settled compensation plan; and (ii) a long-term incentive plan for key and middle management of TCS (other than those covered by the ESOP) (the “**LTIP**”).

The current share capital which has vested in and is attributable to the ESOP is 3,382,725 Class A Shares (amounting to 70 per cent. of the number of Class A Shares to be issued to the ESOP) which constitutes 1.98 per cent. of the Issuer’s share capital as at the date of this Prospectus. A proportion of the Class A Shares currently attributable to the ESOP will form part of the Offering. The Class A Shares attributable to the ESOP described above are held by Altruco Trustees Limited as trustee on the basis of a trust deed entered into with the Issuer. The remaining 30 per cent. of the number of Class A Shares to be issued to the ESOP at nominal value are scheduled to be issued in June 2014 ahead of vesting on 30 June 2014. For more information, see “*Principal and Selling Shareholders*”.

The interests of the key managers under the ESOP (who comprise Oliver Hughes, Sergey Pirogov, Konstantin Aristarkhov, Artem Yamanov, Stanislav Bliznyuk, Ilya Pisemsky and Evgeniy Ivashkevich) amount to 3,382,725 Class A Shares in the Issuer’s share capital as of the date of this Prospectus.

The following table sets out the shareholdings of the ESOP immediately preceding and after the Offering.

<b>Name of offeror</b>	<i>Immediately preceding the Offering</i>		<i>After the Offering</i>	
	<i>Number of shares beneficially held</i>	<i>% of share capital</i>	<i>Number of shares beneficially held</i>	<i>% of share capital</i>
ESOP .....	3,382,725	1.98	2,168,886	1.20

Following a review of the terms of the LTIP in early 2013, the Issuer decided to amend the LTIP. The Issuer passed a resolution on 30 September 2013 changing the conditional entitlements of participants of the LTIP from cash-settled share-based compensation to equity-settled share-based compensation. The board of directors of the Issuer was authorised to issue such number of ordinary shares out of the authorised share capital of the Issuer at par or at such premium, and on such terms of issue, as deemed fit up to a maximum number of such ordinary

shares representing one per cent. of the current issued share capital of the Issuer on a fully diluted basis. The Equity LTIP was made retroactively effective from 1 July 2013.

As of the date of this Prospectus, 29 participants in the Equity LTIP are collectively entitled to 0.73 per cent. of the Issuer's share capital. On or prior to the date of this Prospectus, the Issuer will issue 310,000 Class A Shares, representing a portion of this entitlement, to Altruco Trustees Limited as trustee for the Equity LTIP. Altruco Trustees Limited will sell all of these Class A Shares in the form of GDRs in the Offering, with the proceeds of such sale transferred to the 29 participants in the Equity LTIP in accordance with their individual entitlements.

The timing and process for the issuance of Class A Shares with respect to the remaining (post-Offering) entitlement of the 29 participants in the Equity LTIP has not yet been determined, but the maximum dilution based on the current entitlement will be limited to 0.73 per cent. of the Issuer's share capital minus the 310,000 Class A Shares issued to Altruco Trustees Limited as discussed in the previous paragraph.

As mentioned above, the board of directors of the Issuer is currently authorised to issue Class A Shares to the Equity LTIP with the maximum number of such shares to be issued not to exceed one per cent. of the current issued share capital of the Issuer on a fully diluted basis.

In addition to the key managers listed above, Mr Tinkov, chairman of the Board of Directors, is the principal beneficial shareholder of the Issuer as at the date of this Prospectus (please refer to "*Principal and Selling Shareholders*").

Save as disclosed above, none of the directors or senior managers hold any interest in the Issuer's share capital.

There are no potential conflicts of interest between the duties of the directors of the Issuer and key managers of TCS towards the Issuer and their private interests and/or other duties.

#### ***Litigation Statement about Directors and Senior Managers***

At the date of this Prospectus, none of the Issuer's directors or senior managers has in the previous five years:

- had any convictions in relation to fraudulent offences;
- has been a member of the administrative, management or supervisory bodies of any company, or been a partner in any partnership, at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to official public incrimination or sanction by a statutory or regulatory authority (including a professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

#### ***Compensation of Directors and Senior Managers***

The aggregate amount of compensation paid by TCS to its key management personnel (including the directors of the Issuer) for their services to TCS for the six months ended 30 June 2013 and for the years ended 31 December 2012, 2011 and 2010 was US\$12,855 thousand, US\$20,758 thousand, US\$12,027 thousand and US\$7,738 thousand, respectively. There are no amounts set aside or accrued by the Issuer or its subsidiaries to provide pension, retirement or similar benefits to such persons.

No director or senior manager is a party to any service contract with TCS where such contract provides for benefits upon termination of employment.

## PRINCIPAL AND SELLING SHAREHOLDERS

As at the date of this Prospectus, the Issuer had issued a total of 79,044,396 Class A Shares with a par value of US\$0.04 per share and 92,144,679 Class B Shares with a par value of US\$0.04 per share. All of the Class B Shares are indirectly held by Mr Tinkov. The Issuer, in the primary portion of the Offering, will issue a further 10,000,000 Class A Shares.

The table below sets out certain information regarding the legal shareholding structure of the Issuer as at the date of this Prospectus and a table and discussion on beneficial ownership is shown below. The information on the Class A Shares and Class B Shares is also set out, unless stated otherwise, as at the date after the completion of the Offering.

The following table sets forth shareholders of the Issuer as of the date of this Prospectus.

	Prior to the Offering			After the Offering (assuming no exercise of the Over-allotment Option)				After the Offering (assuming the Over-allotment Option is exercised in full)			
	Total Class A and Class B Shares	Total % of issued share capital	Total number of Class A Shares being offered	Total Class A Shares	Total Class B Shares	Total % of votes at a General Meeting	Total % of issued share capital	Total Class A Shares	Total Class B Shares	Total % of votes at a General Meeting	Total % of issued share capital
Tadek Holding & Finance S.A. <sup>(1)</sup>	93,008,525	54.33	863,922	0	92,144,603	91.19	50.86	0	92,144,603	91.19	50.86
Tasos Invest & Finance Inc. <sup>(1)</sup>	10,564,650	6.17	10,564,649	0	1	< 0.01	< 0.01	0	1	< 0.01	< 0.01
Maitland Commercial Inc. <sup>(1)</sup>	25	< 0.01	0	0	25	< 0.01	< 0.01	0	25	< 0.01	< 0.01
Vizer Limited <sup>(1)</sup>	25	< 0.01	0	0	25	< 0.01	< 0.01	0	25	< 0.01	< 0.01
Norman Legal S.A. <sup>(1)</sup>	25	< 0.01	0	0	25	< 0.01	< 0.01	0	25	< 0.01	< 0.01
Altruco Trustees Limited <sup>(2)</sup>											
as trustee for the ESOP	3,382,725	1.98	1,213,839	2,168,886	0	0.21	1.20	2,168,886	0	0.21	1.20
as trustee for the Equity LTIP	310,000	0.18	310,000	0	0	—	—	0	0	—	—
Vostok Komi (Cyprus) Limited <sup>(3)</sup>	22,566,675	13.18	13,824,381	8,742,294	0	0.87	4.82	2,388,866	0	0.24	1.32
ELQ Investors II Ltd <sup>(4)</sup>	21,024,700	12.28	12,879,764	8,144,936	0	0.81	4.50	8,144,936	0	0.81	4.50
Rousse Nominees Limited <sup>(5)</sup>	13,554,550	7.92	8,303,539	5,251,011	0	0.52	2.90	3,275,440	0	0.32	1.81
Lorimer Ventures Limited <sup>(6)</sup>	6,777,175	3.96	4,151,708	2,625,467	0	0.26	1.45	1,637,696	0	0.16	0.90
Other holders	—	—	—	62,111,802	0	6.15	34.28	71,428,572	0	7.07	39.42
Total	171,189,075	100.00	52,111,802	89,044,396	92,144,679	100.00	100.00	89,044,396	92,144,679	100.00	100.00

- (1) Mr Tinkov indirectly owns 60.5 per cent. of the issued share capital of the Issuer prior to the Offering, 50.86% post-Offering and 100% of the Class B Shares by way of indirect holding of 100 per cent. shares in Tadek Holding & Finance S.A., Tasos Invest & Finance Inc., Maitland Commercial Inc., Vizer Limited and Norman Legal S.A. (together, the legal holders of all of the Class B Shares in the Issuer).
- (2) Altruco Trustees Limited is a trustee acting on the basis of a trust deed in respect of the ESOP for certain key managers of TCS and a trust deed in respect of the Equity LTIP for certain key and middle managers of TCS. See “*Management—TCS Bank—Interests of TCS’s Board of Directors and Senior Managers in the ESOP and the Equity LTIP*”.
- (3) Vostok Komi (Cyprus) Limited is wholly-owned by Vostok Nafta.
- (4) ELQ Investors II Ltd is wholly-owned by The Goldman Sachs Group, Inc.
- (5) Rousse Nominees Limited is a nominee company which holds the beneficial interest in its shares in the Issuer on trust for the limited partnerships comprising Baring Vostok Private Equity Fund IV (Baring Vostok Private Equity Fund IV, L.P., Baring Vostok Fund IV Co-Investment, L.P.1 and Baring Vostok Fund IV Co-Investment, L.P.2).
- (6) Lorimer Ventures Limited is wholly-owned by Emerging Europe Growth Fund II, L.P., which is managed by its general partner Horizon Capital GP II, LLC.

Except for the additional rights attached to Class B Shares, none of the shareholders of the Issuer have any rights different from any other holders.

For a description of the voting rights attached to the Class A Shares and Class B Shares, see “*Description of Share Capital—Articles of Association—Rights of shareholders*”.

On 22 October 2013, Tasos Invest & Finance Inc., Tadek Holding & Finance S.A., Maitland Commercial Inc., Norman Legal S.A. and Vizer Limited (the “**Majority Shareholders**”) and ELQ Investors II Ltd, Vostok Komi (Cyprus) Limited, Rousse Nominees Limited and Lorimer Ventures Limited (the “**Minority Shareholders**”) entered into a shareholders’ agreement (the “**Shareholders’ Agreement**”).

The Shareholders’ Agreement contains provisions that require the Majority Shareholders to vote against certain matters unless a majority of the Minority Shareholders (which may constitute only 10 per cent. of the share capital of the Issuer) provide them with a notice that they approve of such matters. These matters include, among others, the entry by TCS Bank into any corporate reconstruction, merger, amalgamation, acquisition, sale, transfer or disposition (in one or a series of related transactions) of any assets, the aggregate valuation or consideration of which exceed 20 per cent. of the Issuer’s market capitalisation. As a result, it is possible that the Minority Shareholders may effectively veto any of these actions even in circumstances where the majority of shareholders would approve them.

The shareholders named above (except for Altruco Trustees Limited) have entered into a Shareholders Agreement pursuant to which they agree to vote their shares in a prescribed manner in certain circumstances. For further information, see “*General Information—11. Shareholders Agreement*”.

The Relationship Agreement (as defined in “*General Information—9. TCS Material Contracts—9.1 Relationship Agreement*”) includes a non-competition agreement with the Majority Shareholders, Mr Tinkov and their

affiliates. Originally, the Majority Shareholders' non-competition obligations covered only TCS's credit card business and other banking operations. TCS's shareholders and management decided that TCS could successfully develop insurance and certain other retail financial products and services in conjunction with TCS's credit card and banking business. As a result, Mr Tinkov and the Majority Shareholders agreed to broaden the scope of the non-competition and trademark licensing obligations to include insurance and certain other products in return for payments to Mr Tinkov of two per cent. of the Issuer's audited net income subject to an overall cumulative cap for all such annual payments of US\$20 million. The first payment to Mr Tinkov in the amount of RUB 76.6 million (equivalent to US\$2.4 million at 16 May 2013 exchange rate) was made in May 2013. This agreement was later formalised in the Relationship Agreement covering non-competition obligations of the Majority Shareholders, Mr Tinkov and their affiliates. For more information, see "*General Information—9. TCS Material Contracts—9.1 Relationship Agreement*".

## RELATED PARTY TRANSACTIONS

IAS 24 “Related Party Transactions” contains a definition of related parties, which are, broadly, parties under common control or one party controlling the other party or capable of exercise of 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 following describes transactions that the Issuer has entered into with related parties as defined in IAS 24 “Related Party Disclosures”.

In addition, TCS and other Russian subsidiaries of the Issuer are required to comply with applicable Russian law with respect to related party transactions. During the periods covered by the Financial Statements and to the date of this Prospectus, TCS has entered into a number of transactions with related parties. See Note 31 of the Annual Financial Statements and Note 22 of the Unaudited Interim Financial Statements. The following related party transactions are considered to be significant by TCS.

The following table sets forth the outstanding balances with related parties as of 30 June 2013, 31 December 2012, 2011 and 2010:

	<i>As of 30 June</i>		<i>As of 31 December</i>					
	<i>2013</i>		<i>2012</i>		<i>2011</i>		<i>2010</i>	
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Key management personnel</i>	<i>Other related parties</i>
	<i>(in thousands of U.S. dollars)</i>							
<b>ASSETS</b>								
Gross amounts of loans and advances to customers <sup>(1)</sup> . . . . .	77	—	55	—	56	—	43	—
Impairment provisions for loans and advances to customers . . . . .	—	—	—	—	—	—	—	—
<b>LIABILITIES</b>								
Customer accounts <sup>(2)</sup> . . . . .	6,040	35,307	2,079	34,632	1,992	6,528	1,235	2,766
Debt securities in issue . . . . .	—	—	66	—	52	—	—	—
Syndicated loan <sup>(3)</sup> . . . . .	—	—	—	—	—	—	—	8,445
Liability under LTIP (2011: ESOP and LTIP) . . . . .	3,309	—	1,931	—	3,433	—	—	—

(1) Contractual interest rate: 20.0 per cent. per annum in each of the years ended 31 December 2010, 31 December 2011 and 31 December 2012.

(2) Contractual interest rate: 15 per cent. per annum in each of the years ended 31 December 2010, 31 December 2011 and 31 December 2012.

(3) Contractual interest rate: 20.5 per cent. per annum in the year ended 31 December 2010.

The following table sets forth the income and expense items associated with the Issuer’s related parties for the six months ended 30 June 2013 and for the years ended 31 December 2012, 2011 and 2010:

	<i>Six months ended</i>		<i>Year ended of 31 December</i>					
	<i>30 June</i>		<i>2012</i>		<i>2011</i>		<i>2010</i>	
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Key management personnel</i>	<i>Other related parties</i>
	<i>(In thousands of U.S. dollars)</i>							
Interest income . . . . .	4	—	9	—	7	—	37	—
Interest expense . . . . .	(305)	(2,201)	(448)	(4,972)	(106)	(1,225)	(21)	(1,596)
Gains less losses from operations in foreign currencies . . . . .	—	(2,490)	—	(1,204)	—	84	—	3,226

Other related parties in the tables above are mainly entities which are under the control of Mr Tinkov, the Issuer’s principal shareholder.

In 2011, the Issuer introduced two long-term employee incentive plans as incentive and retention tool for key managers: the ESOP and the LTIP, as described in more detail in section “*Management*”. Both plans were established as incentive and retention tool for the management. Following a review of the terms of the LTIP in early 2013, the Issuer decided to amend the LTIP. The Issuer passed a resolution on 30 September 2013 changing the conditional entitlements of participants of the LTIP from cash-settled share-based compensation to equity-settled share-based compensation. For more information on this change, see “*Management—TCS Bank—Interests of TCS’s Board of Directors and Senior Management in the ESOP and the Equity LTIP*”.

In the first half of 2013 and in the years 2012, 2011 and 2010, the total remuneration of key management amounted to US\$7.6 million, US\$20.8 million, US\$12 million and US\$7.7 million, respectively.



For information on the non-competition agreement with the Majority Shareholders, Mr Tinkov and their affiliates, the first payment related to this agreement made in May 2013 and future payments related to this agreement, see *“Principal and Selling Shareholders”*.

Under the terms of a deed of indemnity between the Issuer, the Selling Shareholders, Maitland Commercial Inc., Norman Legal S.A. and Vizer Limited (collectively, the **“Pre-IPO Shareholders”**), the Issuer has agreed to either (i) indemnify each of the Pre-IPO Shareholders for their respective losses caused by (x) any amendment to or termination of the engagement letter between the Issuer and the Depositary (the **“Engagement Letter”**), (y) a failure by the Issuer to take any action which it is required to take under the terms of the Engagement Letter in order for the Depositary to waive any of its GDR issuance and cancellation fees in respect of transactions by the Pre-IPO Shareholders or (z) a failure by the Depositary to waive any of the GDR issuance and cancellation fees the Depositary agreed to waive in respect of transactions by the Pre-IPO Shareholders in the Engagement Letter; or (ii) instruct reputable legal counsel and commence litigation or other dispute resolution procedures (a **“Claim”**) against the Depositary related to its failure to waive any of the GDR issuance and cancellation fees which the Depositary agreed to waive in respect of transactions by the Pre-IPO Shareholders in the Engagement Letter. If the Issuer brings a Claim against the Depositary, its aggregate liability to the relevant Pre-IPO Shareholders will not exceed the amount of any moneys recovered by the Issuer from the Depositary in connection with such Claim less all costs, charges and expenses (including legal fees) incurred by the Issuer in connection with preparing for and/or bringing the Claim against the Depositary.

The Pre-IPO Shareholders have agreed to indemnify the Issuer for all costs, charges and expenses (including legal fees) incurred by the Issuer in connection with preparing for and/or bringing any Claim against the Depositary related to its failure to waive any of the GDR issuance and cancellation fees which the Depositary agreed to waive in respect of transactions by the Pre-IPO Shareholders in the Engagement Letter.

## THE BANKING SECTOR IN RUSSIA

### The Russian Economy

Russia is one of the world's top 10 largest economies, with GDP in 2012 of US\$2,030 billion, according to EIU, giving it the eighth spot overall globally, ahead of countries such as Italy, India and Canada (based on nominal GDP comparison). It was also the largest economy in Central and Eastern Europe as well as the CIS. In addition, Russia boasts Europe's largest population that was at 143 million as of 2012, which is considerably more than the next largest European populations of 82 million in Germany, 75 million in Turkey and 63 million in both the UK and France, according to EIU. Russia also has enjoyed dynamic rates of real GDP growth of 3.4 per cent. in 2012 and 4.3 per cent. in 2011, ahead of most developed Western economies, and also its BRIC peer nation Brazil, which grew by 0.9 per cent. in 2012 and 2.7 per cent. in 2011. It has also shown very high rates of growth of personal incomes at 4.6 per cent. in 2012 and 1.9 per cent. in 2011. This high growth is partly explained by the convergence of Russia's still low per capita GDP and per capita personal income levels in comparison to advanced economies. For instance, in 2012, Russia's per capita GDP was US\$14,210, while in the US, Germany and UK per capita GDP amounted to US\$49,959, US\$41,622 and US\$39,229, respectively according to EIU. At the same time, Russia's average gross income per capita is still far below the levels of advanced economies, amounting to US\$9,885 in 2012 versus US\$46,960 for the US or US\$36,446 for the UK<sup>2</sup>, according to Euromonitor and EIU, which implies room for substantial further growth in Russia as development levels converge, however Russia's population is relatively wealthy when compared to some other high growth economies, such as China or India, where per capita GDP in 2012 was US\$6,290 and US\$1,520, respectively, according to EIU. This relatively high and growing level of per capita GDP, coupled with one of highest levels of educational attainment of Russia's population (with a 2012 HDI Education index of 0.788, compared to Brazil, China and India which had 0.730, 0.699 and 0.554 respectively, as reported by HDI) creates a favourable environment for growth of retail financial services, as well as take-up of internet and mobile connectivity to take advantage of the latest technological developments in the financial sector.

The following table sets forth selected key Russian macroeconomic and social statistics for the periods indicated:

	<i>As of, or for the year ended, 31 December</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Nominal GDP (in billions of U.S. dollars) . . . . .	1,661	1,223	1,525	1,899	2,030
Real GDP (in billions of Rubles) . . . . .	41,277	38,049	39,762	41,468	42,896
Real GDP growth (in %) . . . . .	5.2	(7.8)	4.5	4.3	3.4
Nominal GDP per capita (in U.S. dollars) . . . . .	11,710	8,620	10,670	13,280	14,210
Personal income per capita growth (in %) . . . . .	1.7	1.7	7.1	1.9	4.6
Consumer price inflation (in %) . . . . .	13.3	8.8	8.8	6.1	6.6
Government debt <sup>3</sup> to GDP ratio (in %) . . . . .	7.9	11.0	11.0	11.7	10.9
Federal budget surplus/(deficit) to GDP (in %) . . . . .	4.1	(5.9)	(3.9)	0.8	(0.1)
Current account balance / GDP (in %) . . . . .	6.3	4.1	4.4	5.1	3.5
Population (in millions) . . . . .	141.8	141.9	142.9	143.0	142.8
Urals oil annual average price (in U.S. dollars per barrel) . . . . .	93.9	60.8	78.2	109.6	110.8
Nominal appreciation/(depreciation) of the rouble against the U.S. dollar (in %) . . . . .	3.1	(21.7)	4.3	3.4	(5.5)
Real appreciation/(depreciation) of the rouble against the U.S. dollar (in %) . . . . .	13.3	(12.2)	5.8	8.8	(2.7)

*Sources: EIU, IMF, CBR, Rosstat*

For most of the last decade, Russia's economy has been successfully overcoming the consequences of the breakup of the old Soviet economy in the 1990s and was growing rapidly buoyed by a strong pricing environment for its export commodities, especially oil. Its inflation rate has been declining from double digits to 6.6 per cent. in 2012, according to EIU. At the same time, Russia has built up solid monetary finances, with the government budget surplus comprising an average 1.5 per cent. of GDP from 2002 until 2012 according to IMF, reaching a maximum surplus of 8.3 per cent. of GDP in 2006 and a maximum deficit of 6.3 per cent. of GDP in 2009 to a small budget deficit of 0.1 per cent. in 2012, according to EIU and the IMF, and the ratio of government debt to GDP fell from 40.3 per cent. in 2002 to 10.9 per cent. in 2012, according to the IMF. Russia had managed to withstand the turmoil of the 2008 financial crisis without having to significantly revalue the rouble in part due to its ample gold and foreign currency reserves. Total official reserves increased from below US\$50 billion in 2002 to US\$537.6 billion in 2012 according to the CBR. While net exports have been a key driver of this strong economic performance, with current account balances increasing at a 10.8 per cent.

2 Gross income per capita figures for Russia and the UK were converted using the 2012 average RUB/USD and GBP/USD exchange rates of 31.0742 and 0.6309 respectively, as per the CBR and the Bank of England.

3 Gross debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future. This includes debt liabilities in the form of SDRs, currency and deposits, debt securities, loans, insurance, pensions and standardized guarantee schemes, and other accounts payable. Thus, all liabilities in the GFSM 2001 system are debt, except for equity and investment fund shares and financial derivatives and employee stock options. Debt can be valued at current market, nominal, or face values (GFSM 2001, paragraph 7.110).

Compound annual growth rate (“CAGR”) from US\$29.1 billion in 2002 to US\$81.3 billion in 2012, according to IMF. Domestic consumption has also been a key contributor, growing at a 18.9 per cent. per cent. CAGR from US\$172.5 billion in 2002 to US\$982.9 billion in 2012<sup>4</sup>, according to Rosstat, and transforming Russia into one of the largest consumer markets in Europe, according to EIU.

In 2008 and 2009, Russia’s economic development was interrupted by the severe global economic and financial crisis and the ensuing decline in the global prices for commodities that Russia produces and exports. Russia experienced a shrinking GDP in 2008-2009, which, according to EIU, declined by 7.8 per cent. in real terms, and a depreciating currency, with the rate of the rouble vs. the U.S. dollar collapsing by 36.5 per cent. from its high of US\$/RUB 23.1 (on 16 July 2008) to a low of US\$/RUB 36.4 (on 19 February 2013), according to the CBR. However, during the following years, Russia’s economy recovered significantly together with global commodity prices, the country’s real GDP growth amounting to 4.5 per cent. in 2010 and 4.3 per cent. in 2011, according to EIU, a strong recovery in the rouble exchange rate, continued the reduction of inflation rates and strong monetary finances. As the global economy was affected by the uncertainty and volatility of the European sovereign crisis during 2012, Russia experienced somewhat slower rates of real GDP growth of 3.4 per cent., according to EIU, while the rouble depreciated in real terms against the U.S. dollar by 2.7 per cent. during 2012, according to the CBR. At the same time, Russia’s dependence on net exports was gradually reduced from 10.8 per cent. in 2002 to 7.3 per cent. in 2012, with the share of savings in its total GDP increasing from 22.6 per cent. in 2010 to 26.0 per cent. in 2012 according to Rosstat.

The view on Russia’s sovereign credit by the leading world credit ratings agencies has generally followed its economic performance. In December 2008, S&P downgraded its foreign currency long-term and short-term credit ratings for Russia from BBB+/A-2 to BBB/A3, while in February 2009, Fitch similarly downgraded its long term default rating for Russia from BBB+ to BBB. Moody’s had revised Russia’s credit rating for the Russian Federation from Baa2 to Baa1 in 2008. As post-crisis recovery took hold, all ratings agencies revised their Russia’s sovereign credit ratings and outlooks back upwards to BBB for S&P, BBB for Fitch and Baa1 for Moody’s.

### ***Russian Banking Sector History and Development***

Prior to 1987, the Soviet banking system consisted of (i) the former State Bank of the USSR, or Gosbank (the predecessor to the CBR), which allocated resources from the state budget according to the adopted five-year economic plans, and in whose regional branches all production and trading entities held their current accounts, (ii) Stroibank of the USSR, which primarily serviced payments relating to capital construction projects and (iii) Vneshtorgbank of the USSR, which primarily serviced payments relating to foreign trade undertaken by Soviet entities. Gosbank operated a network of “savings branches” (*sberegatelnyie kassy*), the predecessors to today’s Sberbank, that offered retail banking services such as deposits and utility payments processing throughout the country.

Starting in 1987, the Soviet banking system was partially liberalised, with several specialised industry banks being established, namely, Agroprombank (Farming Production Bank), Promstroibank (Production and Construction Bank), Zhilsotsbank (Bank for Housing Maintenance and Utilities Sector and Social Development), Vnesheconombank of the USSR (Bank for Foreign Economic Activity) and Sberbank of the USSR (Bank for Labour Savings and Lending to the Population). Vnesheconombank of the USSR became the full successor of Vneshtorgbank of the USSR pursuant to Resolution No. 745 of the Council of Ministers of the USSR dated 14 June 1988. Years 1988 and 1989 saw the emergence of many regional commercial banks, primarily in the form of co-operatives or joint stock companies. In 1991, three of the specialised state banks were transformed into joint stock companies, while some regional branches of these specialised state banks became independent from their head offices through management buy-outs.

After the collapse of the Soviet Union in November 1991, the Central Bank of RSFSR (currently the CBR) assumed all of Gosbank’s functions in the Russian Federation, and the Russian government liquidated Gosbank one month later.

In 1991-1998, the Russian banking system experienced rapid growth, as numerous privately-owned banks were formed, which increased the total number of commercial banks in the Russia from approximately 350 in 1990 to more than 2,500 in 1997, gradually decreasing to 2,481 as at 31 December 1998, according to the CBR.

The sovereign default and the ensuing financial market crisis and sharp currency devaluation in Russia in 1998 severely impacted the country’s banking system. Many Russian banks had to be subsequently reorganised, declared bankrupt or placed under the administration of the Agency for the Restructuring of Credit Organisations

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<sup>4</sup> Domestic consumption for 2002 converted using the average RUB/USD exchange rate for 2002 as per the CBR of 31.3608; domestic consumption for 2012 converted using the average RUB/USD exchange rate for 2012 as per the CBR of 31.0742

(“**ARCO**”), a state corporation established in 1999 to restructure defaulting banks and protect their creditors. With the stabilisation of the banking sector in recent years, ARCO’s role has decreased substantially. On 18 October 2003, the last credit organisation was withdrawn from ARCO’s administration and, pursuant to Federal Law No. 87-FZ dated 28 July 2004, ARCO itself was liquidated. Pursuant to the Retail Deposit Insurance Law, the assets of ARCO were transferred to the newly established State Corporation Agency for Deposit Insurance (the “**Deposit Insurance Agency**”). This Retail Deposit Insurance Law also introduced a deposit insurance scheme providing a government guarantee for retail deposits at banks participating in the scheme. The scheme is funded by contributions by participating banks based on a flat percentage of the amount of retail deposits they hold, and originally covered up to RUB100,000 per customer per bank. Since then this threshold was increased several times and today amounts to RUB700,000 per customer per bank, and there is pending legislation to increase it further to RUB 1,000,000 per customer per bank, alongside a possible introduction of a differentiated scale for the rate at which banks contribute to the scheme, depending on the riskiness of their deposit-taking policies.

The 1998 financial crisis revealed a lack of proper regulation of the Russian banking sector and reinforced concerns about the integrity of the banking system. However, in 1999-2003, the Russian banking system gradually recovered from the 1998 financial crisis. Higher liquidity levels and a shift in emphasis from investments in Russian sovereign securities in favour of corporate lending characterised this recovery.

From April to July 2004, the Russian banking sector experienced another bout of instability, when various market rumours and, in some cases, regulatory and liquidity problems, led to refinancing risks and runs on deposits by both retail and corporate customers at several privately-owned banks, ending in the collapse or curtailing of their operations. The CBR responded to this crisis by reducing the rate of mandatory reserves that banks must deposit with the CBR from 7 per cent. to 3.5 per cent. with immediate effect, while the Russian government introduced legislation that made the CBR responsible for compensating retail customers of insolvent Russian banks that do not participate in the Deposit Insurance System. This legislation also gave the CBR the power to limit retail deposit interest rates for up to one year, and increased banks’ disclosure obligations concerning retail deposit interest rates, deposit liabilities and amounts of cash withdrawals by private depositors.

Between 2005 and 2008, the Russian banking sector underwent strong expansion, both in terms of size and scope of branch networks, as well as growth of lending and deposits. Russian banks started actively accessing global Eurobond and equity markets for financing, and the sector attracted M&A interest from foreign players, with banks such as OTP Bank, Raiffeisenbank International, KBC Bank N.V. or Societe Generale acquiring local banks to establish and expand their presence in Russia.

In the second half of 2008, the Russian banking sector was severely affected by the onset of the global financial and economic crisis of 2008-2009, which resulted in funding and liquidity for Russian banks being severely constrained and their asset quality significantly deteriorating, which had led to insolvency of a number of mid-sized banks (such as Globex Bank, Svyaz-Bank, KIT Finance and, thereafter, International Industrial Bank and AMT-Bank), and substantial financial difficulties for virtually all industry players. In response to this crisis, the Russian government enacted measures to support the liquidity and solvency of the Russian banking sector including, but not limited to: (i) a RUB 950 billion subordinated loan financing to state-owned and private banks with certain conditions, (ii) a newly established CBR uncollateralised lending facility for select banks, (iii) reduced reserve requirements, (iv) CBR guarantees of certain interbank lending transactions involving state banks (removed on 31 December 2010) and (v) increase of the maximum guarantee for retail customers to up to RUB 700,000 per person per bank.

Thanks to these measures, together with the post crisis economic and financial recovery in 2010, Russia was able to avoid collapses of systemically important financial institutions and the disintegration of its financial system.

In the years that followed, Russia’s banking system experienced another period of rapid expansion, this time driven by the rapid development of the retail banking services market, including unsecured lending such as credit cards, cash or POS loans. At the same time, Russian banks have once again tapped the Eurobond market and raised financing in the growing rouble-denominated domestic bond market. There were also several public market equity placements done by Russian banks during that period, including two follow-on placements by VTB of US\$3.3bn in February 2011 and US\$3.3bn in May 2013, the US\$718m initial public offering by NOMOS-Bank in April 2011, as well as the US\$5.2bn follow-on placement by Sberbank of Russia in September 2012.

### ***Structure of the Russian Banking Sector***

The Russian banking sector consists of the CBR and credit organisations which, in turn, consist of banks, that provide a wide range of banking services, and non-bank credit organisations, which provide only limited banking

services, such as maintaining accounts and making payments. As of 01 Jul 2013, there were 1,091 banks and non-banking credit organisations registered and 956 banks and non-banking credit organisations conducting banking operations in the Russian Federation. Poor corporate governance, inadequate risk management, lack of transparency, absence of developed regional networks and weak management remain strong characteristics of some Russian banks, particularly smaller ones.

The Russian banking sector is highly fragmented in terms of the number of participants, however, there is more concentration in terms of market share, where the top 10 players in Russian banking accounted for 62.7 per cent. of total sector assets as of 31 December 2012, according to Interfax (based on CBR data). The top 10 players in consumer lending accounted for 62.0 per cent. of retail deposits as of 31 December 2012 as per Banki.ru (based on CBR data). In the credit card lending segment, concentration is even higher, with the top 10 players accounting for over 75 per cent. of total gross credit card receivables as of 31 December 2012, as per TCS's report—"Credit Card Market in Russia, 2012".

The following table sets forth the rankings of top 10 Russian banks by total assets as of 31 December 2012, volume of retail loans as of 1 January 2013, volume of credit card loans as of 1 January 2013, with corresponding market shares.

Rankings by Total Assets			Ranking by Retail Loans			Ranking by Credit Card Loans		
<i>Bank</i>	<i>RUB in billions</i>	<i>% market share</i>	<i>Bank</i>	<i>RUB in billions</i>	<i>% market share</i>	<i>Bank</i>	<i>RUB in billions</i>	<i>% market share</i>
1.Sberbank	13,586	27.4%	1.Sberbank	2,528	32.7%	1.Sberbank	149	22.2%
2.VTB	7,629	15.4%	2.VTB24	794	10.3%	2.RSB	101	15.0%
3.Gazprombank	2,869	5.8%	3.HCF	237	3.1%	3.TCS Bank	49	7.2%
4.RAB	1,571	3.2%	4.Rosbank	215	2.8%	4.VTB 24	48	7.2%
5.Alfa-Bank	1,303	2.6%	5.RAB	198	2.6%	5.Alfa-Bank	45	6.7%
6.Otkritie	1,104	2.2%	6.RSB	193	2.5%	6.Orient Express	32	4.8%
7.Unicredit Bank	865	1.7%	7.Orient Express	175	2.3%	7.Svyaznoy Bank	31	4.6%
8.Societe Generale	827	1.7%	8.Gazprombank	174	2.3%	8.OTP Bank	30	4.5%
9.Promsvyazbank	683	1.4%	9.Alfa-Bank	156	2.0%	9.HCF Bank	20	2.9%
10.Raiffeisebank	607	1.2%	10.Raiffeisebank	123	1.6%	10.Rosbank	15	2.3%

Sources: CBR, Interfax (based on CBR data), Banki.ru (based on CBR data), TCS (based on CBR data)

Note: Banks are consolidated into banking groups in total assets ranking i.e. VTB includes VTB, VTB25, Bank of Moscow, Transcredit Bank, Mosvodokanalbank, Leto Bank and the Russian National Commercial Bank; Gazprombank includes Gazprombank, SGB Bank (SeverGazBank), Spurt Bank, GPB-Ipoteka, Credit Ural Bank and the Russian Mortgage Bank; Otkritie includes Otkritie Bank, Nomos Bank, Bank of Khanty-Mansiysk, Nomos-Region Bank and Nomos Bank Siberia; Societe Generale includes Robank, Rusfinance Bank, Delta Credit bank, Alor Bank and Koshelev Bank; Promsvyazbank includes Promsvyazbank and Arx Bank.

Russian banks can be categorised into the following major groups: (i) state-owned or state-controlled banks, (ii) retail banks (iii) large private banks, (iv) foreign-owned banks and (v) other smaller banks.

#### *State-Owned or State-Controlled Banks*

State-owned banks continue to play a leading role in the Russian banking sector. Several state-owned banks focus on the implementation of Russian government programmes, such as Russian Agricultural Bank in the agriculture sector and Roseximbank in respect of import-export operations. Other banks have provided loans in politically-related contexts, including Sberbank (the largest bank in Russia by assets as of 31 May 2013), VEB and VTB. Early in 2011, VTB revealed that it was contemplating major consolidation transactions in the sector, including the phased acquisition of 100 per cent. stakes in Bank of Moscow and TransCreditBank, according to RBC Rating. According to the public available sources, as of 30 September 2012, VTB increased its stakes in Bank of Moscow up to approximately 95 per cent. and in TransCreditBank up to approximately 99 per cent.

#### *Retail Banks*

Sberbank and, to a lesser extent, VTB24 (former Guta Bank purchased and renamed by VTB (former Vneshtorgbank)) are the leaders in retail banking operations. The collapse of large privately-owned banks, such as SBS-Agro and Inkombank, after the August 1998 financial crisis considerably undermined the credibility of privately-owned retail banks among retail customers. State-owned banks currently dominate this sector, partially because of the indirect state guarantee of their retail deposits and partially because of their large branch networks. It is unclear whether participation by privately-owned banks in the retail deposit insurance scheme will restore their credibility among retail customers.



## Large Private Russian Banks

The large privately-owned banks among the top 30 Russian banks by total assets include Alfa-Bank, NOMOS Bank, Promsvyazbank, Uralsib, Russian Standard Bank and MDM Bank. They typically function as universal commercial banks servicing corporate and retail customers. Several privately-owned banks such as Bank Saint-Petersburg, Bank Vozrozhdenie and NOMOS Bank have publicly traded shares.

## Foreign-Owned Banks

Foreign banks are prohibited by Russian law from directly conducting banking operations in Russia, but can do so through a Russian-incorporated subsidiary and are subject to applicable requirements of Russian law. Although certain foreign-owned banks focus primarily on servicing multinational corporations operating in Russia or cash settlement operations for non-residents, many foreign-owned banks, such as UniCredit Bank, Raiffeisenbank and Rosbank (majority owned by Société Générale) have increased their presence in Russia in the last 10 years and offer a full range of services to both retail and corporate clients. However, the presence of foreign-controlled banks in Russia is rather limited, based on CBR data. According to the CBR, as of 1 July 2013, 121 credit organisations controlled by foreign groups holding more than 50 per cent., of their shares were operating in Russia, of which several ranked in the top 30 of all banks operating in the country by value of their assets, of these 121 credit organisations, 77 were wholly-owned by subsidiaries of foreign groups.

## Other Smaller Banks

Other Russian banks are primarily locally owned and normally focus on certain regions or product segments. Compared to the top 30 Russian banks by total assets, these smaller banks are in some cases characterized by lower levels of corporate governance and risk management, as well as lower transparency of operations. Taking into account that the number of credit organisations in Russia has been steadily decreasing over the past several years, as well as tightening regulatory requirements, there is a chance that these smaller private banks could be the subject of future merger and acquisition activity in the banking sector.

The following table sets forth selected key Russian banking sector statistics for the periods indicated:

	As of 31 December				
	2008	2009	2010	2011	2012
Number of operating credit organisations	1,108	1,058	1,012	978	956
Assets of the five largest credit organisations over total assets (in %)	46.2%	47.9%	47.7%	50.0%	50.3%
Total Assets (RUB in billions)	28,022	29,430	33,805	41,628	49,510
Total Assets (as % of GDP)	67.9%	75.8%	73.0%	74.6%	79.4%
Own funds (capital) (RUB in billions)	3,811	4,621	4,732	5,242	6,113

Source: CBR

## The Retail Banking Sector in Russia

Russia's financial services sector is still underdeveloped and underpenetrated relative to the most developed economies, such as the United States, the United Kingdom or Germany, as well as certain emerging high growth economies, such as Poland, Brazil, China or Turkey, when measured in terms of the size of retail bank loans and retail deposits either as a percentage of annual GDP or on a per capita basis. The following table demonstrates relative financial services penetration statistics for some of the world's largest developed and emerging high growth economies:

Country	Retail Bank Loans		Retail Bank Deposits	
	% of GDP	US\$ per capita	% of GDP	US\$ per capita
Russia	12%	1,784	23%	3,286
USA	21%	10,929	59%	29,355
UK	74%	28,612	67%	25,770
Germany	40%	16,389	67%	27,820
France	60%	24,828	77%	31,691
China	22%	1,318	60%	3,655
Poland	40%	4,161	38%	3,981

Sources: National central banks, IMF, EIU

Note: All countries represents retail loans and retail deposits as of December 2012, with the following exceptions; China as of December 2010 and France as of May 2012; all figures converted from national currency into USD at per the 31-Dec-2012 exchange rate (except for China and France)

The Russian financial services sector has been growing rapidly since the global economic and financial crisis of 2008-2009, spurred by economic recovery and growth, as well as by the development of financial services infrastructure. According to the CBR and under Russian Accounting Standards, total retail loans in the Russian banking system grew at a 17.8 per cent. CAGR between 2009 and 2012, while total retail deposits grew at 24.6 per cent. CAGR during the same period.

The following table sets forth selected key data on the evolution and development of Russia's retail banking sector as per the CBR.

	<i>As of 31 December</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Retail bank loans (RUB in billions) .....	4,017	3,574	4,085	5,551	7,737
% growth .....	35.2%	(11.0)%	14.3%	35.9%	39.4%
Retail bank deposits (RUB in billions) .....	5,907	7,485	9,818	11,871	14,251
% growth .....	14.5%	26.7%	31.2%	20.9%	20.0%

Source: CBR

The following table sets forth selected key data on credit cards

	<i>As of 31 December</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Credit Card Loans (RUB in billions) <sup>5</sup> .....	217	207	245	412	785
% growth .....	20.0%	(4.5)%	18.2%	68.1%	90.3%
Number of credit cards issued (in millions) <sup>1</sup> .....	36.1	29.9	32.5	40.9	54.8

Source: Frank Research Group

Credit card lending has stood out as one of the fastest growing sub-segments of retail bank lending in Russia in recent years—from a relatively modest base of only RUB217 billion as of 31 December 2008, it more than tripled to RUB785 billion as of 31 December 2012, representing a 37.9 per cent. CAGR, based on Frank Research Group data.

The rapid growth of Russia's credit card industry is partially driven by the increasing adoption of credit cards as a more convenient alternative to cash. Historically predominantly a cash-based economy, Russia is quickly building its electronic payments sector, as people become more accustomed to cashless payments, such as payments made by credit cards, debit cards and prepaid cards, as well as via eWallets, mobile wallets or bank transfers. Generally, bank card adoption in Russia is growing from a relatively low base of 1.4 bank cards per person as of 2012, according to Euromonitor, compared to 6.1 bank cards per person in the US, 4.1 bank cards per person in the UK, 3.1 bank cards per person in France and 2.6 bank cards per person in China. There were 36.1 million credit cards and cards with active overdraft accounts in circulation in Russia as of 2012 according to the Frank Research Group, credit card spending by individuals amounted to an average of RUB32,854 per card per year in 2012 according to Frank Research Group. The volume of credit card transactions in Russia grew at a CAGR of 29.5 per cent. during 2008 to 2012 and is projected to grow at a 20.7 per cent. CAGR from 2012 to 2017 as per Frank Research Group.

Other rapidly developing forms of non-cash payments include mobile payments, which are relatively new to the Russian market, but with increasing Internet and smartphone penetration, greater volumes of e-commerce and development of processing infrastructure, their volumes could grow rapidly and account for a significant share of payment transactions in Russia. According to J'Son and Partners Consulting E-Wallet services in Russia are expected to grow at a 19.6 per cent. from 2012 until 2017.

### ***The Insurance Sector in Russia***

Among the markets of the emerging countries, the Russian Federation's insurance market is turning out to be the most important with significant upside given its low penetration ratios relative to other markets.

After the demise of the USSR in 1992, Russia abandoned the state-controlled obligatory insurance system in favour of a voluntary insurance market based on private property, although some types of compulsory social insurance were maintained to cover the needs of the State. The old state monopoly for domestic insurance, Gosstrakh, became the privatised Rosgosstrakh, Russia's current market leader. Similarly, the same thing happened with the old state monopoly for "external insurance" (international), Ingosstrakh, which was also privatised and, with Western investors now also having a stake in it, remains one of the most important Russian insurers. During the transitional phase up to 2006, the main features of the Russian insurance market were (i) strong presence of captive insurance companies created by influential private economic and financial groups

<sup>5</sup> Includes plastic card overdrafts.

(Alfa, Interros, Lukoil) (ii) use of schemes to optimise tax payments to the State, these being channelled through insurance (chiefly Life and reinsurance) and (iii) high number of not very viable insurers created to implement the schemes in question.

The decisive return to the real, classic insurance market, geared to Western insurance legislation, occurred in Russia from 2006 under pressure from State regulatory bodies. The market was then restructured, with processes of concentration among insurance companies being triggered at the same time. The presence of international capital in the Russian insurance market also increased. As a result, a substantial number of insurers lost their licences. As of 2012, Russia had 469 registered insurance undertakings, comprising 458 insurance companies and 11 mutual, based on FSFM. Total insurance premiums (excluding compulsory medical insurance) grew rapidly from RUB513 billion in 2009 to RUB812 billion in 2012 according to Insur-Info and the FSFM.

Non-Life insurance predominates over Life insurance for various reasons, including the situation of the Russian economy during the political transition, the low level of insurance culture among the population and the lack of confidence in private insurance. The low volume of Life insurance in Russia stands out, in contrast to the structure of the insurance market in the countries of Western Europe.

The following table demonstrates relative financial services penetration statistics for some of the world's largest developed and emerging high growth economies:

2012 Total Premiums		
<i>Country</i>	<i>% of 2012 GDP</i>	<i>\$ per Capita</i>
UK .....	12.8%	4,928
France .....	9.3%	3,696
USA .....	8.2%	4,047
Germany .....	6.8%	2,839
Poland .....	3.8%	493
China .....	3.0%	179
Russia <sup>6</sup> .....	1.3%	182

Source: SwissRe Sigma 2012 Report

### **Internet and Mobile Markets**

The rapid adoption of Internet and mobile data services in Russia is creating significant opportunities for technology-based financial services providers, such as TCS, to acquire and service customers virtually all across the country. According to Euromonitor, Russia already has the largest number of Internet users in Europe, or 74 million as of 2012, which exceeds Germany's 69 million. At the same time, in terms of percentage of households reached by the Internet, Russia still has substantial room to grow towards levels seen in advanced Western economies, though it is already ahead of China, India and Brazil. Mobile phone penetration in Russia is already very high at 165 per cent. as of 2012.

The following table sets forth a comparison of Internet and mobile phone statistics across large advanced and emerging markets economies:

	2012 Internet users in millions	2012 percentage of households reached by Internet		2012 percentage of population with mobile phones
China .....	568	42%	Russia	165%
USA .....	247	79%	Italy	143%
India .....	151	12%	Brazil	134%
Brazil .....	93	47%	Germany	131%
Russia .....	74	52%	UK	125%
Germany .....	69	84%	Spain	109%
UK .....	52	82%	USA	108%
France .....	52	82%	France	106%
Italy .....	36	59%	China	87%
Spain .....	32	69%	India	68%

Sources: Euromonitor, WICS, IMF

An important trend in Russia's Internet and mobile markets has been the rapid growth of retail transactions conducted through these two channels. Russia's Internet e-commerce market amounted to US\$10.4 billion in 2012 and is expected to reach US\$23.0 billion in 2017 according to Euromonitor.

<sup>6</sup> Data for Russia excludes compulsory medical insurance

For reference, the table below sets forth the average and end of year RUB/USD exchange rates since 2002 as per the CBR:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
RUB/USD											
Average . . . . .	31.3608	30.6719	28.8080	28.3136	27.1355	25.5516	24.8740	31.7669	30.3765	29.3948	31.0742
RUB / USD End											
of Period . . . . .	31.7844	29.4545	27.7487	28.7825	26.3311	24.5462	29.3804	30.2442	30.4769	32.1961	30.3727

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*Source: CBR*

## **BANKING REGULATION IN RUSSIA**

### **The Banking Law**

The Banking Law is the principal law regulating the Russian banking sector. Among other things, it defines credit organisations, sets forth the list of banking operations and other transactions that credit organisations may perform and establishes the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

The Association of Russian Banks, a non-profit, self-regulatory organisation established pursuant to the Banking Law, offers technical support to its members and lobbies for the interests of commercial banks in various governmental bodies, including the Russian Parliament, the Russian government and the CBR. As of 11 October 2013, it consisted of 713 members, including 507 credit organisations.

### ***Banking operations***

The Banking Law sets forth the following services as “banking operations” that require an appropriate licence from the CBR:

- taking deposits from individuals and legal entities (both demand and fixed-term deposits);
- investing the deposited funds in its own name and at its own expense;
- opening and maintaining bank accounts for individuals and legal entities;
- performing settlements in accordance with the instructions of individuals and legal entities, including correspondent banks, from and to their bank accounts;
- services involving the handling of cash, cheques, promissory notes, and payment documents, and other cash services to individuals and legal entities;
- the purchase and sale of foreign currency (both cash and non-cash);
- taking deposits in precious metals and investing them;
- issuing bank guarantees; and
- making money transfers (including electronic transfers) in accordance with the instructions of individuals without opening bank accounts (excluding payments by post).

Article 36 of the Banking Law provides that a credit organisation may be authorised to take deposits from individuals only after it has been registered for two years unless it meets certain criteria allowing it to take deposits from individuals earlier.

### ***Other activities***

In addition to banking operations, credit organisations may:

- guarantee monetary obligations of third parties;
- purchase rights to demand payments by way of assignment;
- engage in the fiduciary management (which differs from the concept of trust under English law) of monetary funds and other property for individuals and legal entities);
- engage in operations with precious metals and stones (in accordance with Federal Law No. 41-FZ “On Precious Metals and Precious Stones” dated 26 March 1998, as amended, and other legal acts);
- rent out special premises and safe deposit boxes to individuals and legal entities to store documents and valuables;
- engage in leasing operations;
- provide consultancy and informational services; and
- enter into any other transactions in accordance with the Russian law.

Under the Banking Law, a credit organisation cannot engage in production, commodities trading (other than trading in precious metals) or insurance activities. Article 15.26 of the Administrative Offences Code of the Russian Federation dated 30 December 2001, as amended, envisages a fine in an amount of between RUB 40,000 and RUB 50,000 for non-compliance with this requirement.



### ***Recent Amendments to the Banking Law***

In accordance with the amendments introduced by the Federal Law No. 29-FZ “On Amending Certain Legislative Acts of the Russian Federation” dated 14 March 2013 it is forbidden for foreign banks to establish their branches on the territory of the Russian Federation. Therefore, foreign banks may carry out business activity on the territory of the Russian Federation only by establishment of subsidiary companies or through representative offices, whereas branches of foreign banks were excluded from the bank system of the Russian Federation. The Order of the CBR No.02-437 dated 7 October 1997 sets for the procedure for opening representative offices of foreign credit organisations in the Russian Federation and for the activities thereof.

On 2 July 2013, further amendments to the Banking Law were introduced by the Federal Law No. 146-FZ “On Amendments to Certain Legislative Acts of the Russia Federation”. Among the most important, amendments provide for the following:

- preliminary CBR consent is required for acquisition of over 10 per cent. of shares in a Russian bank (instead of the existing 20 per cent. threshold). In addition, the amendments specify the following grounds for the CBR to refuse consent for acquisition of shares in a Russian bank:
  - i. failure to obtain consent of the Federal Antimonopoly Service for the transaction;
  - ii. failure to obtain consent of the Governmental Committee for Foreign Investments for the transaction; and
  - iii. unsatisfactory business reputation of the acquiror.

These amendments entered into force on 1 October 2013.

- rules for qualifying a banking group (*bankovskaya gruppa*) and a banking holding (*bankovskiy kholding*) were changed. As opposed to the current rules, the amendments define a banking group as an association of legal entities under control of a credit organisation. According to the existing Banking Law, a banking group includes credit organisations only. The definition of a banking holding was expanded: a bank holding is now defined as an association of legal entities, at least one of which is a credit organisation, under control of a parent legal entity, not a credit organisation, provided that a share of banking activities is at least 40 per cent. of the overall activities of this group. Rules for reporting and disclosure by Russian banks were also slightly clarified in connection with the above new rules. All these amendments will enter into force on 1 January 2014; and
- the competence of the board of directors of a Russian bank was expanded. In particular, the amendments authorise the board of directors: to adopt risk and capital management strategies, the methodology of risk management and models of risk assessment and the procedure for resolving of conflicts of interests in the bank; to appoint the head of an internal audit department; and to adopt regulations relating to remuneration of, and requirements, to employees involved in operations affecting compliance with mandatory capital ratios and interests of clients of the bank. Therefore, such authorities may not be referred to competence of the other management bodies. These amendments will enter into force on 1 January 2014.

### **The Securities Market Law**

A banking licence does not authorise a credit organisation to act as a securities broker or dealer or to provide custody services (other than acting as a paying agent). To perform these functions, pursuant to Federal Law No. 39-FZ “On the Securities Market” dated 22 April 1996, as amended, a credit organisation must obtain a respective licence from the CBR). Historically, the operations of Russian banks in the securities market were subject to Russian securities laws and regulations adopted by the FSFM or its predecessor that govern activities of brokers, managers and securities custodians, as well as the relationship between professional market participants and investors. The FSFM also oversaw the compliance of all professional market participants, including banks, with the Russian Federation’s securities laws and regulations.

According to the Federal Law No. 251-FZ “On Amending Certain Legislative Acts of the Russian Federation in connection with the Transfer of Authorities on Regulation, Control and Supervision in Financial Markets”, the authorities of the FSFM were transferred to the CBR effective 1 September 2013. The CBR succeeded the authorities of the FSFM in regulating and overseeing, inter alia, activities of banks as professional participants of the securities market.

### **The Retail Deposit Insurance Law**

The Retail Deposit Insurance Law introduced a mandatory retail deposit insurance system for Russian banks that hold a CBR licence to offer retail deposits. The Retail Deposit Insurance Law provides for the establishment of a

new regulator, the Deposit Insurance Agency, which, among other things, collects fund contributions, manages the fund, determines the order for calculation of insurance premiums and monitors insurance payments. The Deposit Insurance Agency maintains a register of all banks that take part in the mandatory retail deposit insurance system. To be eligible to participate in the mandatory deposit insurance system, banks existing at that time had to apply with the CBR before 27 June 2004. Requirements for the admission to the mandatory deposit insurance system are set in the law and their satisfaction checked by the CBR on a case-by-case basis.

According to the Deposit Insurance Agency website, as of 11 October 2013, the CBR had admitted 877 banks to the mandatory deposit insurance system. A bank failing to participate in the mandatory deposit insurance system cannot take retail deposits or open accounts for individuals.

Article 11 of the Retail Deposit Insurance Law limits deposit protection for each customer to RUB 700,000 per bank, which is payable from a retail deposit insurance fund into which participating banks must make quarterly contributions. The insurance payment from the deposit insurance fund becomes payable to depositors if the CBR revokes or terminates the bank's licence or imposes a moratorium on payments by the bank. The amount of each bank's deposit insurance contribution for each calendar quarter is the quarterly average of daily balances of retail deposits (excluding bearer deposits). Pursuant to Article 36 of the Retail Deposit Insurance Law standard contribution premiums cannot exceed 0.15 per cent. of the contribution basis. In certain circumstances, the premium can be increased up to 0.3 per cent. of the contribution basis, but not for more than two quarters in any 18-month period. When the size of the insurance fund reaches 5 per cent. of all Russian banks combined retail deposits, all succeeding contribution premiums cannot exceed 0.05 per cent. of the contribution basis. When the size of the insurance fund exceeds 10 per cent. of all Russian banks combined retail deposits, no contributions will need to be made, but contributions must be resumed if the size of the insurance fund falls below 10 per cent. of all retail deposits opened with the bank.

### ***The Banking System Stability Law***

Federal Law No. 175 "On Additional Measures to Ensure Stability of the Banking System through to 31 December 2014", dated 27 October 2008, as amended (the "**Banking System Stability Law**"), came into effect on 28 October 2008.

The Law envisages that the Deposit Insurance Agency will assist distressed banks through: (i) attracting investors for credit organisations which are experiencing financial difficulties; and (ii) liaising with the CBR regarding the provision of financial assistance to such credit organisations.

The Banking System Stability Law envisages that the Deposit Insurance Agency is entitled to apply various bankruptcy prevention measures, such as:

- provision of financial assistance to private investors that have agreed to acquire a controlling stake in a credit organisation in distress;
- financial assistance to other credit organisations that have agreed to acquire certain assets and obligations of a credit organisation in distress;
- acquisition of a controlling stake in a credit organisation in distress directly by the Deposit Insurance Agency (if there is no investor willing to participate in rehabilitation proceedings);
- provision of financial assistance to a credit organisation in distress subject to acquisition of a controlling stake in such credit organisation by either a private investor or the Deposit Insurance Agency;
- making arrangements for public sale of the assets securing obligations of a credit organisation owed to its creditors, including the CBR; and
- appointment of the Deposit Insurance Agency by the CBR to act as temporary administrator in relation to a credit organisation.

The decision as to whether bankruptcy prevention measures should be launched in respect of a particular bank rests with the CBR.

The analysis of the financial position of a credit organisation for the purpose of provision of state support to it will be performed by the CBR and the Deposit Insurance Agency. Based on the results of the analysis the Deposit Insurance Agency develops a rehabilitation plan for that bank which then needs to be approved by the CBR.

### **Currency Law**

Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003, as amended (the "**Currency Law**") sets forth the currency control regime in the Russian Federation. The Currency Law is

generally aimed at the gradual liberalisation of Russian currency control regulations. Pursuant to the Currency Law, the CBR has the power to regulate certain currency operations (including non-banking operations performed by Russian banks) by introducing a “special account requirement”, but no such requirement is currently in force since, as of 1 January 2007, along with the major remaining restrictions envisaged in the Currency Law, it was abolished.

There can be no assurance that the Currency Law itself will not be revised or amended in the future or that no new restrictive measures will be implemented in the Russian Federation, taking the current economic situation into account.

## **Antimonopoly Law**

### ***The Federal Antimonopoly Service***

The FAS controls mergers of credit organisations and acquisitions of shares and assets of credit organisations, if the aggregate value of such credit organisations’ assets as per the most recent RAS balance sheets exceeds RUB24 billion, as well as acquisitions of rights allowing the acquirer to determine the terms of commercial activity or exercise the powers of the executive body of such credit organisations. In accordance with Federal Law No. 135-FZ “On Protection of Competition” dated 26 July 2006, as amended (the “**Antimonopoly Law**”) and Government Regulation No. 335 dated 30 May 2007, as amended, prior consent of the FAS is required for, among others, the following actions in respect of certain credit organisations of significant size:

- acquisition of more than 25 per cent. of the voting shares of a credit organisation established as a joint-stock company and any subsequent increases of ownership above thresholds of 50 per cent. and 75 per cent. of the voting shares;
- acquisition of more than 10 per cent. of assets of a credit organisation determined as per the most recent RAS balance sheet; and
- acquisition of rights to determine the terms of commercial activity of a credit organisation or to exercise the powers of its executive body.

## **Financial Consumer Protection**

Financial consumer protection is generally based on Law of the Russian Federation No. 2300-1 dated 7 February 1992, “On Protection of Consumers Rights”, as amended (the “**Consumer Protection Law**”). According to the Resolution of the Plenum of the Supreme Court of Russia “On Consideration by Judges of Civil Cases on Consumer Protection Disputes” No. 17 dated 28 June 2012, the Consumer Protection Law is applicable to relations arising from financial services agreements, if made by retail customers for non-commercial purposes (including lending, settlement operations, opening and maintenance of bank accounts of retail consumers, and bank card services and etc.).

In September 2011, the Supreme Arbitrazh Court issued further guidelines relating to the protection of financial consumers’ rights. The Supreme Arbitrazh Court upheld the existing banks’ practices of selling bad loans to specialised debt collection companies that typically function without a banking license, by stating that an assignment by a bank of non-performing retail loans to a non-banking organisation complies with the legislation and does not require a borrower’s consent. However, contrary to the position of the Supreme Arbitrazh Court, the Supreme Court in the above mentioned Resolution of the Plenum of the Supreme Court of Russia “On Consideration by Judges of Civil Cases on Consumer Protection Disputes” No. 17 dated 28 June 2012 declared the assignment by banks of receivables under retail loan agreements to non-banking organisations inconsistent with the Consumer Protection Law, except where the borrower has consented to such assignment in advance.

In addition, a financial ombudsman, created as a non-governmental independent body at the Association of Regional Banks of Russia to consider and help resolve banks’ disputes with consumers, has been active in Russia since October 2010. If the value of a dispute does not exceed a set threshold, a retail bank customer may turn to the financial ombudsman at the pre-trial stage in order to settle with the bank without resort to court. However, decisions of the financial ombudsman are not binding. There have been some legislative initiatives recently to introduce binding dispute settlement procedures involving the financial ombudsman.

## **The Anti-Money Laundering Law**

The Russian Federation adopted the Anti-Money Laundering Law to comply with the requirements of the FATF. The Anti-Money Laundering Law entered into force on 1 February 2002. Credit organisations must comply with the provisions of the Anti-Money Laundering Law relating to, among other things, the development of appropriate internal standards and procedures, customer identification (including know-your-clients checks), control over customer operations and reporting of suspicious activities.

Under the Anti-Money Laundering Law, one of the main obligations of a Russian bank is the “control function”, which involves identification of the bank’s clients, gathering information with respect to client operations and reporting of certain operations to the FSFMT, the Russian Federation anti-money laundering authority. Article 6 of the Anti-Money Laundering Law requires that banks exercise the “control function” over any operations in the amount of RUB 600,000 or more (or its equivalent in foreign currencies) when such operations involve, among other things:

- cash transactions;
- transactions where one of the counterparties is resident or has a bank account in a country that does not participate in international efforts to combat money-laundering (the list of such countries is approved by the Russian government);
- making certain bank deposits that do not identify beneficiaries;
- deposits to or debiting the money from the account of legal entities with less than three months existence and performing such operations in relation to the account for the first time since its opening; and
- similar transactions involving precious stones, precious metals and other property.

In addition, banks must exercise the “control function” in relation to any operation involving an individual or organisation that is alleged to participate in extremist or terrorist activities, as well as any legal entity that such organisations/individuals control or the agents of such organisations/individuals.

If bank officers suspect that an operation is conducted in order to legalise any funds received from illegal activities or to finance terrorist activities, their banks must report such operations to the FSFMT whether or not they qualify as controlled operations. Banks may not inform customers that transactions are being reported to the FSFMT.

On 21 November 2011, amendments to the Anti-Money Laundering Law came into force, requiring that credit organisations develop and adopt new internal control regulations based on the requirements set out by the CBR Regulation No. 375-P, effective from 29 April 2012, within one year from such latter date. The Regulation extends criteria for identifying suspicious operations, in particular, introducing separate characteristics for operations that may be deemed directed at terrorist financing or tax evasion, and requires that credit organisations establish procedures for their identification. Before these amendments, credit organisations developed internal control regulations based on the CBR recommendations and were required to get the approval of the CBR and, if they are professional securities market participants, of the FSFM. The amendments have removed a sometimes bureaucratic approval procedure. On the other hand, credit organisations will no longer benefit from a “safety net” of the sign-off of the CBR on their internal control regulations regarding their compliance with the requirements set out in the banking and anti-money laundering laws and regulations, which increases the risk of related investigations and claims by the CBR and the likelihood of future controversies with the regulator, as well as subjecting the responsible employees of the Bank to a heightened risk of liability for technical non-compliance of the internal control regulations and the CBR requirements.

On 30 June 2013, several amendments to the Anti-Money Laundering Law came into force. They were introduced by the Federal Law No. 134-FZ “On Amending Certain Legislative Acts of the Russian Federation on the Counter Measures on Illegal Financial Operations” dated 28 June 2013. These new amendments, among other things:

- introduced the definition of the “beneficiary owner” to the Anti-Money Laundering Law in order to extend the scope of client identification procedure;
- set forth the obligation for the clients to provide all necessary information on their beneficiary owners to banks (for the banks to comply with the provisions of the Anti-Money Laundering Law);
- set forth the obligation for the banks to take reasonable steps for preliminary identification of the clients’ reputation, financial position and objectives of the business activity;
- set forth the obligation for the banks to freeze monetary funds and other assets of individuals and legal entities under certain circumstances; and
- provide for additional measures against financing terrorism.

## The Bank Insolvency Law

Credit organisations are subject to special insolvency procedures set forth in the Bank Insolvency Law. It provides, among other things, that if a credit organisation goes bankrupt, it must pay its retail depositors after the claims of individuals for compensation for personal injury, death or moral damages, if any, are satisfied. For a more detailed description of claims and priority of payments see *“Banking Regulation in Russia—The Insolvency Regime for Credit Organisations”*.

### Measures to support the liquidity and solvency of Russian banks and legal entities since October 2008

Since October 2008, the Russian government and the CBR have announced and, in many cases, fully implemented measures intended to support the liquidity and solvency of Russian banks and to increase the availability of credit to businesses, which have been seen as critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy. These measures were primarily introduced by Federal Law No.173-FZ “On the Additional Measures to Support the Financial System of the Russian Federation” dated 13 October 2008, as amended (the **“Rescue Measures Law”**). According to the Rescue Measures Law, the following measures are being implemented:

- The Russian government through the CBR and Vnesheconombank may provide up to RUB 910 billion in subordinated loans to state-owned and private banks under certain conditions. The RUB 910 billion state contribution to banking sector capital in the form of long-term subordinated loans with a term of at least five years is one of the key economic initiatives announced by the Russian government to restore confidence in the Russian banking sector. State-owned banks such as Sberbank, VTB and Russian Agricultural Bank received RUB 500 billion, RUB 200 billion and RUB 25 billion, accordingly, as part of this initiative. The remaining RUB 185 billion have been distributed among privately-owned Russian banks subject to certain conditions.
- The CBR was authorised to enter into agreements with privately owned banks to partially compensate such banks for losses suffered during the period from 14 October 2008 to 31 December 2010 as the result of operations on the interbank market with banks whose licences were revoked. Vnesheconombank had the right, until 31 December 2009, to originate foreign currency loans up to US\$50 billion to Russian legal entities to repay and/or refinance the loans received from foreign lenders prior to 25 September 2008.

On 20 October 2008, the Supervisory Board of Vnesheconombank approved the “Procedure for Implementation by Vnesheconombank of the Measures set out in Articles 4 and 6 of the Rescue Measures Law” which details the measures implemented to finance Russian banks through Vnesheconombank (the **“Procedure”**).

The Procedure lists certain criteria that a Russian bank must meet to qualify for Vnesheconombank financing, including but not limited to, a minimum credit rating of “B–” for Fitch and S&P and “B3” for Moody’s, no outstanding tax liabilities at the federal or regional level and no applicable CBR sanctions.

A set of federal laws and subordinated legislation complements the measures introduced by the Rescue Measures Law:

- The CBR established a new liquidity scheme to conduct uncollateralised lending covering a number of Russian banks. The maximum amounts that banks can raise under this facility were set by the CBR depending on the international credit rating, asset size and the level of capitalisation of the potential borrower under this arrangement.
- From 14 October 2008 until 31 December 2010, the CBR was granted the authority to guarantee interbank lending transactions for credit organisations and, in an effort to encourage interbank lending in the short-term period, to partly compensate expenses to certain banks for any future losses incurred during interbank lending operations with banks whose licences were revoked.
- Federal Law No. 317-FZ “On Amending Articles 46 and 76 of the Federal Law on Central Bank of Russian Federation (Bank of Russia)” dated 30 December 2008 vested the CBR with the right to appoint its authorised representatives to the banks and credit organisations which, inter alia, have received from Vnesheconombank any foreign currency loans and/or subordinated loans under the Rescue Measures Law. The CBR Regulation No. 2182-U dated 9 February 2009, provides for the procedure for such authorised representatives appointment, their rights and obligations including, inter alia, the right to participate (without enjoying any voting rights) in the meetings of the management bodies of such banks and credit organisations and the right to request information on management remuneration and the issuance of loans to third parties.



- CBR Regulation No. 2092-U “On Determination of Mandatory Reserve Requirements of the Bank of Russia” dated 14 October 2008, as amended, temporarily decreased the reserve requirements for all types of financial obligations, namely funds in roubles and foreign currencies payable to non-resident banks, funds in roubles payable to individuals and other obligations, to 0.5 per cent. from 4.5 per cent., 1.5 per cent. and 2 per cent., respectively. However, the CBR Regulation No. 2601-U “On Determination of Mandatory Reserve Requirements of the Bank of Russia” dated 25 March 2011, provided for the increase of the reserve requirements for all types of financial obligations, namely funds in roubles and foreign currencies payable to non-resident banks, funds in roubles payable to individuals and other obligations, to 5.5 per cent., 4.0 per cent. and 4.0 per cent., respectively. The CBR Regulation No. 2970-U “On Determination of Mandatory Reserve Requirements of the Bank of Russia” dated 12 February 2013 provides for the increase of the reserve requirements for all types of financial obligations, namely funds in roubles and foreign currencies payable to non-resident banks, funds in roubles payable to individuals and other obligations, to 4.25 per cent. See “*Banking Regulation in Russia—CBR—Functions of the CBR—Reserve requirements*”.
- The Retail Deposit Insurance Law has been amended to increase the amount of the secured deposits of individuals with Russian banks included to the state system of deposits insurance up to RUB 700,000. See “*Banking Regulation in Russia—The Retail Deposit Insurance Law*”.
- Government Decree No. 18 “On the Procedure of National Welfare Fund Assets Management” has been amended in 2008 and 2009 to increase the scope of financial instruments in which amounts from the National Welfare Fund can be invested. The National Welfare Fund was established in 2008 using oil revenues, with a view to partially funding contributions to pensions of Russian citizens and to make up shortfalls in other contributions from the federal budget to federal pension funds. As a consequence, up to RUB 655 billion of such funds may be deposited with Vnesheconombank to support the Russian financial market.
- Vnesheconombank commenced origination of foreign currency loans in the total amount of up to US\$50 billion to Russian corporates, including credit organisations, for the refinancing of indebtedness incurred prior to 25 September 2008 from non-Russian lenders and sources. This refinancing option was available until 31 December 2009.
- The number of instruments eligible for the CBR’s collateralised facility and for refinancing transactions with the CBR has been increased and the CBR may accept as collateral under its facilities to credit organisations, among other things, the pledge of certain bonds and suretyships granted by certain Russian banks.
- The Russian government has pledged RUB 500 billion to stabilise the financial markets, out of which Vnesheconombank, a state-owned bank, has already received RUB 250 billion to implement measures to support the Russian financial markets. In November 2008, Vnesheconombank received a contribution of RUB 75 billion to its charter capital to help stabilise the repo market. The remaining RUB 175 billion was deposited with Vnesheconombank and partially used to support the Russian debt and equity markets.
- The provision of additional liquidity to the Russian banks by the Russian government and the CBR has caused massive attacks on the rouble and its significant devaluation against the U.S. dollar. The financial aid received by the banks in the end of 2008 and the beginning of 2009 did little to expand the access of Russian corporates or individuals to credit. At the end of January 2009, the CBR changed its policy and placed particular emphasis on stopping further devaluation of the rouble by turning to a tighter monetary policy and significantly limiting the access of Russian banks to liquidity.
- On 29 December 2012 the CBR issued the Letter “On Methodological Recommendations on Development of Financial Recovery Plans by Credit Organisations” No.193-T. It requires Russian banks to develop recovery plans under stress conditions. The main purpose is to ensure capital and liquidity adequacy under stress conditions without any support from the CBR. The Letter is based on the Financial Stability Board’s document, namely “Key Attributes of Effective Resolution Regimes for Financial Institutions” and focuses on the following areas: conditions of recovery plan development; structure of recovery plans; early warning indicators.

## **CBR**

### ***Role of the CBR***

The CBR was established on 13 July 1990, the successor to the Russian Republican Bank of the State Bank of the USSR, or Gosbank. After the collapse of the USSR in 1991, the CBR inherited Gosbank’s operational facilities and resources, including its subsidiaries and branches.

The CBR operates under the CBR Law. According to the CBR Law, the Russian government is not liable for the CBR's obligations, and nor is the CBR liable for the obligations of the Russian government, unless the relevant liability has been assumed or is required at law. The assets of the CBR are under federal ownership.

### ***Management of the CBR***

The CBR is a legal entity and operationally independent of the Russian government. The CBR has a Moscow head office and regional branches in the constituent subjects of the Russian Federation, as well as local branches. In the case of some constituent subjects that are republics, the CBR's regional branch is called a "**National Bank**". The management of the CBR consists of the Chairman of the CBR, the board of directors of the CBR (the "**CBR Board of Directors**") and the National Banking Council.

The President of the Russian Federation nominates the Chairman of the CBR, whom the State Duma, one of the chambers of the Russian Parliament, then confirms for a four-year term in office. The Chairman of the CBR, who the President and State Duma can nominate and replace, has the right to participate in meetings of the Russian government.

The CBR Board of Directors performs general management functions, such as allocating the CBR's annual budget, determining the CBR's organisational structure and formulating internal policies and procedures. It also performs certain external regulatory functions, such as:

- establishing rules for the conduct of banking operations;
- establishing accounting rules for the Russian banks;
- determining mandatory economic ratios and provisioning policies for Russian banks; and
- determining pricing policies for the CBR's open market operations.

The CBR Board of Directors consists of the Chairman of the CBR and 12 members. The Chairman of the CBR nominates, with the approval of the President of the Russian Federation, each director, who the State Duma then confirms for a four-year term in office.

The National Banking Council performs certain policy-making functions, such as determining the CBR's maximum capital expenditures, appointing the CBR's auditors, approving its accounting procedures and allocation of the CBR's expenses. Of the 12 members of the National Banking Council, the Council of Federation, the chamber of the Russian parliament, appoints two from among its members, the State Duma appoints three from among its members, and the President of the Russian Federation and the Russian government each appoint three. The Chairman of the CBR is an ex officio member of the National Banking Council.

### ***Functions of the CBR***

Pursuant to the CBR Law, the Banking Law and the Currency Law, the CBR can issue and implement binding regulations in respect of banking and currency operations.

Under current legislation, the CBR performs the following main functions:

#### ***Monetary policy***

The CBR formulates monetary policy in the Russian Federation. It can finance banks by extending short-term loans to them at a discount rate that it determines. It also establishes reserve requirements, capital adequacy requirements and mandatory economic ratios. The CBR also conducts currency interventions, issues its own bonds, which it can offer only to credit organisations, and trades in the Russian government securities.

#### ***Bank regulation***

The CBR issues, suspends or revokes banking licences and registers new securities issuances by commercial banks. The CBR also oversees banks compliance with ratio and reserve requirements, imposes sanctions for violations thereof, establishes reporting requirements and accounting rules and procedures for banks, oversees banks operations and transactions, appoints temporary administrations of banks that are facing insolvency, regulates the acquisition or management in trust of significant stakes in banks (for stakes between 1 per cent. and 20 per cent., the CBR requires notification; in respect of stakes that equal or exceed 20 per cent., the CBR must give its prior approval of the transaction) and assesses the financial standing of banks founders. In accordance with CBR Regulation No. 130-I dated 21 February 2007, as amended, prior consent of the CBR is required for an acquisition/transfer into trust management of more than 20 per cent. of the shares of a credit organisation established as a joint-stock company and any subsequent increases of ownership/trust holding above thresholds

of 25 per cent., 50 per cent. and 75 per cent. of shares or 100 per cent. of the shares. An applicant for the CBR consent must demonstrate a satisfactory financial condition and sufficient own funds (if an individual) or net assets (if a legal entity). The CBR approval is valid for one year from the date of issuance, and the applicant may acquire any amount of shares in a credit organisation within the threshold and total acquisition price stipulated in such CBR approval.

### ***Transactions with banks***

The CBR is authorised to perform various proprietary banking operations. In particular, the CBR:

- extends loans to banks at the discount rate;
- maintains rouble-denominated correspondent accounts of other banks;
- provides cash and settlement services and issues guarantees to banks;
- purchases and sells Russian state securities, its own bonds, certificates of deposit, precious metals and stones;
- purchases and sells foreign currency and foreign currency-denominated payment instruments issued by Russian and foreign banks; and
- registers securities issued by banks.

Under Article 8 of the Banking Law the CBR cannot participate in the charter capital of banks and other commercial entities, except under the limited circumstances set forth in the CBR Law.

### ***Issue of currency and regulation of its circulation***

The CBR has the exclusive authority to issue currency in the Russian Federation and to regulate its circulation. The CBR arranges for printing of banknotes and issue of coins, establishes rules for their transportation and storage and regulates over-the-counter cash operations.

### ***Foreign currency operations***

The CBR has substantial power to regulate foreign currency operations in the Russian Federation and by Russian residents abroad. It administers the Russian Federation's international reserves. It also establishes rules governing rouble- and foreign currency-denominated bank accounts in the Russian Federation of both residents and non-residents.

### ***Domestic Government debt service and federal budget administration***

The CBR acts as placement agent for and services domestic sovereign debt issued by the Ministry of Finance of the Russian Federation.

The CBR also administers federal budget accounts. However, under Article 22 of the CBR Law, the CBR cannot, unless the federal budget expressly authorises it to do so, extend loans to the Russian government to finance federal or local budget deficits.

### ***Licensing***

A credit organisation must hold a CBR licence to conduct "banking activities", as defined in the Banking Law. Licence applicants must submit to the CBR a feasibility study, detailed information on their senior management and compliance with qualification requirement and documents certifying the source of funds contributed to their charter capital.

A Russian credit organisation may only be incorporated in the Russian Federation. Under the Banking Law, credit organisations may only be incorporated as joint stock companies, limited liability companies or companies with additional liability. The last form, however, is never used, since it envisages joint liability of the company's owners for the credit organisations obligations.

The CBR may refuse to register a credit organisation and to issue a banking licence if, among other things:

- application materials do not comply with the requirements set out by Russian law;
- the financial standing of the credit organisations founders is unsatisfactory;

- candidates for a position of a chief executive officer or chief accountant of the credit organisation fail to meet qualification requirements; or
- a candidate for a position of a member of the credit organisation's board of directors has a business reputation which does not correspond to the established qualification requirements.

Additional requirements have been introduced for obtaining a licence for taking deposits from individuals. Under Article 36 of the Banking Law the licence could be granted to a newly established bank or to a bank existing for more than two years from the date of its registration provided that: (i) the charter capital of a newly established bank or the regulatory capital of an existing bank is not less than RUB 3,600 million, and (ii) the bank complies with the CBR's requirement to publicly disclose all information relating to persons having significant influence over decisions made by the bank's management bodies.

The charter (regulatory) capital requirement of RUB 900 million has been introduced by Article 11 of the Banking Law for obtaining a licence for conducting banking operations in roubles and foreign currencies and taking deposits from individuals in roubles and foreign currencies.

### ***The Federal Service for Financial Markets***

Until 1 September 2013, the FSFM was responsible for the issuance of licences to Russian credit organisations to perform the following professional functions on the Russian securities markets: (1) broker, (2) dealer, (3) securities manager, (4) custodian, (5) clearing organisation, (6) registrar and (7) arranger of trade in the securities market/stock exchange. The licensing procedures are established in FSFM Regulation No. 10-49/PZ-N of 20 July 2010, as amended. In addition, the FSFM had the right to conduct audits of credit organisations from time to time to check their compliance with the requirements of applicable laws and regulations. The FSFM was responsible for setting up certain additional reporting requirements for licensed credit organisations and has a right to monitor their operations. All functions of the FSFM were transferred to the CBR effective from 1 September 2013.

### ***Capital requirements***

The basic concept underlying Russian capital requirements is the amount of the capital base (own funds) of a credit organisation which is defined as the sum of the "core capital" and "supplemental capital" of the credit organisation minus certain obligations as determined by the CBR.

The core capital and supplemental capital are defined as an exhaustive list of different types of debt and equity that qualify for treatment as the core and supplemental capital, as applicable. For example, the amount of the charter capital of the credit organisation is included into the main capital of the credit organisation and constitutes a part of the credit organisations capital base.

The Banking Law establishes minimum charter capital (capital base) for banks. Under the Banking Law the minimum charter capital both for newly-established and foreign owned banks is equivalent to RUB 300 million. A bank whose capital base falls below its nominal charter capital must increase its capital base (or, if impossible, reduce its nominal charter capital) accordingly. The CBR Regulation No. 1260-U dated 24 March 2003, as amended, establishes the procedures for such adjustment.

The capital base of a credit organisation must not be less than 300 million roubles save for banks whose capital base constituted less than 180 million roubles as of 1 January 2007. Each bank whose capital base was below 180 million roubles as of 1 January 2007 was required to increase its capital base to: (i) a minimum of 90 million roubles by 1 January 2010; and (ii) a minimum of 180 million roubles by 1 January 2012. In addition, such banks (as well as banks established after 1 January 2007) are required to have a capital base of at least 300 million roubles by 1 January 2015. Failure to comply with this requirement will result in revocation of the bank's licence. The capital base required for a newly established bank seeking to obtain a retail deposits licence is 3.6 billion roubles or more.

### ***Reserve requirements***

Under Article 38 of the CBR Law, the CBR Board of Directors may establish reserve requirements for banks. Reserve requirements must not exceed 20 per cent. of the banks liabilities and may vary for different types of banks.

Banks are currently required to mandatory reserves to be held in non-interest bearing accounts with the CBR. To stabilise local financial market, and to support the liquidity of the Russian banking sector, the CBR decreased in October 2008 mandatory reserves for various obligations of credit organisations to 0.5 per cent. and successively increased them starting from 1 April 2011 to the current 5.5 per cent. for the banks' obligations to non-resident banks in roubles or foreign currency and 4.0 per cent. for obligations to individuals in roubles and other obligations in roubles or foreign currency.

From 1 March 2011, mandatory cash balances are calculated by banks in accordance with the CBR Regulation No. 342-P dated 7 August 2009, as amended, and Regulation No. 2970-U dated 12 February 2013, (the “**Reserves Regulations**”). The Reserves Regulations do not require creation of reserves for certain long-term borrowings, but they require deposition of reserves for short-term obligations to non-resident banks. The Reserves Regulations also require banks to report the calculation of reserves to the CBR and its regional branches promptly after the end of each calendar month, as well as to post additional reserves, if necessary.

The CBR may fine a bank that fails to comply with reserve requirements and debit the insufficient reserve from its correspondent account maintained with the CBR. The CBR and its regional branches may also conduct extraordinary audits of a banks compliance with the reserve requirements.

Amounts deposited with the CBR pursuant to reserve requirements are not subject to seizure for the satisfaction of judgments against the bank. In the event of the revocation of the banks licence, mandatory reserves are included in the pool of assets available for distribution to the banks creditors in the priority established by law.

### ***Loss provisions***

The CBR regulates the creation of provisions for bank loan losses. CBR Regulation No. 254-P “On the Procedure for Making Provisions for Possible Losses on Loans and Similar Indebtedness by Credit Organisations” dated 26 March 2004, as amended (“**Regulation No. 254-P**”) requires banks to adopt procedures for calculating and posting provisions for loan losses and to monitor the financial position of borrowers.

This regulation requires credit organisations to classify their loans into the following categories and to create provisions for such loans in the corresponding amounts:

On a stand-alone basis (with respect to a particular loan):

<b>Category</b>	<b>Status of Loan</b>	<b>Provision</b>
Category I .....	Standard loans, without credit risk	0 per cent.
Category II .....	Non standard loans, moderate credit risk	1 per cent.—20 per cent.
Category III .....	Doubtful loans, considerable credit risk	21 per cent.—50 per cent.
Category IV .....	Problem loans, high credit risk	51 per cent.—100 per cent.
Category V .....	Bad loans	100 per cent.

On an aggregate basis (with respect to a portfolio of similar loans):

<b>Category</b>	<b>Status of Loan</b>	<b>Provision (per cent. from the net balance value of loans in the portfolio)</b>
Category I .....	Standard loans, without credit risk	0 per cent.
Category II .....	Non standard loans, moderate credit risk	Up to 3 per cent.
Category III .....	Doubtful loans, considerable credit risk	More than 3 per cent.—up to 20 per cent.
Category IV .....	Problem loans, high credit risk	More than 20 per cent.—up to 50 per cent.
Category V .....	Bad loans	More than 50 per cent.

Loans should be classified on the basis of professional judgment by the credit organisation taking into account the borrowers financial standing and debt servicing level. The credit organisation must evaluate at its discretion the borrowers financial standing and debt servicing level as good, average or bad. Regulation No. 254-P sets forth the relevant tests to be applied towards a particular loan and borrower. In September 2013, the CBR published a draft of amendments to Regulation No. 254-P which propose increases in the provisions required for unsecured consumer loans. The proposed amendments will affect loans without overdue payments and loans with payments overdue by up to 30 days; amounts of provisions for loans with payments overdue more than 30 days remain the same. The draft proposes the following amendments to provisions amounts that will apply to unsecured credit loans that will be granted after 1 January 2014.

<b>Class of loan</b>	<b>Current provisions</b>	<b>Provisions proposed by the draft</b>
Loans without overdue payments .....	2 per cent.	3 per cent.
Loans with payments overdue by up to 30 days .....	6 per cent.	8 per cent.
Portfolio of similar loans without overdue payments and with payments overdue by up to 30 days .....	3 per cent.	5 per cent.

The amendments are to be applied to banks’ financial statements after 1 April 2014.



Regulation No. 254-P expands the range of loans to be so classified to include rights assigned under contracts, mortgages acquired in the secondary market, claims relating to purchase of financial assets with deferred payment, rights under repo contracts (if such repo contracts are concluded in respect of unlisted securities) and others. Under Regulation 254-P, credit organisations do not need to make provisions for Category I loans (standard loans without credit risk). Additionally, credit organisations must classify loan collateral into two categories on the basis of its quality. Finally, the regulation provides for a somewhat simplified procedure in respect of writing off bad debts, especially minor debts, as compared with the former procedures.

Provisions for loan losses are calculated at the end of each calendar month. Such provisions only cover losses relating to the principal amount of loans and exclude interest and any discount. The CBR and its regional branches may audit banks compliance with requirements relating to provisions for loan losses and verify the correctness of calculations in respect of such provisions.

The CBR also regulates the creation of provisions for possible losses other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities and other transactions. CBR Instruction No. 283-P dated 20 March 2006, as amended, require banks to classify such activities into the following five risk categories and to make provisions in the corresponding amount at their discretion:

<b>Category</b>	<b>Possibility of Losses</b>	<b>Reserve amount</b>
Category I .....	No real or potential possibility of losses	0 per cent.
Category II .....	Moderate potential possibility of losses	1-20 per cent.
Category III .....	Serious potential or moderate real possibility of losses	21-50 per cent.
Category IV .....	Simultaneous potential and moderate real possibility of losses or material real possibility of partial losses	51-100 per cent.
Category V .....	Complete loss	100 per cent.

Banks must report to the CBR the amount of new non-loan provisions within 10 days after the end of each reporting month. The CBR and its regional branches monitor banks compliance with these rules.

Pursuant to CBR Regulation No. 1584-I dated 22 June 2005, mandatory provisions shall also be created for operations with residents of certain off-shore jurisdictions.

### ***Mandatory economic ratios***

CBR Instruction No. 139-I “On Banks Mandatory Economic Ratios” dated 3 December 2012, as amended, establishes mandatory economic ratios for banks.

The following table sets forth the mandatory economic ratios that banks must observe on a daily basis and periodically report to the CBR. Unless stated otherwise, such ratios are calculated on the basis of RAS, as formulated by applicable Russian laws and CBR regulations.

As mentioned above, a banks capital base consists of core capital and supplemental capital. Core capital includes, among other items, charter capital, share premium, retained earnings and certain reserve funds. Supplemental capital includes, among other items, reserves for asset revaluations, reserves for loan losses, certain preferred shares and subordinated debt.

<i>Mandatory Economic Ratio</i>	<i>Description</i>	<i>CBR Mandatory Economic Ratio Requirements</i>
<b>Capital adequacy ratio (N1)</b>	This ratio is intended to limit the risk of a bank’s insolvency and to establish the minimum size of the bank’s capital base necessary to cover credit, operational and market risks. It is defined as the ratio of a bank’s capital base to its aggregate risk weighted assets and off-balance sheet liabilities. (Assets and off-balance sheet liabilities are weighted according to five broad risk categories.) Unlike Tier I and Tier II capital calculated with respect to TCS as a whole, capital adequacy ratio (N1) is calculated with respect to TCS as a bank on the basis of Russian accounting standards, as formulated by applicable Russian laws and CBR regulations.	Minimum 10 per cent.

<b>Instant liquidity ratio (N2)</b>	This ratio is intended to limit the bank's liquidity risk during one operational day. It is defined as the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand.	Minimum 15 per cent.
<b>Current liquidity ratio (N3)</b>	This ratio is intended to limit the bank's liquidity risk during 30 calendar days preceding the date of the calculation of this ratio. It is defined as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with terms of up to 30 calendar days.	Minimum 50 per cent.
<b>Long-term liquidity ratio (N4)</b>	This ratio is intended to limit the bank's liquidity risk from placement of funds into long-term assets. It is defined as the maximum ratio of the bank's credit claims maturing in more than one year to the sum of its capital base and liabilities maturing in more than one year.	Maximum 120 per cent.
<b>Maximum exposure to a single borrower or a group of related borrowers (N6)</b>	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers (defined as persons who belong to the same banking or financial industrial group, are close relatives, or persons who can directly or indirectly materially influence the decisions of corporate borrowers). It is defined as the maximum ratio of the aggregate amount of the banks various credit claims to a borrower (or a group of related borrowers) to its capital base. The CBR issued Letter No. 106-T dated 10 September 2004, as amended recommending that Russian banks implement an exposure limit for economically related borrowers. Under this letter, borrowers are "economically related" if a decline in the financial condition of one borrower affects or may affect the financial condition of the other borrower; and may result in such other borrowers inability to perform its obligations to the bank (e.g., if the borrower is simultaneously a creditor of a bank and a debtor to another creditor of the bank). However, the limit has not been officially introduced yet.	Maximum 25 per cent.
<b>Maximum amount of major credit risks (N7)</b>	This ratio is intended to limit the aggregate amount of a banks major credit risks (defined in the Banking Law as the sum of loans to, and guarantees or sureties in respect of, clients with exposure exceeding 5 per cent., of a bank's capital base). It is defined as the maximum ratio of the aggregate amount of major credit risks to a bank's capital base.	Maximum 800 per cent.
<b>Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants/(shareholders) (N9.1)</b>	This ratio is intended to limit a bank's credit exposure to the banks owners. It is defined as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its participants or shareholders to its capital base.	Maximum 50 per cent.

<b>Aggregate amount of exposure to the banks insiders (N10.1)</b>	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing decisions on granting of credit). It is defined as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.	Maximum 3 per cent.
<b>Ratio for the use of the bank's capital base to acquire shares (participation interests) in other legal entities (N12)</b>	This ratio is intended to limit the aggregate risk of banks investments in shares (participation interests) of other legal entities. It is defined as the maximum ratio of the banks investments in shares (participation interests) of other legal entities to its capital base.	Maximum 25 per cent.

In September 2013, the CBR published a draft of amendments to the Mandatory Economic Ratios Instruction. The proposed amendments relate to rules on mandatory economic ratios calculation and have been prepared for the purpose of the Basel III implementation process. It is proposed that the amendments will enter into force on 1 January 2014.

The proposed amendments include division of the capital adequacy ratio (N1) into three separate ratios: (i) a base capital adequacy ratio (N1.1), (ii) a core capital adequacy ratio (N1.2) and (iii) an own funds adequacy ratio (N1.0). The CBR proposed the following minimum requirements for each of the set ratios: (i) 5 per cent. for the main capital adequacy ratio (N1.1), (ii) 5.5 per cent. with a further increase to 6 per cent. after 1 January 2015 for the core capital adequacy ratio (N1.2) and (iii) 10 per cent. for the capital base adequacy ratio (N1.0), which is the same 10 per cent. as it is currently prescribed for the capital adequacy ratio (N1).

Furthermore, with respect to aggregate amount of exposure to a bank's insiders (N10.1) the CBR proposed to introduce a definition of individuals capable of influencing decisions on granting of credit. According to the proposed amendments, the following individuals must be considered as being capable of influencing decisions on granting of credit: (i) affiliates of a bank; (ii) members of bank's credit board; (iii) the chief accountant of a bank or any of its branches; (iv) chief executive officer of a bank or any of its branches; (v) other bank officers that by virtue of position at the bank may influence decisions on granting of credit (the list of relevant positions is to be set forth in an internal regulation of the relevant bank); as well as (vi) close relatives of individuals mentioned in items (i)-(v).

The proposed amendments to the mandatory economic ratios also affect the calculation of risk-weightings. In particular, the new methodology is proposed to be applied to derivatives and syndicated loans for the purpose of calculating the relevant bank's risk-weighted assets under the CBR's economic ratios after 1 January 2014. It is also proposed that after 1 October 2014 banks will be required to calculate an additional risk-weighting, namely risks in connection with loan price amendments resulting from decline in the financial condition of counterparty.

Finally, the proposed amendments also contemplate increases to risk-weightings for higher rate loans. See *"Business—Recent Developments—Changes in Risk-Weighting Coefficients on Higher Rate Loans"*.

In addition, the CBR Regulation No. 112-I dated 31 March 2004 describes the methods of calculation of additional ratios that, pursuant to Federal Law No. 152-FZ "On Mortgage Backed Securities" dated 11 November 2003, as amended (the "Mortgage Backed Securities Law"), apply to banks that issue mortgage-backed securities. Among these additional ratios is the following:

<u>Mandatory Economic Ratio</u>	<u>CBR Mandatory Economic Ratio</u>
The ratio of claims relating to principal and interest on loans secured by mortgages to the principal and interest of mortgage-backed securities (N18) .....	at least 100 per cent.

A bank must comply with this special ratio from the time of the decision to issue mortgage-backed securities until the complete redemption of securities.

#### ***Regulation of currency exposure***

The CBR Instruction No. 124-I dated 15 July 2005, as amended, governs banks exposure to foreign currency and precious metals (together, "**currency exposure**"). Banks calculate their currency exposure in respect of net balance sheet positions, spot market positions, forward positions, option positions, guarantees (including bank guarantees), suretyships and letters of credit. An "open currency position" is the sum of these net amounts. Banks calculate their exposure for each currency and each precious metal and then recalculate it into roubles in accordance with official exchange rates and CBRs prices for precious metals.

Under Chapter 2 of the CBR Instruction No. 124-I at the end of each operational day, the aggregate amount of all open long or short currency positions must not exceed 20 per cent. of the banks capital base (charter capital). Concurrently, at the end of each operational day, open long or short position in respect of any single currency or precious metal must not exceed 10 per cent. of the banks capital base (charter capital).

### ***Reporting requirements***

Under CBR Regulation No. 2332-U of 12 November 2009, as amended, routine reporting is performed by credit organisations on a daily, five-day, 10-day, monthly, quarterly, half-yearly and yearly basis, and certain reporting is effected on a non-regular basis. Specific reporting requirements apply to credit organisations in the process of liquidation pursuant to the CBR Regulation No. 1594-U of 14 July 2005, as amended.

Under Article 43 of the Banking Law, financial statements on RAS basis must be disclosed to the public by the bank on a quarterly and yearly basis. Annual RAS financial statements must be published only after their certification by a statutory auditor. Quarterly RAS financial statements may be published without their certification by a statutory auditor.

Banking groups (i.e. alliances of banks in which one bank directly or indirectly controls decisions of the management bodies of other banks within the alliance) and consolidated groups (i.e. alliances of legal entities in which one bank, directly or indirectly, controls decisions of the management bodies of other commercial non-banking companies within such alliances) must regularly submit their consolidated accounts to the CBR.

The CBR may at any time conduct full or selective inspections of any banks filings and may inspect all of its books and records. The CBR, however, is prohibited from conducting a secondary audit of matters covered by the previous audit within a single reporting period, save for limited circumstances provided in the Article 73 of the CBR Law. The CBR Regulation “On the Procedure for Carrying out the Control of Credit Institutions (of their affiliates) by Authorised Representatives of the Central Bank of the Russian Federation” No. 105-I of 25 August 2003, as amended, sets forth the procedure for such control in detail.

Pursuant to CBR Directive No. 2964-U dated 16 January 2013, credit organisations are also required to prepare financial statements in accordance with the IFRS for the period from January 1 to December 31 of each year and submit them to the CBR. Under Federal Law No. 208-FZ, dated 27 July 2010 “On Consolidated Financial Statements” (“**Federal Law No. 208-FZ**”) credit organisations are to prepare annual consolidated financial statements under IFRS, have them audited and reported to the CBR. Federal Law No. 208-FZ also states that interim consolidated financial statements shall also be reported to the CBR.

The CBR issued recommendations as to how to prepare IFRS financial statements in its Letter No. 16-T of 5 February 2013, which contains pro-forma IFRS financial statements and examples of typical adjustments to RAS accounts for the purpose of their transformation into IFRS financial statements. Annual financial statements of credit organisations prepared under RAS and IFRS are subject to an audit by an auditor being a member of a self-regulatory organisation of auditors in Russia.

According to CBR Regulation No. 345-P of 27 October 2009, as amended, all banks participating in the Deposit Insurance System are required to publicly disclose information on individuals and legal entities that can materially influence decisions of the bank’s management. Such information must be published on the website of the CBR or on the bank’s website. As of July 2012, banks are obliged to publish information on shareholders owning more than 1 per cent. of the bank’s voting shares, as well as the total percentage of shareholders owning 1 per cent. or less of the voting shares of the bank and the total percentage of voting shares that are publicly traded.

Under the Retail Deposit Insurance Law and CBR regulations banks that participate in the mandatory deposit insurance system must disclose information about persons who exercise (directly or indirectly) control over the decisions taken by the management bodies of the bank by way of publication on the CBR official website of a list of the relevant persons and a chart showing the interrelation between the bank and such persons. The bank shall notify the CBR about the relevant amendments to the provided information within 10 days since the occurrence of the underlying events giving rise to the amendments.

### ***Accounting practices***

The CBR establishes a standard format for presentation of financial and statistical data and recording banking transactions. The CBR also establishes accounting rules and procedures for banks.

The accounting practices are regulated by CBR Regulation No. 385-P dated 16 July 2012, as amended. Pursuant to this regulation, financial statements of credit organisations must be prepared in accordance with RAS.

Pursuant to CBR Regulation No. 2964-U dated 16 January 2013, as amended (“**Regulation No. 2964-U**”), credit organisations are required to file their financial accounts with the territorial divisions of the CBR for the period from 1 January to 31 December. Banks may determine the method for publishing of their financial accounts approved by a statutory auditor (in a separate publication in the mass media, or on website of the credit organisation in the Internet).

### ***Credit reporting***

Federal Law No. 218-FZ “On Credit Histories” dated 30 December 2004, as amended (the “Credit Histories Law”), provides for the establishment, for the first time in the recent history of the Russian Federation, of “credit bureaus” that will maintain a database of borrowers credit histories. The Credit Histories Law requires all credit organisations, starting from 1 September 2005, to provide at least one credit bureau with the credit histories of all borrowers that have consented to the distribution of such credit histories. The borrower’s credit history will consist both of public and confidential parts and must include, among other things, information on the borrowers outstanding debt and interest thereon, the terms of repayment and legal proceedings involving the borrower in respect of loans and credits. The securities service of the CBR (the former FSFM) will oversee the credit bureaus and maintain a general catalogue of credit histories. As of 29 August 2013, it had registered 26 credit bureaus.

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, the Mortgage Backed Securities Law and amendments to the Russian Civil Code, Tax Code and the Federal law “On Mortgages” were enacted in 2003-2004. By means of these laws, Russian legislators attempted to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. Another intention of this legislation was to introduce improved regulation of mortgage-backed securities in order to make them more attractive for investors. Several issues of mortgage-backed securities were placed in accordance with the Mortgage Backed Securities Law between 2006 and 2008.

In addition, under a separate Federal Law No. 264-FZ “On Amendments to the Federal Law “On Mortgage of Real Estate” and Certain Legislative Acts of the Russian Federation” dated 22 December 2008, important procedural changes were introduced to the recording of mortgage certificates in order to facilitate transactions with such certificates (which is expected to be of help for the issuance of mortgage backed securities).

An owner of mortgage certificates may submit them to a depositary for recording rights to such mortgage certificates and, as such, facilitating transactions with them. If mortgage certificates are recorded with a depositary, their transfer and pledge is effected by making entries in the relevant depositary account instead of endorsing the original mortgage certificates.

It is now possible to publish pro-forma conditions of mortgage certificates on an Internet website or in a publication and incorporate such conditions into the mortgage certificates by reference.

### **Internal Control**

Under the CBR Law, the CBR has the authority to impose compulsory rules on the organisation of internal control. Under regulation No. 242-P “On Organisation of the Internal Control in Credit Organisations and Banking Groups” dated 16 December 2003, as amended, internal control shall be performed in accordance with the authority granted in the constitutive and internal documents by:

- the general shareholders meeting and board of directors;
- the CEO and the collective executive body;
- the audit commission (auditor);
- the chief accountant (or his/her deputies) of the credit organisation;
- the CEO (or his/her deputies) and the chief accountant (or his/her deputies) of the branch office;
- the divisions and officers performing internal control according to the internal documents of the credit organisation including among others:
- internal control service; and
- the responsible officer (structural division) for combating the legalisation (laundering) of income obtained by illegal means and the financing of terrorism.

Internal control service performs, among other things, the following functions:

- checks and evaluates the efficiency of the internal control system;
- checks the compliance of the internal documents with the legislation;



- assesses the economic efficiency of the performed operations; and
- checks the completeness of the application and efficiency of the methodology of assessment of banking risks and banking risk management.

### **Regulation of Insider Dealing**

Federal Law No. 224-FZ “On Combating the Unlawful Use of Insider Information and Market Manipulation and Introducing Amendments to Certain Legislative Acts of the Russian Federation” dated 27 July 2010, as amended (the “Insider Dealing Law”) generally enumerates categories of persons that can be considered insiders, including, among others, issuers, banks and other credit organisations, professional market participants (including brokers and dealers) and other persons who transact on behalf of their clients with financial instruments, foreign currency and/or goods, and have received insider information from their clients. Insider information is defined as information which is confidential and where disclosed may influence the price of trades and securities and the list of such information is adopted by the FSFM. Under the Insider Dealing Law, any person who illegally uses the insider information and publishes misleading information may be held liable for misuse of information and/or market manipulation. Furthermore, insiders must comply with certain new disclosure requirements, including keeping the insiders list and sending notices of transactions by the insiders to the FSFM and the CBR. In implementation of the Insider Dealing Law and pursuant to the CBR Regulation No. 2723-U dated 31 October 2011, the CBR started disclosing certain facts relating to banks on its website, including, among other things, (1) status and results of inspections, (2) revocation of a licence, (3) administrative liability of a credit organisation or its sole executive body, (4) invalidation of the CBR’s approval for taking retail deposits and opening and maintaining bank accounts for individuals, and (5) phases of issuance of securities. Given that the Insider Dealing Law is relatively new and vaguely drafted, its application is not yet settled.

### **The National Payment System Law**

Federal Law No. 161-FZ “On the National Payment System” dated 27 June 2011 (the “**National Payment System Law**”), generally came into force on 29 September 2011. The National Payment System Law provides for legal and organisational principles of the national payment system, establishes the procedure for rendering of payment services, including making transfer of monetary funds, use of electronic means of payment, as well as sets forth requirements for organisation and operation of payment systems and the procedure for monitoring and supervision over the national payment system. The National Payment System Law provides that only credit organisations may carry out transfers of electronic monetary funds. Credit organisations may enter into agreements with other organisations, under which the latter may render to the credit institutions operational and clearing services for the transfer of electronic monetary funds. Under the National Payment System Law, the CBR is vested with additional functions of monitoring and supervision over the national payment system.

### **The Central Depository Law**

Federal Law No. 414-FZ “On the Central Depository” dated 7 December 2011, as amended (the “Central Depository Law”). The majority of the provisions of the Central Depository Law came into force on 1 January 2012 and provide a legal framework for establishment, and operational conditions, of the central depository, in particular, setting out the rights and obligations of the central depository, requirements to its activities and specifics of the state control and supervision of its activities. The Central Depository Law aims at improving effectiveness and competitiveness of Russian stock market, including, expediting and facilitating the securities trade settlements and mitigating the risks associated therewith. Under the Central Depository Law, the central depository is defined as a depository that is a non-banking credit organisation, to which the status of the central depository has been assigned. Only a joint-stock company established in accordance with Russian law can be the central depository. Pursuant to the Central Depository Law, the central depository (within one year from the date of assignment of its status) shall take all necessary steps in order to open its nominal holder accounts, in particular, in all securities registers of issuers obliged to disclose information in accordance with the Securities Market Law. Also, the Central Depository Law prohibits persons maintaining securities registers from opening accounts, and depositing securities with, other nominal holder accounts from the opening date of a nominal holder account of the central depository. The National Settlement Depository has been assigned the status of the central depository by Order of the FSFM No.12-2761/PZ-I dated 6 November 2012.

### **The Insolvency Regime for Credit Organisations**

#### ***Overview***

Credit organisations, including banks, are subject to specific insolvency rules set forth in the Bank Insolvency Law. In addition, Federal Law No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October 2002, as amended (the “**Insolvency Law**”), regulates issues not expressly addressed in the Bank Insolvency Law.

### ***Workout proceedings***

Before commencement of insolvency proceedings, a credit organisation may be subject to the following bankruptcy prevention proceedings:

- financial rehabilitation, which involves the restructuring of assets and liabilities, organisational restructuring and capital injections from third parties, including shareholders or creditors;
- appointment of a temporary administration; or
- reorganisation.

The credit organisations' creditors or their shareholders may initiate financial rehabilitation or reorganisation at their discretion or after a request by the CBR. However, only the CBR can appoint a temporary administrator to a credit organisation.

### **Insolvency Proceedings**

#### ***Revocation of the banking licence and filing the insolvency petition with the arbitrazh court***

A pre-requisite to initiation of bankruptcy proceedings in respect of a credit organisation is the revocation of its licence by the CBR. Under the Bank Insolvency Law, if a credit organisation cannot satisfy creditors claims within 14 days of when they come due, the following persons may petition the CBR (the "**Licence Revocation Petition**") for revocation of the credit organisation's licence:

- the credit organisation itself;
- its creditors; or
- an authorised governmental agency.

Under the Banking Law, the CBR must revoke the licence of a credit organisation if, among other things:

- the credit organisation's capital adequacy ratio falls below 2 per cent.;
- the credit organisation's capital base is less than the minimum nominal charter capital requirement established by the CBR at the date of registration of the credit organisation. However, this ground does not apply to a credit organisation within two years from the date of the issuance of its licence for performing banking operations;
- the credit organisation fails to adjust its capital base and nominal charter capital within the established time period; or
- the credit organisation fails to satisfy the monetary claims of its creditors, including taxes and other mandatory payments, in the aggregate amount of at least RUB 100,000 within 14 days of when they come due.

Under the Banking Law, the CBR has discretion to revoke the banking licence of a credit organisation, if, among other things:

- information provided for issuance of the banking licence was inadequate;
- the credit organisation reports substantially inadequate information;
- the credit organisation fails to initiate banking operations in accordance with the licence ("**non-use**");
- the credit organisation delays a submission of its monthly reporting to the CBR by more than 15 days;
- the credit organisation conducts at least one operation deemed "banking operation" under the Banking Law without an appropriate licence;
- the credit organisation's activities do not comply with the Banking Law or other laws and regulations governing the banking sector (including certain requirements of the Anti-Money Laundering Law, as defined below), such that during one year the CBR has imposed corrective measures upon the credit organisation more than once;
- the credit organisation wilfully and more than once, during one year, has failed to execute court rulings prescribing it to debit funds from its clients' accounts;
- the credit organisation timely fails to file with the CBR updated information for inclusion in the state register of legal entities;

- the credit organisation violates anti-money laundering laws and regulations; or
- certain other circumstances set out by the Banking Law occur.

If the CBR revokes the credit organisations licence, the following persons can petition an arbitrazh court to declare the credit organisation insolvent (the “**Insolvency Petition**”):

- the credit organisation itself;
- its creditors;
- an authorised governmental agency; or
- the CBR.

If the CBR fails to respond to the Licence Revocation Petition within two months after its submission, the applicant may file an Insolvency Petition with the arbitrazh court.

Upon revocation of the credit organisations licence, the CBR must appoint a temporary administration to the credit organisation if the temporary administration is not already in place. Upon revocation of the credit organisations licence, the credit organisation may not enter into certain new transactions or perform certain transactions pursuant to existing obligations.

The CBR must make a public announcement of the revocation of a credit organisations banking licence within one week from the revocation date.

### ***Insolvency proceedings***

After a court hearing on the Insolvency Petition, the arbitrazh court may declare the credit organisation insolvent if certain tests established in the Bank Insolvency Law are satisfied.

Upon initiation of bankruptcy proceedings, a moratorium on payments to existing creditors is introduced, and the credit organisation may perform its transactions and make any payments only in accordance with the ranking of claims satisfaction set forth in the Bank Insolvency Law and the Insolvency Law.

### ***Appointment of a receiver***

Along with initiation of bankruptcy proceedings, the arbitrazh court must appoint a receiver to the credit organisation. If it did not possess a licence to attract deposits of individuals, the court will choose one of the receivers accredited by the CBR. If it did, a representative of the Deposit Insurance Agency will be appointed.

The receiver assumes management over the credit organisations operations. The receiver:

- analyses the credit organisation’s financial standing;
- evaluates its assets;
- identifies creditors and notifies them of the credit organisation’s insolvency;
- identifies debtors and requests performance of their obligations to the insolvent credit organisation; and
- performs other functions pursuant to the Bank Insolvency Law.

The receiver reports to a committee of creditors and to the CBR, subject to supervision by the arbitrazh court.

### ***Appointment and Powers of a Receiver***

Once a court declares a credit organisation insolvent:

- if the credit organisation did not hold a retail banking licence, the court appoints a CBR-accredited receiver; or
- if the credit organisation held a retail banking licence, the Deposits Insurance Agency acts as a receiver.

Upon its appointment, the receiver assumes all the management and liquidation of the credit organisation’s operations. The receiver’s appointment is initially for one year, but may be extended for a further six-month period. The receiver’s authority includes:

- analysis of the credit organisation’s financial standing;
- identification of its creditors and sending them a notice of the credit organisation’s insolvency;

- identification of debtors and demanding performance of their obligations to the estate of the insolvent credit organisation; and
- other powers, as set forth under the Bank Insolvency Law.

The receiver reports to the committee of creditors and to the CBR, subject to the court supervision.

### ***Invalidation of Transactions and Refusal to Perform Obligations***

Under the Bank Insolvency Law, upon the receiver's petition, the court may invalidate, among others, the following voidable transactions of an insolvent credit organisation (subject to certain exceptions set by the Bank Insolvency Law for specific types of transactions, such as transactions made in the ordinary course of business or at a stock exchange):

- made within one year prior to the appointment of the temporary administration, if the consideration received under such transaction is deemed "suspicious", i.e. if the price and/or other terms and conditions of such transaction were significantly less favourable to the credit organisation than those of a similar transaction made under comparable circumstances; or
- made within three years before the appointment of the temporary administration, if the credit organisation made a suspicious transaction with the intent of prejudicing property interests of creditors, provided that the transaction caused damage and the counterparty was aware of such intent of the credit organisation; or
- if the transaction leads or may lead to preferential satisfaction of one creditor's claims over other creditor's claims and was (i) made within one month prior to the appointment of the interim administration, or after the appointment of the interim administration; or (ii) made within six months prior to the appointment of the interim administration where the counterparty was aware (or should have been aware) that the credit organisation could be insolvent when the transaction was made or if such transaction aimed at creating preferences for a particular creditor or impaired or could impair otherwise existing priority of claims.

Under the Bank Insolvency Law, the receiver may generally refuse to perform any transaction that results in losses to the credit organisation, where a similar transaction entered into under comparable circumstances would not ordinarily result in such losses.

### ***Priority of claims***

Under the Civil Code, the Bank Insolvency Law and the Insolvency Law the claims of creditors of a credit organisation rank in the following order of priority:

- *Claims in respect of insolvency proceedings (current payment claims).* Claims related to administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utilities bills, legal expenses, taxes and social contributions and other payments arising after the revocation of the credit organisations banking licence.
- *First priority.* The following claims:
  - for reimbursement of damages caused to individuals life or health, as well as moral damages;
  - retail depositors and individuals claims holding current accounts with the credit organisation (except for individual entrepreneurs);
  - claims of the Deposit Insurance Agency in respect of deposits and current accounts transferred to it pursuant to the Retail Deposit Insurance Law; and
  - claims of the CBR relating to the CBR payments to retail depositors of insolvent credit organisations that do not participate in the deposit insurance system.
- *Second priority.* Claims under employment contracts and other social benefits and copyright claims.
- *Claims secured by pledge of the credit organisation's assets.* Any residual claims of secured creditors that remain unsatisfied after the sale of such collateral rank *pari passu* with claims of unsecured creditors.
- *Third priority.* Claims of all other creditors except for claims of subordinated creditors (including, among others, claims of retail depositors for lost profits and penalties). Generally, under the Insolvency Law, taxes and similar payment obligations rank *pari passu* with the claims of unsecured creditors. These provisions, however, contradict the Russian Civil Code, which ranks taxes and similar payment obligations ahead of the claims of unsecured creditors. The outcome of this conflict remains untested.

- *Last priority.* Claims of subordinated creditors.

Claims of each category of creditors must be satisfied in full before claims of the next category are considered.

### ***Completion of insolvency proceedings***

Upon the collection of debts and satisfaction of claims, both to the extent possible, the receiver submits a report to the arbitrazh court, which in turn extends or closes the insolvency proceedings. Insolvency proceedings terminate when a formal entry is made in the legal entities register on the liquidation of the credit organisation.

### **Reform of the Banking Sector**

The 1998 financial crisis revealed a lack of proper risk management in the Russian banking sector and heightened public anxiety about the integrity of the banking system, with misleading advertisements, money laundering, corruption and criminal penetration of the banking sector all being major concerns. From 1999 to 2001, the Russian banking sector gradually recovered from the 1998 financial crisis. Higher liquidity levels, as well as a shift in emphasis from investing in government securities to the making of loans, characterised this recovery.

### ***Strategic Plans for Banking Sector Reform***

At the end of 2001, the Russian government and the CBR issued a joint declaration entitled “The Strategy of the Development of the Banking Sector of Russia”, setting forth the strategy for banking reform in the Russian Federation and calling for certain legislative steps and structural changes during the subsequent five years. In August 2003, the Russian government adopted a programme for the social and economic development of the Russian Federation for the years 2003 to 2005, which also set forth goals for Russian banking reform. The programme contemplated, among other things, the simplification of procedures for banks’ reorganisation and the introduction of regulation of syndicated lending, financing of affiliates, credit bureaus and pledges of money held in a bank account.

On 5 April 2005, the Russian government and the CBR published a new strategy for the development of the Russian banking sector during the period from 2005 to 2008, which replaces the 2001 joint declaration and remains in effect (the “**2005 Banking Strategy**”). Its main objective is to increase the stability and effectiveness of the banking system. Among other things, the 2005 Banking Strategy analyses current conditions in the Russian banking sector, outlines goals for the sectors reform and forecasts the results of such reform. Among the 2005 Banking Strategy’s main goals are:

- improving legislative oversight of banking activities and increasing the efficiency of bank regulation;
- developing banking infrastructure, including increasing the effectiveness of deposit taking and lending activities of banks, and facilitating banks’ roles as financial intermediaries;
- strengthening investors’, depositors’ and creditors’ trust in the Russian banking sector and protecting the interests of banks depositors and creditors;
- strengthening market discipline in the banking sector and ensuring fair competitive conditions for all credit organisations;
- increasing the competitiveness of Russian credit organisations; and
- ensuring the transparency of banking activities and preventing the use of credit organisations for unlawful purposes, such as money laundering.

As part of improving legislative oversight of banking activities, the 2005 Banking Strategy outlines, among other things, the following steps:

- improving the protection of creditors’ rights (in particular, those secured by collateral);
- improving procedures for liquidation of credit organisations whose banking licences have been revoked;
- simplifying procedures for mergers between, and acquisitions of, credit organisations;
- facilitating an efficient system for collecting and using credit history data; and
- improving the regime for taxation of credit organisations.

The 2005 Banking Strategy envisions the following as priority reforms:

- increasing the minimum amount of a bank’s charter capital to EUR5 million, starting in 2007;



- increasing the minimum amount of a bank's capital adequacy ratio (mandatory economic ratio N1) to 10 per cent., regardless of the type of credit organisation and its existing capital adequacy ratio, starting in 2007;
- simplifying procedures for the participation of non residents in the capital of Russian banks, without, however, lifting existing restrictions on foreign banks' ability to open branches in the Russian Federation; and
- introducing a simplified procedure for the assignment of bank loans.

The first two goals have already been achieved by introducing amendments to the Banking Law.

The implementation of the 2005 Banking Strategy took into account certain recommendations of the International Monetary Fund and the World Bank, as set forth in their 2002 2003 Russian Financial Sector Assessment Programme. The priority for the subsequent period from 2009 to 2015 will be the effective positioning of the Russian banking sector on the international financial market. However, these plans may be impeded by the current global financial and economic crisis.

A strategy for the development of the banking sector of the Russian Federation for the period 2011 to 2015 (the **"2011 Banking Strategy"**) has been developed in the course of the implementation of the Plan for Implementation of the Main Directions of the Anticrisis Activities and Modernisation Policy of the Russian government for 2010 approved by the Russian Prime Minister Vladimir Putin on 2 March 2010. It has been prepared by the Ministry of Finance and Ministry of Economic Development with the assistance of the CBR and published by the Russian government and the CBR on 5 April 2011.

According to the 2011 Banking Strategy the main purpose of the new period of the development of the Russian banking sector will include the improvement of quality of the banking business by expanding of range of banking products and services, improvement of their quality, use of modern technologies, improvement of the long-term effectiveness and stability of the banking business.

The 2011 Banking Strategy sets out the switch of the banking sector from the extensive to the intensive model of development as one of the key targets. It will, in particular, include the following features:

- high level of competition in the banking and financial sector;
- provision of wide range of modern banking services to the clients;
- level of banking sector capitalisation that will meet the purposes of the development, improvement of the competition and effectiveness of the banking business;
- developed systems of corporate governance and risk management;
- high level of transparency and market discipline of credit organisations and other market participants;
- liability of senior management, members of board of directors and owners of banks for the business operation and accuracy of disclosed information and information provided to the regulators.

The above mentioned target shall be reached by the Russian government and the CBR through improvement of regulations, establishment of relevant infrastructure, improvement of corporate governance and risk management quality in credit organisations and maintenance of the financial stability. As practical steps the Strategy in particular envisages the decrease of the participation of the Russian government in charter capital of Russian banks (in particular Sberbank, VTB, Russian Agricultural Bank), adoption of certain laws establishing the minimum charter capital requirement for a newly established bank since 1 January 2012 and the minimum amount of own capital requirement of existing banks since 1 January 2015 RUB 300 million. The 2011 Banking Strategy also envisages certain steps in relation to the development of banking supervision.

### ***Basel Implementation in Russia***

Current Russian regulation of capital is based on the Basel Accords. It is, however, less sophisticated in certain respects. Over the recent years, the CBR in cooperation with Russian banks, has started preparing the implementation of international approaches of capital adequacy of credit organisations under Basel II as issued by the Basel Committee. Currently, the standardised approach for credit risks of Basel II as set forth in Pillar 1 "Minimum Capital Requirements", is being applied in Russia. CBR Letter No. 96-T of 29 June 2011 issued as part of introducing Pillar 2 "Supervisory Review Process" (the **"Methodical Recommendations"**) recommends credit organisations to elaborate and use the respective internal procedures for capital adequacy assessment comprise the process of assessment by a credit organisation of adequacy of its own capital, i.e. its internal capital to cover accepted and potential risks, as well as constitute a part of such credit organisation's corporate culture. It is expected that Basel II Pillar 2 will be gradually implemented not earlier than within the next five years. Under the 2011 Banking Strategy, the implementation of Basel II in Russia may begin approximately in 2014.

### ***Basel III Regulation***

The 2011 Banking Strategy also contemplates an introduction in Russia of Basel III, which is to apply as follows: (1) requirements for capital between 2013 and 2015, (2) capital conservation buffer within 2016-2018, (3) leverage ratio starting from 1 January 2018, (4) liquidity coverage ratio commencing from 1 January 2015, and (5) net stable funding ratio starting from 1 January 2018.

On 1 March 2013, Regulation 395-P “On methodology of determination of the amount and assessment of sufficiency of own capital of credit organisations (Basel III)” dated 28 December 2012 (“**Regulation 395-P**”) entered into force (with limited exceptions). Since April 2013, banks are required to calculate their capital and assess capital adequacy in accordance with the new methodology set out in Regulation 395-P and submit the relevant accounting forms to the CBR. The reporting under Regulation 395-P should allow the CBR to assess how the Russian banking system is prepared for full-fledged introduction of Regulation 395-P. Regulation 395-P provides for the following two types of subordinated debt instruments that may qualify for inclusion into bank regulatory capital if they meet the requirements set out in the regulation:

- perpetual subordinated debt instruments; and
- plain subordinated debt instruments.

Regulation 395-P is not yet applicable for prudential regulation purposes. Until Regulation 395-P is fully operational, banks will continue to calculate regulatory capital and determine its sufficiency in accordance with Regulation No. 215-P which distinguishes between core capital and supplemental capital (together, “own funds” or “regulatory capital”). Regulation No. 395-P will be phased in gradually during the period from 1 January 2014 until 1 January 2018 as described below.

#### ***Subordinated Debt—Pre-Regulation 395-P Requirements***

Regulation 215-P currently distinguishes between core capital and supplemental capital (together, “own funds” or “regulatory capital”) and require that the supplemental capital (Tier 2 capital) be no more than 100 per cent. of the core capital (Tier 1 capital) and that subordinated debt (“**Subordinated Debt**”) (which can be included into the core or supplemental capital) not exceed 15 per cent., 50 per cent. or 100 per cent. of the core capital (depending on the terms of such subordinated debt).

#### ***Supplemental (Tier 2) Capital***

Subordinated Debt (in the form of loans, deposits or subordinated domestic bonds) is included in the supplemental capital if the following criteria are satisfied:

- its term is no less than five years;
- it includes a provision prohibiting, without the consent of the CBR, (a) the early redemption of the debt, or any part of, or interest in, the debt, and (b) the early termination and/or amendment of the agreement (Regulation No. 215 – P, allows for certain variations to redemption terms; however, in such case an actual redemption is subject to the CBR’s consent);
- the terms of the debt, as at the date such loan agreement is entered into (or amended) or such subordinated domestic bonds are placed, do not materially differ from the prevailing market terms of similar debt;
- the agreement specifically provides for the lowest creditor priority ranking of the creditor in the event of the borrower’s bankruptcy;
- the debt is unsecured; and
- individuals are not party to the agreement.

The qualification of subordinated debt as supplemental capital is subject to consent of the CBR. The borrower may initiate the approval procedure of the CBR before the funds are disbursed or the subordinated loan is signed, by submitting a loan agreement or its draft for the CBR’s consideration. As a result of its review, the CBR territorial branch may respond with comments or may issue a preliminary conclusion confirming that the agreement complies with CBR regulations. The final conclusion shall confirm the CBR’s consent to the inclusion of the Subordinated Debt into supplemental capital.

The Subordinated Debt is included into the supplemental capital from the date following the date of the CBR’s consent, but in any event not before the bank actually receives the funds.

Regulation No. 215-P provides that, generally, subordinated debt may not exceed 50 per cent. of a credit organisation's core capital. However, if the term of the subordinated debt is ten or more years, such subordinated debt, together with any other Subordinated Debt outstanding, less the subordinated debt treated as core (Tier 1) capital, may comprise up to 100 per cent. of the credit organisation's core capital, provided that its underlying agreement allows the CBR to suspend the payment of the principal and/or interest, if such payment would trigger the implementation of bankruptcy prevention measures in respect of such credit organisation.

According to Regulation No. 215-P, during the last five years of the term of a subordinated loan, it is counted towards the supplemental capital on an amortised basis, while prior to that the full principal amount of the subordinated loan counts.

Special amortisation rules apply to the Subordinated Debt providing for the borrower's right to prepay the loan (such right in any case may not be exercised earlier than five years from the date when the subordinated debt was included in the supplemental capital). If, in accordance with interest step-up provisions, interest increase does not exceed 150 bps (1/100%), subordinated debt must be amortised from the date of its scheduled maturity. In other cases, the subordinated debt must be amortised from the date of when the right to prepay the loan may potentially be exercised.

#### *Core (Tier 1) Capital*

Subordinated debt can be included in the core capital of a credit organisation, if, in addition to the above listed criteria of subordinated debt included into supplemental (Tier 2) capital debt, it satisfies the following terms (the “**Subordinated Debt with Additional Terms**”):

- its term is no less than 30 years;
- it provides for the cancellation and non-accrual of the interest upon the occurrence of the grounds for the implementation of the bankruptcy prevention measures in respect of the credit organisation as provided by the Insolvency Law;
- it provides that the losses involved in the implementation of bankruptcy prevention measures in respect of the credit organisation shall be offset by other sources of core capital and the losses not so offset shall be offset by a full or partial write-down of the principal amount of the loan;
- the credit organisation may prepay the loan not earlier than 10 years after the date the Subordinated Debt with Additional Terms was included in the core capital, provided that, if not prepaid, the increased interest rate shall be capped at 100 bps or 50 per cent. of the initial interest rate; and
- the CBR has a right to suspend payments of principal and/or interest under the loan agreement, if making such payments would lead to the occurrence of the grounds for the implementation of bankruptcy prevention measures in respect of the credit organisation.

Regulation No. 215-P also allows for Subordinated Debt with Additional Terms to provide for the reinstatement of the principal amount of the loan from the profits of the credit organisation prior to their distribution, once the grounds for implementation of bankruptcy prevention measures in respect of the credit organisation cease to exist. However, no specific mechanism for such reinstatement is provided for by the CBR regulations or other Russian laws. Any early prepayment of the subordinated loan, on the initiative of the credit organisation is subject to the prior consent of the CBR. The CBR will not grant its consent should the grounds for bankruptcy prevention measures exist at the time the application is being considered by the CBR, or may arise as a result of the prepayment of the Subordinated Debt with Additional Terms.

Subordinated Debt with Additional Terms is included into the core (Tier 1) capital from the date following the date of the CBR's consent, but in any event not before the bank actually receives the funds.

Subordinated Debt with Additional Terms must not comprise more than 15 per cent. of the credit organisation's core (Tier 1) capital.

#### ***Subordinated Debt—New Requirements Under Regulation 395-P***

Regulation 395-P distinguishes between core capital (*osnovnoi kapital*) and supplemental capital (*dopolnitennyi kapital*) (together, “own funds” or “regulatory capital”). Core capital is further divided into base capital (*bazovyi kapital*) and additional capital (*dobavochnyi kapital*).

Pursuant to Regulation 395-P, the own funds (capital) of Russian banks is determined as the amount of its Tier 1 capital (consisting of the base capital and the additional capital) and Tier 2 capital less certain items listed in Regulation 395-P. Regulation 395-P introduces to Russian banking legislation the concept of equitisation of

subordinated debt (while retaining the concept of write-down and cancellation of subordinated debt instruments) and a requirement for banks and other credit organisations to have in place a shareholder assistance commitment, which features have been derived from the Basel III regulations.

Regulation 395-P provides for a number of new capital ratios for Russian banks, including the Base Capital Adequacy Ratio referred to in item 5 of paragraph 2.3.1 of Regulation 395-P. The Base Capital Adequacy Ratio is the Russian implementation of the “Common Equity Tier 1 Ratio” in Basel III, although it is calculated differently. The Base Capital Adequacy Ratio is calculated as the ratio of (A) the net amount of a bank’s base capital (i.e., the main part of a bank’s Tier 1 capital less the deductions listed in paragraph 2.2 of Regulation 395-P) to (B) the sum of the bank’s (i) credit risk on risk-weighted assets (decreased by the amount of reserves), (ii) credit risk on credit related commitments, (iii) credit risk on forward transactions and derivatives, (iv) operational risk and (v) market risk, as such terms are determined under applicable CBR regulations. The Base Capital Adequacy Ratio is calculated using numbers prepared based on RAS.

#### *Supplemental (Tier 2) Capital*

- a. Subordinated Debt (in the form of loans, deposits or subordinated domestic bonds) is included into the supplemental capital if the following criteria are satisfied:
  - i. the credit organisation does not undertake an obligation to repay the debt prematurely;
  - ii. the terms of the debt, as at the date such loan agreement is entered into or amended, or such subordinated domestic bonds are placed, do not materially differ from the prevailing market terms of similar debt;
  - iii. the agreement cannot be amended without the consent of the CBR; and
  - iv. the agreement specifically provides for the lowest creditor priority ranking of the creditor in the event of the borrower’s bankruptcy.
- b. In order to qualify as supplemental capital the agreement must also include the following additional terms:
  - i. its term is no less than five years;
  - ii. Subordinated Debt may not be prepaid at the initiative of the credit organisation earlier than five years after its inclusion in the supplemental capital; and
  - iii. it includes a provision prohibiting, without the consent of the CBR, (a) the early redemption of the debt, or any part of, or interest in, the debt, and (b) the early termination and/or amendment of, or early termination of the obligations under, the agreement.
- c. Subordinated Debt may not be included into the supplemental capital:
  - i. if it is secured by assets that are: (A) provided directly or indirectly by the credit organisation; (B) sourced or originated from assets of the credit organisation; or (C) provided by third parties if in the latter case the credit organisation has assumed the risks of losses which may arise in connection with providing the security;
  - ii. if it is in the non-monetary form;
  - iii. if an individual (except in the case of an issue of subordinated domestic bonds) or a subsidiary of the credit organisation is a party to the agreement; and
  - iv. in the case of a placement of pension reserves of non-state pension funds.
- d. Further, Regulation 395-P provides that Subordinated Debt may be included into the supplemental capital if the agreement states that upon occurrence of a Loss Absorption Event (as defined below for the purposes of this section “*Banking Regulation in Russia*” only):
  - i. the obligations of the borrower are deemed to be discharged from the day of conversion of the Subordinated Debt into common stock of the credit organisation and provided that the subordinated domestic bonds (if applicable) are then cancelled;
  - ii. Subordinated Debt shall be converted into common stock of the credit organisation;
  - iii. unpaid interest shall not be paid out and shall not accrue (except in the case of an issue of subordinated domestic bonds); or
  - iv. losses of the credit organisation shall be covered by the principal amount of the Subordinated Debt (except in the case of an issue of subordinated domestic bonds).

For the purposes of this section “*Banking Regulation in Russia*” only, “**Loss Absorption Event**” means either of the following: (a) the Base Capital Adequacy Ratio of the credit organisation becomes lower than 2%; or (b) the Deposit Insurance Agency in consultation with the CBR has notified CBM that bankruptcy prevention measures are being implemented in accordance with the Banking Stability Law in the period to 31 December 2014.

The provisions of the agreement set out in iii. and iv. of point d. above must become effective no later than (i) 30 days after the Base Capital Adequacy Ratio of the credit organisation becomes lower than 2 per cent. or (ii) when bankruptcy prevention measures are implemented in respect of the credit organisation and must remain effective until these events are rectified.

Regulation 395-P provides that both principal and interest under a Subordinated Debt can be written down (as per point d. iv. above) in the case of a Loss Absorption Event as an alternative to the equitisation of subordinated debt described in point d. i. and ii. above.

Conversion of the Subordinated Debt into common stock of the credit organisation upon occurrence of a Loss Absorption Event may occur only if it is expressly provided for in the Subordinated Debt agreement. If the agreement does provide such a provision, the conversion of the Subordinated Debt and resulting issuance of common stock shall be performed based on a decision of the authorised management bodies of the credit organisation.

Regulation 395-P is unclear as to whether principal and interest of the Subordinated Debt shall be written down permanently upon occurrence of the Loss Absorption Event or whether their payment shall be suspended until the Loss Absorption Event is rectified.

The Subordinated Debt agreement must provide that, if the measures set out in point d. above prove insufficient to rectify the Loss Absorption Event, the shareholders of the credit organisation shall undertake measures to rectify such Loss Absorption Event. However, Regulation 395-P is unclear as to the nature and scope of such measures and the consequence of such measures not being undertaken by the shareholders. This requirement is unprecedented and in the absence of regulatory guidance its practical implementation as a whole remains uncertain.

During the last five years of the term of Subordinated Debt, it is counted towards the supplemental capital on an amortised basis, while prior to that the full principal amount of the Subordinated Debt is counted.

Special amortisation rules apply to Subordinated Debt providing for the borrower’s right to prepay the loan (such right in any case may not be exercised earlier than five years from the date when the subordinated debt was included in the supplemental capital).

#### *Additional Core (Tier 1) Capital*

- a. Subordinated Debt can be included into the additional core capital of a credit organisation if:
  - i. it satisfies the criteria listed in (a) above for supplemental capital;
  - ii. it is perpetual; and
  - iii. the Subordinated Debt agreement is governed by laws of a jurisdiction (other than Russia) that allows for perpetual debt.
- b. Subordinated Debt may not be included into the additional core capital:
  - i. if it is secured by assets: (i) provided directly or indirectly by the credit organisation or (ii) sourced or originated from the assets of the credit organisation or (iii) provided by third parties if the credit organisation assumed the risks of losses which may arise in connection with the provision of such security;
  - ii. if it is in non-monetary form;
  - iii. if an individual (except in the case of an issue of subordinated domestic bonds) or a subsidiary of the credit organisation is a party to the agreement; and
  - iv. in the case of a placement of pension reserves of non-state pension funds.
- c. Subordinated Debt may be included into the additional core capital if the agreement states that if the Base Capital Adequacy Ratio of the credit organisation becomes lower than 6.4 per cent. (the “**Additional Core Capital Trigger Event**”):
  - i. the obligations of the borrower are deemed to be discharged from the day of conversion of the Subordinated Debt into common stock of the credit organisation and provided that the subordinated domestic bonds are then cancelled;



- ii. Subordinated Debt shall be converted into common stock of the credit organisation;
- iii. unpaid interest shall not be paid out and shall not accrue; or
- iv. losses of the credit organisation shall be covered by the principal amount of the Subordinated Debt.

The provisions of the agreement set out in iii. and iv. of point c. above must become effective no later than 30 days after occurrence of Additional Core Capital Trigger Event and must remain effective until it is rectified.

Regulation 395-P is unclear as to whether principal and interest of the Subordinated Debt must be written down permanently upon occurrence of the Additional Core Capital Trigger Event or whether their payment must be suspended until the Additional Core Capital Trigger Event is rectified.

The Subordinated Debt agreement must provide that, if the measures set out in point c. above prove insufficient to rectify the Additional Core Capital Trigger Event, the shareholders of the credit organisation shall undertake measures to rectify the Additional Core Capital Trigger Event.

#### *Enactment of Regulation 395-P*

Regulation 395-P became effective on 1 March 2013. However, Regulation 395-P is not yet applicable for prudential regulation purposes. According to unofficial comments of the CBR, it is expected to become so applicable from 1 January 2014. Therefore, from 1 March 2013 until 1 January 2014, there appears to be a testing period during which the CBR will monitor to which extent Russian banks are prepared for compliance with the new rules. Until Regulation 395-P becomes fully operational for prudential regulation purposes, banks will continue to calculate regulatory capital and determine its sufficiency in accordance with Regulation No. 215-P.

In addition, under Regulation 395-P certain ratios reducing base capital, additional capital, Tier 2 capital and the sum of Tier 1 and Tier 2 capital will be phased in gradually and included in the calculation of the capital as follows:

- from 1 January 2014 – in the amount of 20 per cent. of the aggregate sum of the ratios calculated in accordance with Regulation No. 395, plus 80 per cent. of the aggregate sum of the ratios calculated in accordance with Regulation No. 215-P;
- from 1 January 2015 – in the amount of 40 per cent. of the aggregate sum of the ratios calculated in accordance with Regulation No. 395, plus 60 per cent. of the aggregate sum of the ratios calculated in accordance with Regulation No. 215-P;
- from 1 January 2016 – in the amount of 60 per cent. of the aggregate sum of the ratios calculated in accordance with Regulation No. 395, plus 40 per cent. of the aggregate sum of the ratios calculated in accordance with Regulation No. 215-P;
- from 1 January 2017 – in the amount of 80 per cent. of the aggregate sum of the ratios calculated in accordance with Regulation No. 395, plus 20 per cent. of the aggregate sum of the ratios calculated in accordance with Regulation No. 215-P; and
- from 1 January 2018 – in the amount of 100 per cent. of the aggregate sum of the ratios calculated in accordance with Regulation No. 395, with complete discontinuation of use of the ratios calculated in accordance with Regulation No. 215-P.

#### *CBR Prior Consent*

The qualification of Subordinated Debt as supplemental capital and additional core capital is subject to consent of the CBR. The borrower may initiate the approval procedure of the CBR before the funds are disbursed or the subordinated loan is signed, by submitting a loan agreement or its draft for the CBR's consideration. As a result of its review, the relevant CBR territorial branch may respond with comments or may issue a preliminary conclusion confirming that the agreement complies with the CBR regulations. The final conclusion shall confirm the CBR's consent to the inclusion of the Subordinated Debt into the supplemental capital or additional core capital.

Subordinated Debt is included into the supplemental capital and additional core capital from the date following the date of the CBR's consent, but in any event not before the bank actually receives the funds.

#### *Amortisation*

All Subordinated Debt received or issued before 1 March 2013 that is currently included into Tier 1 capital, and Subordinated Debt that is included into Tier 2 capital but which does not meet the requirements of Regulation

395-P is subject to gradual amortisation at 10 per cent. per annum beginning 1 April 2013 (except for the subordinated loans granted pursuant to the Financial System Support Law and the Banking System Stability Law which will begin to amortise on 1 January 2018) and thereafter on 1 January of each subsequent year.

The amortisation requirement applies to Subordinated Debt currently included in either Tier 1 or Tier 2 capital under Regulation 215-P.

Subordinated Instruments received or issued after 1 March 2013 which do not meet the requirements of Regulation 395- P do not count towards the bank's regulatory capital.

#### **Accession of Russia to the WTO**

On 16 December 2011, Russia signed the protocol on its accession to the WTO (the “**Protocol**”). The Protocol came into force on 22 August 2012 and Russia became subject to the WTO regime. In relation to the banking sector the Protocol provides that a foreign bank may set up a subsidiary or representative office in Russia, however, the following actions are subject to obtaining the CBR approval: (i) an incorporation of Russian legal entity with a foreign capital including subsidiaries; (ii) an increasing the share capital of a Russian credit organisation using the funds of non-resident companies, and (iii) disposal of the shares/stocks of a Russian credit organisation to non-resident companies.

The accession of Russia to the WTO is also expected to necessitate unification of requirements applicable to private banks, banks under state control and foreign-controlled banks, including, among other things, abolishing some Russian law provisions that may be deemed discriminatory against foreign-owned banks in favour of banks controlled by Russian nationals or the state. At the same time, Russia managed to keep a limit on an overall amount of foreign investments into the banking sector of Russia post-WTO accession, which shall not exceed 50 per cent. of the total equity capital of all credit organisations registered in Russia. If the threshold is exceeded, the CBR will have a right (i) not to authorise new foreign investments in the banking sector, and/or (ii) to impose a temporary ban on disposal of banks' equity capital to foreign investors, including, inter alia, through an increase of equity capital at the account of a foreign investor.

## DESCRIPTION OF SHARE CAPITAL

Set forth below is a description of the Issuer's share capital, the material provisions of the Issuer's memorandum of association (the "**Memorandum of Association**") and Articles of Association in effect on the date of this Prospectus and certain requirements of Cypriot legislation. Holders of GDRs will be able to exercise their rights with respect to the Class A Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreement and the Deed Poll (see "*Terms and Conditions of the Global Depositary Receipts*") and the relevant requirements of Cypriot law.

### DESCRIPTION OF THE ISSUER

The Issuer was incorporated in Cyprus on 31 December 1999 as a private limited liability company limited by shares under the name Egidaco Investments Limited, with registration number HE 107963 and has conducted business since that date in conformity with its Memorandum of Association. The principal legislation under which the Issuer operates and under which the Class A Shares are created, is the Companies Law, Cap. 113 of Cyprus (as amended) (the "**Companies Law**"). On 21 November 2008, the shareholders of the Issuer resolved by a special resolution that Egidaco Investments Limited be converted into a public company and that its name be changed to Egidaco Investments Plc. On 6 September 2013, the shareholders of the Issuer resolved by a special resolution that the name of Egidaco Investments Plc be changed to TCS Group Holding PLC. The Issuer's registered office is at 4 Profiti Ili Kanika, International Business Center, 6<sup>th</sup> Floor, 4046 Germasogeia, Limassol, Cyprus. The telephone number of the Issuer's registered office is +375 2572 2727.

### PURPOSE

Pursuant to the Memorandum of Association of the Issuer, objects of the Issuer include, among other things, the carrying on of investments and the undertaking of business or activity of a commercial nature.

### SHARE CAPITAL

As at 1 January 2010, the first date covered by the historic financial information included in this Prospectus, the number of authorised shares of the Issuer was 7,619,180 divided into: (i) 4,219,177 Class A shares of nominal value US\$1.00; (ii) 801,111 Class B shares of nominal value US\$1.00; (iii) 885,934 Class C shares of nominal value US\$1.00; and (iv) 1,712,958 ordinary shares of nominal value US\$1.00. The number of shares issued was 5,906,225 divided into: (i) 4,219,177 Class A shares of nominal value US\$1.00; (ii) 801,111 Class B shares of nominal value US\$1.00; (iii) 885,934 Class C shares of nominal value US\$1.00; and (iv) 3 ordinary shares of nominal value US\$1.00.

Since 1 January 2010, there have been the following changes in the authorised and issued share capital of the Issuer:

A. *Pursuant to a special resolution dated 6 December 2010, the authorised share capital of the Issuer has been re-designated as follows:*

*From:*

- 4,219,177 Class A shares of nominal value US\$1.00 each;
- 801,111 Class B shares of nominal value US\$1.00 each;
- 885,934 Class C shares of nominal value US\$1.00 each; and
- 1,712,958 ordinary shares of nominal value US\$1.00 each,

*To:*

- 4,283,266 Class A shares of nominal value US\$1.00 each;
- 926,775 Class B shares of nominal value US\$1.00 each;
- 1,073,174 Class C shares of nominal value US\$1.00 each; and
- 1,335,965 ordinary shares of nominal value US\$1.00 each.

B. *On the same date, 6 December 2010, the following shares were issued and allotted as follows:*

- 64,089 Class A shares of nominal value US\$1.00 each to Tadek Holding & Finance S.A.;
- 125,664 Class B shares of nominal value US\$1.00 each to ELQ Investors Ltd; and
- 187,240 Class C shares of nominal value US\$1.00 each to Vostok Komi (Cyprus) Limited.

- C. Pursuant to a special resolution dated 28 February 2011, the share capital of the Issuer has been re-designated as follows:
- From:
- 4,283,266 Class A shares of nominal value US\$1.00 each;
  - 926,775 Class B shares of nominal value US\$1.00 each;
  - 1,073,174 Class C shares of nominal value US\$1.00 each; and
  - 1,335,965 ordinary shares of nominal value US\$1.00 each,
- To:
- 4,290,082 Class A shares of nominal value US\$1.00 each;
  - 928,250 Class B shares of nominal value US\$1.00 each;
  - 1,074,882 Class C shares of nominal value US\$1.00 each; and
  - 1,325,966 ordinary shares of nominal value US\$1.00 each.
- D. On the same day, 28 February 2011, the following shares were issued and allotted:
- 6,145 Class A shares of nominal value US\$1.00 each to Tadek Holding & Finance S.A.;
  - 671 Class A shares of nominal value US\$1.00 each to Tasos Invest & Finance Inc.;
  - 1,475 Class B shares of nominal value US\$1.00 each to ELQ Investors Ltd; and
  - 1,708 Class C shares of nominal value US\$1.00 each to Vostok Komi (Cyprus) Limited.
- E. On 20 May 2011, 77,319 ordinary shares of nominal value US\$1.00 each were issued and allotted to Altruco Trustees Ltd.
- F. Pursuant to a special resolution dated 29 July 2011, the share capital of the Issuer has been re-designated as follows:
- From:
- 4,290,082 Class A shares of nominal value US\$1.00 each;
  - 928,250 Class B shares of nominal value US\$1.00 each;
  - 1,074,882 Class C shares of nominal value US\$1.00 each; and
  - 1,325,966 ordinary shares of nominal value US\$1.00 each,
- To:
- 4,417,493 Class A shares of nominal value US\$1.00 each;
  - 869,208 Class B shares of nominal value US\$1.00 each;
  - 1,006,513 Class C shares of nominal value US\$1.00 each;
  - 1,325,966 ordinary shares of nominal value US\$1.00 each.
- G. On the same date, 29 July 2011, Vostok Komi (Cyprus) Limited transferred 68,369 Class C shares of nominal value US\$1.00 each to Tadek Holding & Finance S.A. which were re-designated into 68,369 Class A shares of nominal value US\$1.00 each and ELQ Investors Ltd transferred 59,042 Class B shares of nominal value US\$1.00 each to Tadek Holding & Finance S.A. which were re-designated into 59,042 Class A shares of nominal value US\$1.00 each.
- H. Pursuant to an extraordinary resolution dated 18 May 2012, 406,637 ordinary shares of nominal value US\$1.00 each were re-designated as 406,637 Class D Shares of nominal value US\$1.00 each and, 135,545 Class A shares of nominal value US\$1.00 each, held by Tadek Holding & Finance S.A. were re-designated as 135,545 Class D Shares of nominal value US\$1.00 each.
- I. On the same date, 18 May 2012, the re-designated to Class D 135,545 shares of nominal value US\$1.00 each were transferred from Tadek Holding & Finance S.A..
- J. Pursuant to an ordinary resolution dated 18 May 2012, 406,637 Class D shares of nominal value US\$1.00 each were issued to Rousse Nominees Limited.
- K. Pursuant to an extraordinary resolution dated 18 May 2012, three ordinary shares of nominal value US\$1.00 each, held by Maitland Commercial Inc., Vizer Limited and Norman Legal S.A. were re-designated as Class A shares of nominal value of US\$1.00 each.

L. Pursuant to a special resolution dated 31 October 2012, the share capital of the Issuer has been re-designated as follows:

From:

- 4,281,951 Class A shares of nominal value US\$1.00 each;
- 869,208 Class B shares of nominal value US\$1.00 each;
- 1,006,513 Class C shares of nominal value US\$1.00 each;
- 542,182 Class D shares of nominal value US\$1.00 each; and
- 919,326 ordinary shares of nominal value US\$1.00 each,

To:

- 4,142,930 Class A shares of nominal value US\$1.00 each;
- 840,988 Class B shares of nominal value US\$1.00 each;
- 902,667 Class C shares of nominal value US\$1.00 each;
- 542,182 Class D shares of nominal value US\$1.00 each;
- 271,087 Class E shares of nominal value US\$1.00 each; and
- 919,326 ordinary shares of nominal value US\$1.00 each.

M. On the same date, 31 October 2012, the following shares were transferred:

- 139,021 Class A shares of nominal value US\$1.00 each from Tadek Holding & Finance S.A to Lorimer Ventures Limited;
- 28,220 Class B shares of nominal value US\$1.00 each from ELQ Investors Ltd to Lorimer Ventures Limited; and
- 103,846 Class C shares of nominal value US\$1.00 each from Vostok Komi (Cyprus) Limited to Lorimer Ventures Limited.

N. On 10 December 2012, 840,988 Class B shares of nominal value US\$1.00 each held by ELQ Investors Ltd, were transferred to ELQ Investors II Ltd.

O. On 30 June 2013, 57,990 ordinary shares of nominal value US\$1.00 each were issued and allotted to Altruco Trustees Ltd.

P. On 11 October 2013, 10,200 ordinary shares of nominal value US\$1.00 each were issued and allotted to Altruco Trustees Limited.

Q. On 13 October 2013, 2,200 ordinary shares of nominal value US\$1.00 each were issued and allotted to Altruco Trustees Limited.

On 22 October 2013, each of the shares in the issued share capital of the Issuer was subdivided (re-classified and re-designated as) and otherwise converted into 25 shares of nominal value US\$0.04 each as 79,044,396 Class A Shares of nominal value US\$0.04 each and 92,144,679 Class B Shares of nominal value US\$0.04 each.

On or about 24 October 2013 10,000,000 Class A Shares of nominal value US\$0.04 each will be issued by the Issuer to the Depositary.

On or about 24 October 2013 the following shares will be transferred:

1,523,839 Class A Shares from Altruco Trustees Limited to the Depositary;

12,879,764 Class A Shares from ELQ Investors II Ltd to the Depositary;

4,151,708 Class A Shares from Lorimer Ventures Limited to the Depositary (in addition, up to 987,771 Class A Shares will be transferred from Lorimer Ventures Limited to the Depositary in connection with the exercise of the Over-allotment Option);

863,922 Class A Shares from Tadek Holding & Finance S.A. to the Depositary

10,564,649 Class A Shares from Tasos Invest & Finance Inc. to the Depositary;

13,824,381 Class A Shares from Vostok Komi (Cyprus) Limited to the Depositary (in addition, up to 6,353,428 Class A Shares will be transferred from Vostok Komi (Cyprus) Limited to the Depositary in connection with the exercise of the Over-allotment Option); and



8,303,539 Class A Shares from Rouse Nominees Limited to the Depositary (in addition, up to 1,975,571 Class A Shares will be transferred from Rouse Nominees Limited to the Depositary in connection with the exercise of the Over-allotment Option).

The Issuer's share capital is divided into two classes: Class A Shares; and Class B Shares. For more information, see "*Description of Share Capital—Articles of Association—Rights of Shareholders*".

As at the date of this Prospectus, the Issuer's issued share capital is US\$6,847,563 divided in to 79,044,396 Class A Shares, each of nominal value of US\$0.04 per share and fully paid, and 92,144,679 Class B Shares, each of nominal value of US\$0.04 per share and fully paid. Assuming 10,000,000 Class A Shares are issued in connection with the Offering, the Issuer's authorised and issued fully paid share capital immediately following the offering will be 89,044,396 Class A Shares and 92,144,679 Class B Shares. The Issuer does not have in issue any listed or unlisted securities not representing its share capital.

Neither the Issuer 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 Issuer's or either of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

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

## **ARTICLES OF ASSOCIATION**

In this section Companies Law means the Companies Law and any successor statute or as the same may from time to time be amended. The Issuer's current Articles of Association were adopted on 22 October 2013.

The following is a brief summary of certain material provisions of the Articles of Association, in force as of the date of this Prospectus.

A word or expression defined in the Articles of Association that is used (but not expressly defined) in this Prospectus is deemed incorporated into and shall have the same meaning in, this Prospectus

### **Rights of shareholders**

Special rights of the Class A Shares versus the Class B Shares:

1. Class B Shares carry or confer enhanced voting rights (10 votes per Class B Share) as opposed to Class A Shares (one vote per Class A Share). For more information regarding the voting rights of Class A Shares and Class B Shares, see "*Description of Share Capital—Articles of Association—Voting Rights*".
2. The Class A holders and Class B holders shall be entitled to receive notice of, attend and speak at, every general meeting of the shareholders and separate meetings of the holders of shares of any class at which they are respectively entitled to vote.
3. The Class B Shares carry or confer the right to require the board of directors to convene an extraordinary general meeting of the shareholders or a separate meeting of the Class B holders, on the requisition of any Class B holders.
4. The Class A Shares carry or confer the right to require the board of directors to convene a separate meeting of the Class A holders on the requisition of a Class A holder or holders 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.
5. The holders of Class B Shares constituting or representing in aggregate over 50 per cent. in nominal capital paid up on the Class B Shares carry or confer the rights to appoint and remove one or more Directors B. There is no limit on the number of Directors B that can be appointed to the Issuer's board of directors in the Articles of Association, subject to the maximum number of all directors on the Issuer's board of directors being seven.
6. The Class A Shares and Class B Shares are subject to conversion in certain circumstances. For more information regarding the conversion rights of the Class A Shares and Class B Shares, see "*Description of Share Capital—Articles of Association—Conversion Rights*".

Subject to the above, the Class A Shares and Class B Shares rank *pari passu* in all other respects.

### **Issue of shares**

Unissued shares may be issued as shares of any class including shares of an existing class. Such issue may be authorised at a general meeting of shareholders which is duly convened and constituted either as a general

meeting of the Issuer (whether annual or extraordinary), in accordance with the Articles of Association (the “**General Meeting**”), with the sanction of an ordinary resolution or by the board of directors of the Issuer. Any shares issued ranking *pari passu* with, or subsequent or subordinated to, any existing (issued) shares do not require the approval by the General Meeting.

The shareholders of the Issuer have waived all pre-emption rights howsoever arising, for the purpose of the Offering.

The General Meeting may pursuant to the Articles of Association grant authority to the board of directors to offer, allot, grant options over or otherwise deal or dispose of any shares in the authorised unissued share capital of the Issuer for a period up to five years provided that such power may at any time be revoked, extended or varied as the case may be, by the General Meeting with the sanction of a special resolution and shares may not be issued at a discount. The giving of such authority as aforesaid is treated as a variation of class rights carried or conferred by the Class A Shares and the Class B Shares. Separate prior consent is therefore required from Class A holders and Class B holders respectively.

The issue of shares is also subject to statutory pre-emption rights (please refer to the section below on Pre-emption rights for more information). For more information, see “*Description of Share Capital—Articles of Association—Voting Rights*”.

### **Pre-emption rights**

On the issue of shares in the share capital of the Issuer consisting of Class A Shares, Class B Shares or debentures convertible into either Class A Shares or Class B Shares:

- (a) the proportion of Class A Shares to Class B Shares existing immediately before the issue must be maintained;
- (b) the Class A holders shall be offered Class A Shares pro rata to their shareholding of Class A Shares;
- (c) the Class B holders shall be offered Class B Shares pro rata to their shareholding of Class B Shares; and
- (d) the shares shall be offered at the same price and on the same terms as to payment and otherwise.

The offers stated above shall include an invitation in favour of all holders who have accepted the shares so offered to them respectively, to apply for further shares in the case where any other holder has not accepted all or a proportion of their shares. Any excess shares (offered but not accepted) shall be offered to all holders who have accepted shares, pro rata as nearly as possible to the number of shares held by them.

Subject to the above, in the case of any other proposed issue of shares/debentures convertible into shares in the Issuer, Class A Shares and Class B Shares rank *pari passu* in relation to pre-emption rights as if they were the same class of shares.

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. 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 disapplication of pre-emption rights as aforesaid is treated as a variation of class rights carried or conferred by the Class A Shares and the Class B Shares. Separate prior consent is therefore required from Class A holders and Class B holders respectively.

### **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 or by proxy, at a General Meeting of the Issuer, 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 holders the right:

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

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.

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

- on a Hands Vote, to 10 votes per Class B holder; and
- on a Poll Vote, to 10 votes per Class B Share held by the Class B holder.

In addition, Class B Shares carry the right by notice to appoint Director B.

“**Director B**” means a director appointed or deemed to have been appointed by Class B holders. For more information, see “*Description of Share Capital—Articles of Association—Appointment, rotation and removal of directors*”.

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. A corporate member may, by resolution of its directors or other governing body, authorise a person to act as its representative at General Meetings and that person may exercise the same powers as the corporate shareholder could exercise if it were an individual member.

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 of the Issuer otherwise determine.

### **Conversion rights**

The Class B Shares are liable to be converted into, re-classified and re-designated as, Class A Shares at the option of the Class B holder or automatically at the occurrence of certain events or upon meeting certain thresholds. These are summarised as follows:

- (1) A Class B holder may by notice in writing served at the registered office of the Issuer convert any number of Class B Shares specified in the notice into an equal number of Class A Shares.
- (2) In the event that any Class B Share has been transferred to, or is held by, a person other than a Qualified Person or otherwise who has (for any reason) ceased to be a Qualified Person, such Class B Share will automatically be re-classified and re-designated as a Class A Share provided that if such transferee or shareholder delivers to the Company within 45 days of such automatic conversion a statutory declaration confirming that it is a Qualified Person, together with any supporting information required by the Company, the Class B Share so converted into a Class A Share as aforesaid, will automatically convert back into a Class B Share.
- (3) In the event that the Class B Shares held (directly or indirectly) by Mr. Tinkov constitute or represent in aggregate less than 10% in nominal paid up Class A and Class B share capital of the Company, each existing (in issue) Class B Share shall automatically be re-classified and re-designated as a Class A Share.

Each Class A Share as provided below, is liable to be converted into, re-classified and re-designated as, Class B Share at the request in writing by any Class B holder or any person Controlling Class B Shares served at the registered office of the Issuer. The Class A Share liable to be converted into a Class B Share is as follows:

- (1) Each Class A Share which was initially Class B Share converted as Class A Share as a result of being transferred to or held by a person other than a Qualified Person or otherwise who has (for any reason) ceased to be a Qualified Person and has been transferred back to its former Class B Holder or to a Qualified Person provided that Mr. Tinkov (directly or indirectly) controls, and at all times since the initial conversion (into Class A Shares) has (directly or indirectly) controlled, the Company.
- (2) Each Class A Share which had been part of an over allotment in a public offering of equity or non-equity securities in the Issuer (including shares in the capital of the Issuer or depository receipts representing or relating to any such shares) and which has been transferred back or otherwise returned by or on behalf of a transferor as stabilising manager, to its former holder or a Qualified Person following the designated over allotment option date.
- (3) Each Class A Share, deposited against the issuance of a depository receipt which had been part of an over allotment in a public offering of depository receipts representing shares in the Issuer, and the such depository receipt has been transferred back or otherwise returned by or on behalf of a transferor as stabilising manager, to its former holder following the designated over allotment option date.

For the purposes of the above conversions, re-classifications and re-designations:

A “Qualified Person” is any one of the following:

- (a) Mr Tinkov;
- (b) Mr Tinkov’s wife, ex-wife, widow, child, grandchild, parent, grandparent, brother, sister, nephew, cousin, niece or heir whether such individual is related by blood, marriage or adoption but not Mr Tinkov’s estate, whether held or administered by an executor, personal representative or any other similar person in any relevant jurisdiction;
- (c) any individual, firm, partnership, company, corporation or other person or entity (whether or not incorporated) under the Control of any one or more of the individuals referred in (a) and (b) above; and

(d) the trustee or trustees of any one or more of the individuals referred in (a) and (b) above.

“Control” includes the possession, directly or indirectly, of the right or power to direct or cause the direction of the management policies of a firm, partnership, company, corporation or other entity (whether or not incorporated) or to direct or cause to be directed a dominant influence over an individual, firm, partnership, company, corporation or other person or entity (whether or not incorporated) by contract, understanding or other arrangement or through the ownership of equity capital and “Controlled” or “Controlling” must be construed accordingly.

The Class A Shares shall be converted into an equal number of Class B Shares (on a share for share of an equal nominal capital-value basis). Except as otherwise provided under the “*Description of Share Capital—Articles of Association—Rights of shareholders*” and “*Description of Share Capital—Articles of Association—Voting Rights*”, the Class A Shares shall rank pari passu with the Class B Shares.

### **Dividend and distribution rights**

Under the Companies Law and the Articles of Association, dividends may only be paid out of net accumulated profits. Dividends may be declared at a General Meeting but no dividend may exceed the amount recommended by the directors. In addition, the directors may on their own declare and pay interim dividends. The directors may, before recommending any dividend, set aside out of the profits of our Issuer such sums as they think proper as a reserve or reserves.

The Issuer may declare:

- (a) dividends at an annual general meeting; or
- (b) interim dividends at an extraordinary general meeting;

with the sanction of an ordinary resolution but no dividend or interim dividend may exceed the amount (if any) so recommended by the board of directors of the Issuer and the board of directors of the Issuer may at any time declare interim dividends;

provided that:

- (1) No dividend or interim dividend shall be paid otherwise than out of divisible profits.
- (2) No interim dividend shall be paid on shares which confer, with regard to dividend, deferred or non-preferred rights if, at the time of payment, (preferential) dividends on shares which confer, with regard to dividend, preferential rights, are in arrears.
- (3) Any dividend payable at a fixed rate may be paid at intervals if it appears that the profits available for distribution justify the payment.
- (4) Subject to any special rights of the class of the shares, all dividends and interim dividends shall be declared and paid according to the amounts paid up on the shares on which the respective dividends or interim dividends relate. All dividends and interim dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the respective dividends or interims dividend are paid; but, if any shares are issued on terms providing that they shall rank for dividend as from a particular date or to a particular extent, those shares shall rank for dividend accordingly.

The Class A Shares and Class B Shares have the right to an equal share in any dividend or other distribution paid by the Issuer, and any dividend or other distribution may only be declared and paid by the Issuer 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 not be varied or abrogated without 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 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 Issuer; 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.

The special rights attached to the Class A Shares or Class B Shares shall be deemed to be varied or abrogated:

1. by a reduction of the capital paid up on, or cancellation of, shares other class (otherwise than by redemption); or
2. by the the creation or issue of further shares ranking in priority of the payment of a dividend (or interim dividend) or in respect of a return of capital or if the voting rights attached to such shares are more favourable than the voting rights carried or conferred by the shares of that class; or
3. by any consolidation and division or subdivision of the Class A Shares or Class B Shares; or
4. by any waiver or relaxation of the pre-emption rights to the extent determined by the General Meeting; or
5. by any authority granted to the board of directors in relation to the disposal of unissued shares or any revocation or variation of such authority.

### **Alteration of capital**

The Issuer may by ordinary resolution of its shareholders undertake the following alterations to its share capital:

1. increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;
2. consolidate and divide all or any of its share capital into shares or larger amounts than its existing shares;
3. subdivide its existing share, or any of them, into shares of a smaller amount than is fixed by the Memorandum of Association subject, nevertheless, to the provisions of Section 60(1)(d) of the Companies Law; and
4. cancel any share which, at the date of the passing of the resolution, have not been taken nor agreed to be taken by any person and diminish the amount of the share capital by the amount of the shares so cancelled.

The resolution relating to consolidation and division or subdivision may determine that, as between the shares resulting from the consolidation and division or subdivision (as the case may be), some may have different class rights than others.

The Issuer may also, by special resolution of a General Meeting, reduce its share capital (but not below the statutory minimum share capital of EUR 25,629), any capital redemption reserve account or any share premium account. Following the adoption of a special resolution for the reduction of capital, a company must apply to the Cypriot court for ratification of such special resolution. The Courts of Cyprus shall take into account the position of the creditors of a company in deciding whether to ratify the resolution. Once the court ratifies the resolution, the court order, together with the special resolution, are filed with the Cyprus Registrar of Companies.

### **Power to issue redeemable preference shares**

The Issuer is authorised to issue redeemable preference shares which are liable to be redeemed by the holder of such share or by the Issuer or otherwise provided that the terms and manner of redemption are expressly provided in the Articles of Association or in a special resolution amending the Articles of Association.

### **Form and transfer of shares**

Subject to the restrictions in the Articles of Association, as they may apply, shareholders are entitled to transfer all or any of their shares by instrument of transfer in any usual or common form or in any other form which the directors may approve.

The Issuer shall not recognise any instrument of transfer of shares unless:

- (a) the instrument of transfer is lodged at the registered office or delivered to the board of directors of the Issuer and is accompanied by the certificate of the shares to which it relates or by such other evidence as the directors may reasonably require to prove the transferor’s right to proceed with the transfer;
- (b) if there is more than one class in the Issuer’s share capital, the instrument of transfer is in respect of only one class of shares; or
- (c) if the transfer is in favour of less than four transferees.



The Issuer's board of directors may refuse to register a transfer of shares which are not fully paid up.

Other than described above, there are no provisions in the Articles of Association limiting the transfer of the Class A Shares or Class B Shares. Accordingly, the Class A Shares, the Class B Shares and the GDRs representing the Class A Shares and Class B Shares are freely transferable.

### **Number of directors**

The number of directors shall be no less than four, of which at least two must be non-executive and at least two must be executive directors, and shall not exceed seven, so long as Class B Shares are in issue. Thereafter there shall be no maximum number of directors. If no Class B Shares are in issue and unless otherwise determined by the Issuer in General Meeting there shall be no maximum number of directors.

### **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 as aforesaid may consist of several documents each signed by one or more of the persons aforesaid. It shall be effective on the date it is delivered at the registered office of the Issuer.

The board of directors may appoint an observer to receive notice of, attend and speak (but not vote or be counted in the required quorum) at board meetings or committee meetings. The board of directors shall be entitled to remove and replace the observer.

The observer is bound to comply with and observe the same legal and other obligations as regards confidential and sensitive information as the directors and furthermore, the observer may only disclose such confidential and sensitive information to persons and on terms and conditions approved by the board of directors.

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. See "*Management—The Issuer—Corporate Governance*".

### **Appointment, rotation and removal of directors**

The directors of the Issuer are appointed by the General Meeting with the sanction of an ordinary resolution. Such an appointment may be made either 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 authorised 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 per cent. in number of votes carried or conferred by the shares giving a right to vote at a General Meeting.

Notwithstanding the foregoing, one or more Directors B may be appointed by Class B holders together holding or representing Class B Shares which constitute or represent in aggregate over 50 per cent. in nominal capital paid up on the Class B Shares upon serving notice to the Issuer.

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 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. Alternate directors of directors not subject to retirement by rotation at that annual general meeting are also 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 holders together holding or representing Class B Shares which constitute or represent in aggregate over 50 per cent. in nominal capital paid up on the Class B Shares upon serving notice to the Issuer.

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 Companies Law; or
- becomes, or may be, of unsound mind; or
- resigns his office by notice in writing to the Issuer 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.

#### **Director's interests**

A director who is in any way directly or indirectly interested in a contract or proposed contract with the Issuer shall declare the nature of his interest at a meeting of the directors in accordance with Section 191 of the Companies Law. Directors who have an interest in any contract, agreement or settlement proposed to be concluded between the Issuer and a third party may attend the meeting at which the matter is discussed and subject to disclosure being made, and consent being obtained from the chairman of the meeting or if no chairman is appointed, the majority in number of the directors present at the meeting and having no interest in the business to be transacted shall be counted in the quorum and shall be entitled to vote.

A director who to his knowledge is in any way, whether directly or indirectly, interested in a contract with the Issuer shall declare the nature of his interest at the meeting of the directors at which the question of entering into the contract is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the directors after he knows that he is or has become so interested.

A general notice given to the board of directors that a director is to be regarded as having an interest of the nature and extent specified in the notice in any transaction or arrangement in which a specified person is interested shall be deemed to be a disclosure of such interest. A director shall not be deemed to have an interest in a matter for which he has no knowledge and of which it is unreasonable to expect him to have knowledge.

Provided disclosure has been made as aforementioned, a director notwithstanding his office may:

- (a) become a party to, or otherwise be interested in, any transaction or arrangement with the Issuer or in which the Issuer is otherwise interested; and
- (b) become a director or other officer of, or be employed by, or become a party to any transaction or arrangement with, or otherwise be interested in, any corporation promoted by the Issuer or in which the Issuer is otherwise interested,

and accordingly shall not, by reason of his office, be accountable to the Issuer for any benefit which he may derive from any such office or employment or from any such transaction or arrangement or from any interest he may have in any such corporation and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit.

#### **Remuneration of Directors**

The remuneration of the directors shall be determined from time to time by the shareholders of the Issuer in a General Meeting.

There is no shareholding qualification for directors.

#### **Director's powers**

The business of the Issuer shall be managed by the directors, who may exercise all such powers of the Issuer as are not, by the 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 Issuer 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.

## Meeting of shareholders

The board of directors or any director may convene General Meetings. The board of directors will also convene:

- (a) extraordinary general meetings of the Issuer 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 holder;
- (b) a separate meeting of the Class A holders on the requisition of a Class A holder or Class A holders 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 holders on the requisition of any Class B holder,

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

The board of directors shall convene an extraordinary general meeting of the Issuer on the requisition of a holder or holders together, holding or representing in aggregate, shares (either Class A or Class B shares) which constitute or represent at least 5 per cent. of the total number of votes carried or conferred by the Class A Shares and Class B Shares or a Class B holder. The board of directors shall convene a separate meeting of the Class A Holders on the requisition of a Class A Holder or Class A holders together, holding or representing Class A Shares which in aggregate constitute or represent at least 5 per cent. in the nominal capital paid up on the Class A shares. Finally, the board of directors shall convene a separate meeting of the Class B holders on the requisition of any Class B holder.

Subject to the foregoing, the general rule is that the board of directors or any director may convene General Meetings (or separate meetings of the Holders of shares of a class) and, on requisition by a Shareholder(s) under Section 126 of the Companies Law), the board of directors shall convene an extraordinary general meeting (or a separate meeting of the Holders of Shares of a class) for a date not later than 50 days from receipt of the requisition. If the board of directors does not proceed to convene a General Meeting (or a separate meeting of the Holders of Shares of a class) within 28 days from receipt by the Issuer of the requisition, any one or more shareholders may convene an extraordinary general meeting (or separate meeting) to be held at any convenient place and at such time as the shareholder(s) convening the meeting shall determine.

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 Issuer 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 may be given to shareholders either personally or by sending it by prepaid post, or email or facsimile to the postal or electronic address or fax number (respectively) of the addressee as supplied to the Issuer for this purpose. In the case of joint holders, all notices shall be given to the joint holder whose name stands first in the register in respect of the joint shares in which case it shall be sufficient notice to all the joint holders of those shares. Notice to persons entitled to a share in consequence of the death or bankruptcy of a shareholder, may be given by sending it through the post in a prepaid letter addressed to them by name, or by the title of the representative of the deceased, or the trustee in bankrupt, or by any like descriptions, at the address, if any, supplied for the purpose by the persons claiming to be so entitled or (until such an address has been supplied) by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

Where notice is sent by prepaid post, service of notice shall be deemed to be effected on the expiration of 48 hours after the letter containing the same is posted, at the correct address and with the proper postage. Where notice is delivered personally, it shall be deemed to be effected on such delivery provided that it was delivered or left at the address of the person to which the notice is addressed. Where a notice is sent by facsimile or electronic

mail, service of the notice shall be deemed to be effected 24 hours after the date of dispatch provided that the electronic mail or fax containing the notice was duly dispatched to the e-mail address or fax number of the person to which the notice is addressed.

Notice of every General Meeting shall be given in any manner described above to every person who at the date of the notice is a shareholder or a director and to the extent required under Sections 153 and 154 of the Companies Law to the Issuer's auditors.

No other person shall be entitled to receive notices of the General Meetings of the Issuer.

Pursuant to the Articles of Association the accidental failure to give notice of a meeting to, or the non-receipt of notice of meeting by any person entitled to receive notice, shall not invalidate the proceedings at the meeting to which such notice refers.

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 Shares of which he is a holder and shall have 10 votes for each Class B Share for 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 aggregated 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 Issuer is valid and effectual as if the resolution were sanctioned by the General Meeting on the date it is delivered to the registered office of the Issuer, 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.

## **CYPRriot LAW**

### **General**

The principal legislation under which the Class A Shares and Class B Shares have been created and under which the Issuer was formed and now operates is the Companies Law. The liability of shareholders is limited. Under the Companies Law, a shareholder of a company is not personally liable for the acts of the Issuer, save that a shareholder may become personally liable by reason of his or her own acts.

### **Takeover Bids protection**

Cyprus implemented the Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids ("**Takeover Bids Directive**") by Law No.41(I) of 2007, as amended ("**Takeover Bid Law**"), which provides mandatory takeover bid rules where a person, as a result of his own acquisition or the acquisition by persons acting in concert with him, holds securities of a company which, added to his existing holdings and the holdings of persons acting in concert with him, directly or indirectly give him a percentage of 30 per cent. or more of existing voting rights in that company at the date of the acquisition. The rule triggers an obligation on such a person to make a bid at the earliest opportunity to all the other holders. The bid must be addressed to all the remaining shareholders and must be at a fair price.

The obligation to make a mandatory bid is valid when, following the acquisition, the offeror holds at least 30 per cent. of the voting rights of a company. The following cases constitute a non exhaustive list of situations where the obligation to make a bid applies:

- (i) where the offeror holds no securities or holds securities representing less than 30 per cent. of the voting rights of a company and with an acquisition of securities he/she reaches or supersedes 30 per cent. of the voting rights of a company; or

- (ii) where the offeror already holds a percentage equal to or greater than 30 per cent. and below 50 per cent. of the voting rights of a company and increases his/her percentage of holding.

In circumstances such as those of the Issuer, where the registered office is in Cyprus and its securities are only traded on a regulated market other than in Cyprus, the Takeover Bids Directive provides for dual regulation. Specifically, pursuant to the Takeover Bids Directive, the percentage of voting rights conferring ‘control’ is to be determined by the rules of the Member State in which a company has its registered office. In addition to this, matters of notification of the offeree company personnel, the exceptions from the obligation to launch the bid and the terms under which the board of the offeree company has capacity to proceed with acts capable of cancelling a bid is also regulated by the rules of the Member State in which a company has its registered office, therefore is regulated by the Takeover Bid Law and supervised by the Cyprus Securities and Exchange Commission (the “CySec”). Matters concerning the consideration of the bid, in particular price as well as matters concerning the procedure for a bid, in particular notification by the offeror of his decision to launch a bid, the content of the offer document and publication of a bid is governed by the laws of the jurisdiction of the regulated market and therefore the City Code on Takeovers and Mergers (the “City Code”) would apply and would be supervised by the Panel on Takeovers and Mergers (the “Takeover Panel”). Although, it is not certain under the relevant legislation as to whether the Takeover Bid Law would apply to GDRs and/or whether GDRs would fall within the definition of ‘securities’ contained therein, the position of the CySec appears to be that the legislation applies and in absence of a decision of the Cypriot courts on the matter, this position should be taken into account. See *“Risk Factors—Risk Relating to the GDRs and the Trading Market—The Issuer is not subject to the same takeover protection as a company incorporated in the United Kingdom”*.

The Companies Law contains provisions for, inter alia, takeover bids. The effect of these provisions is that, where a company makes a bid for all the shares or for the whole of any class of shares of another company and the offer is accepted, within four months after the making of the offer by the holders of 90 per cent. in value of the shares concerned, the offeror can upon the same terms acquire the shares of shareholders who have not accepted the offer, unless such person within one month from the date on which the notice was given, persuades the court not to permit the acquisition. If the offeror company already holds more than 10 per cent. in value of the shares concerned, additional requirements need to be met before the minority can be squeezed out. If the company making the takeover bid acquires sufficient shares to aggregate, together with those which it already holds, more than 90 per cent. then, within one month of the date of the transfer which gives the 90 per cent., it must give notice of the fact to the remaining shareholders and such shareholders may, within three months of the notice, require the bidder to acquire their shares and the bidder shall be bound to do so upon the same terms as in the offer or as maybe agreed between them or upon such terms as the court may order.

There have been no public takeover bids by third parties for all or any part of the Issuer’s equity share capital since its date of incorporation.

## **Dividends**

The payment of dividends by the Issuer is subject to the following restrictions and requirements of the Companies Law. For more information, see “Dividend Policy”.

Except for cases of reduction of subscribed capital, a public company cannot make distributions to its shareholders when on the closing date of the last financial year, the net assets, as already presented in its annual accounts are, or as could arise as a result of such distribution, below the total amount of the subscribed capital plus those reserves that may not be distributed according to the Companies Law or the Articles of Association. If part of the subscribed capital has not been called up and the uncalled part does not appear in the assets shown in the balance sheet, then this part shall not be taken into account in the amount of the subscribed capital.

The amount of a distribution to shareholders cannot exceed the amount of the results of the last financial year, increased by any profits brought forward at the end of the last financial year and sums drawn from reserves available for this purpose, reduced by the amount of losses brought forward from previous financial years and sums placed to reserve in accordance with the Companies Law or the Articles of Association.

A public company shall be allowed to pay interim dividends only where the following conditions apply:

- (a) interim accounts are drawn up showing that the funds available for distribution are sufficient; and
- (b) the amount to be distributed may not exceed the total profits made since the end of the last financial year for which the annual accounts have been drawn up, plus any profits brought forward and sums drawn from reserves available for this purpose, and less losses brought forward and sums to be placed to reserve pursuant to the requirements of the law or the articles of association.



**Variation of rights**

The variation of rights is subject to section 70 of the Companies Law. For further information see “*Description of Share Capital—Articles of Association—Variation of rights*”.

A company with a share capital which is divided into different classes of shares, may apply to the court to have the variation of the rights attached to any class of shares in that company cancelled provided that:

- (a) the memorandum of association or articles of association of that company authorise variation of the rights attached to any class of shares in that company;
- (b) the consent of any specified proportion of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares be obtained; and
- (c) the rights attached to any such class of shares are at any time varied, the holders of not less in the aggregate than 15 per cent. of the issued shares of that class, being persons who did not consent to or vote in favour of the resolution for the variation.

Where any such application to court is made, the variation shall not have effect unless and until it is confirmed by the court.

## TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

*The following terms and conditions (subject to completion and amendment) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt Certificate.*

The Global Depositary Receipts (“**GDRs**”) represented by this certificate are issued in respect of class A shares (the “**Shares**”) of TCS Group Holding PLC (the “**Issuer**”), with each GDR issued in respect of one Share, pursuant to and subject to an agreement dated on or about 24 October 2013, and made between the Issuer and JPMorgan Chase Bank, N.A. as depositary (the “**Depositary**”) for the “Regulation S Facility” and the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “**Deposit Agreement**”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed HSBC Bank plc, Athens branch, Greece as Custodian (as defined below) to receive and hold on its behalf the Share certificates in respect of certain Shares (the “**Deposited Shares**”) and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “**Deposited Property**”). The Depositary shall hold Deposited Shares for the benefit of the Holders (as defined below) in proportion to the number of Shares in respect of which the GDRs held by them are issued. In these terms and conditions (the “**Conditions**”), references to the “**Depositary**” are to JPMorgan Chase Bank, N.A. and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the “**Custodian**” are to HSBC Bank plc, Athens branch, Greece or any other Custodian from time to time appointed under the Deposit Agreement and references to the “**Main Office**” mean, in relation to the Custodian, its office at 109-111, Messoghion Ave., 115 26 Athens, Greece (or such other office as from time to time may be designated by the Custodian with the approval of the Depositary).

References in these Conditions to the “**Holder**” of any GDR shall mean the person registered as Holder on the books of the Depositary maintained for such purpose. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement, and shall become bound by these Conditions and the Deposit Agreement upon becoming a Holder of GDRs. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under the laws of England and Wales, have no contractual rights against, or obligations to, the Issuer or the Depositary. However, the Deed Poll executed by the Issuer in favour of the Holders provides that, if the Issuer fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate.

Every person depositing Shares under the Deposit Agreement shall be deemed thereby to represent and warrant that such Shares are validly issued and outstanding, fully paid and non-assessable, that all pre-emptive rights, if any, with respect to such Shares have been validly disappplied, waived or exercised and that each such person making such deposit is duly authorised so to do. Such representations and warranties shall survive the deposit of Shares and the issue of GDRs in respect thereof.

### 1. Deposit of Shares and Other Securities

- (A) After the initial deposit of Shares by the Issuer in respect of each GDR, unless otherwise agreed by the Depositary and the Issuer and permitted by applicable law, subject to the provisions of Clause 3 of the Deposit Agreement, only the following may be deposited under the Deposit Agreement in respect of such GDR:
- (i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;
  - (ii) Shares subscribed or acquired by Holders from the Issuer through the exercise of rights distributed by the Issuer to such persons in respect of Deposited Shares pursuant to Condition 7;
  - (iii) securities issued by the Issuer to the Holders in respect of Deposited Shares as a result of any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to “Deposited Shares” or “Shares” shall include any such securities, where the context permits; and
  - (iv) (to the extent not prohibited by applicable law and regulation) any other Shares in issue from time to time.

To the extent any stamp duty or other governmental charge is or becomes payable in connection with, or in any way related to, the initial deposit of Shares hereunder by the Issuer or the handling of said Shares by the Custodian, the Issuer agrees to remain liable for, and to pay, such stamp duty or other governmental charge. Any person delivering Shares for deposit may be required by the Depositary or the Custodian to furnish it with such proof, certificates and representations and warranties as to matters of fact, including without limitation the citizenship and residence of the depositor, without restrictions on ownership of Shares, the authenticity and validity of the certificate or certificates or other instruments of title to such Shares (if applicable) and the identity and genuineness of any signature on any of the supporting instruments or other documents, and with such further documents and information as the Depositary may deem reasonably necessary or appropriate for the administration or implementation of the Deposit Agreement in accordance with applicable laws and regulations. The Depositary or the Custodian may withhold acceptance of Shares for deposit, withhold delivery of GDRs or withhold adjustment of the Master GDR to reflect increases in Shares represented thereby until such items are so furnished or otherwise in accordance with these Conditions. Shares are not deemed accepted for deposit until such time as they have been re-registered in the name of the Depositary for the benefit of holders of GDRs or in such other name as the Depositary may direct. Furthermore, if for any reason the Depositary or the Custodian is legally required to comply with any formalities prior to the time when Shares may be accepted for deposit, the Depositary or the Custodian may withhold acceptance of Shares for deposit until such formalities have been complied with. The depositor shall be solely liable for any costs, claims, losses, taxes, duties, governmental charges, damage or liability resulting from any Shares or other instruments submitted to the Depositary pursuant to the Deposit Agreement not ranking *pari passu* in all respects with other Deposited Shares or resulting from any other shortcoming in, imperfection in title to, or dissimilarity of, the Shares or other securities deposited.

- (B) The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, the Issuer must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.
- (C) The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Issuer that the Issuer has restricted the transfer of such Shares to comply with ownership restrictions under applicable Cyprus law or that such deposit would result in any violation of any applicable Cyprus laws or governmental or stock exchange regulations. The Depositary may also refuse to accept Shares for deposit if notified in writing by the Issuer that the Shares are required to be registered under the Securities Act and have not been so registered or if such action is considered necessary or advisable by the Depositary, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body, commission or stock exchange, or under any provision of the Deposit Agreement or for any other reason.
- (D) Subject to the limitations set forth in the Deposit Agreement, the Depositary may (but is not required to) issue GDRs prior to the delivery to it of Shares in respect of which such GDRs are to be issued.

## **2. Withdrawal of Deposited Property**

- (A) Subject as set out in Condition 2(B) to 2(E) below, at any time, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:
  - (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder) at the specified office from time to time of the Depositary or any Agent (located in a place as permitted under applicable law from time to time) to, or to the order in writing of, the person or persons designated in such order and a duly executed and completed certificate substantially in the form set out in Schedule 3, Part B, to the Deposit Agreement (or an electronic certification through the applicable clearing system in lieu of such executed certification), if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs;

- (ii) the payment of such fees, duties, taxes, charges and expenses as may be required under these Conditions or the Deposit Agreement; and
  - (iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable.
- (B) Certificates for withdrawn Deposited Shares will contain such legends, including the legends described under “Transfer Restrictions”, and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Issuer or the Depositary may from time to time determine to be necessary for compliance with applicable laws.
- (C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:
- (i) a certificate for, or other appropriate instrument of title to, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
  - (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in subparagraph (C)(i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),

in each case to the specified office from time to time of the Depositary or, if any, any Agent (located in a place as is permitted under applicable law from time to time) as designated by the surrendering Holder in such accompanying order as aforesaid.

- (D) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- (E) The Depositary may suspend the withdrawal of all or any category of Deposited Property during any period when the register of shareholders or other relevant holders of other securities of the Issuer is closed, generally or in one or more localities, or in order to comply with any applicable Cyprus law or governmental or stock exchange rules or regulations. The Depositary shall restrict the withdrawal of Deposited Shares whenever it is notified in writing by the Issuer that such withdrawal would result in a breach of ownership restrictions under applicable Cyprus law, rule or regulation or governmental resolution or the Issuer’s constitutive documents or for any other reason. To the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Issuer in writing that the Deposited Shares or GDRs or any depositary receipts representing Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A.
- (F) The Depositary may refuse to deliver Deposited Property generally, or in one or more localities, if such refusal is deemed necessary or desirable by the Depositary, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body or commission, or under any provision of the Deposit Agreement or for any other reason. For the avoidance of doubt, the Depositary is not under any obligation to ascertain or determine whether or not any such delivery should be refused (including monitoring ownership levels amongst beneficial owners) and the Depositary shall

not be liable for any loss, damage or other consequences arising from any such delivery. Also, for the avoidance of doubt, the Depositary shall not be liable for any loss, damage or other consequences arising from its refusal or delivery. The Depositary will ensure that the Deposited Property comprises at least one Share until such time as all the GDRs are cancelled.

### **3. Transfer and Ownership**

GDRs are in registered form, with each GDR issued in respect of one Share. Title to the GDRs passes by registration in the records of the Depositary. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are “restricted securities” within the meaning of Rule 144 under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”), interests in such Rule 144A GDRs corresponding to the Rule 144A Master GDR may be transferred to a person whose interest in such Rule 144A GDRs is to be represented by the Regulation S Master GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act. Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Rule 144A Master GDR, shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

### **4. Cash Distributions**

The Depositary and the Issuer agree that no cash dividends or other cash distributions on or in respect of Deposited Shares shall be paid by the Issuer to an account located in Greece. Whenever the Depositary shall receive from the Issuer any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Issuer) or otherwise in connection with the Deposited Property in a currency other than U.S. dollars, the Depositary, its Agent or Custodian shall as soon as practicable convert the same into U.S. dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depositary, for such payment and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; provided that:

- (a) in the event that the Depositary is aware that any Deposited Shares shall not be entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.

### **5. Distributions of Shares**

Whenever the Depositary shall receive from the Issuer any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs or, to the extent that and for so long as the circumstances described in Condition 1(b) may apply to such Deposited Shares, an issue of temporary



global GDRs (in master or definitive form, as appropriate); provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Issuer, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to Cyprus laws, rules and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

## **6. Distributions Other Than in Cash or Shares**

Whenever the Depositary shall receive from the Issuer any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Issuer, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

## **7. Rights Issues**

If and whenever the Issuer announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Issuer shall give timely notice thereof to the Depositary and, thereafter, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 23 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, give details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (i) if, at its discretion and subject to any additional agreements the Depositary may require, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in U.S. dollars or other relevant currency determined by the Depositary in each case along with any premium determined by the Depositary to take into account currency fluctuations together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDR or an issue of certificates in definitive form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if, at its discretion and subject to any additional agreements the Depositary may require, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or
- (iii) if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Issuer, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so

satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, endeavour to sell such rights (either by public or private sale and otherwise at its discretion subject to Cyprus laws, rules and regulations) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in (i), (ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own wilful default or gross negligence the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

The Issuer has agreed in the Deposit Agreement that it will, unless prohibited by applicable law, rule or regulation, give its consent to, and, if requested, use all reasonable endeavours (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Issuer notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4, 5, 6, 7 or 10 or the securities to which such rights relate, in order for the Depositary to offer such rights or distribute such securities or other property to the Holders and to sell the securities represented by such rights, the Depositary will not offer such rights or distribute such securities or other property to Holders unless and until the Issuer procures at the Issuer's expense, the receipt by the Depositary of an opinion from counsel satisfactory to the Depositary that the necessary registration has been effected or that the offer and sale of such rights, securities or property to Holders are exempt from registration. Neither the Issuer nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Issuer nor the Depositary shall be liable for any losses, damages or expenses resulting from any failure to do so.

## **8. Conversion of Foreign Currency**

Whenever the Depositary shall receive any currency other than U.S. dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into U.S. dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted, by sale or in any other manner that it may determine, the currency so received into U.S. dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary, with the assistance of the Issuer, may make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may consider desirable. If at any time the Depositary shall determine that in its judgement any currency other than U.S. dollars is not convertible on a reasonable basis into U.S. dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may in its absolute discretion make such conversion and distribution in U.S. dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

## **9. Distribution of any Payments**

- (A) Any distribution under Conditions 4, 5, 6, 7 or 10 will be made by the Depositary to those Holders who are Holders of record on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date set by the Issuer or as near as reasonably practicable thereto)

and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in U.S. dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and DTC, Clearstream Luxembourg or Euroclear, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relevant Deposited Property.

- (B) Delivery of any securities or other property or rights other than cash shall be made to the entitled Holder, subject to any laws or regulations applicable thereto.

#### **10. Capital Reorganisation**

Upon any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares (including, without limitation, the conversion of Shares into class B shares of the Company) or any other part of the Deposited Property or upon any reduction of capital or upon any takeover, reorganisation, amalgamation, merger or consolidation of the Issuer or to which it is a party (except where the Issuer is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 23 and, at its discretion, may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

#### **11. Taxation and Applicable Laws**

- (A) Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Shares will be subject to deduction of Cyprus and other withholding taxes, if any, at the applicable rates.
- (B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Cyprus in order for the Depositary to receive from the Issuer Shares or other rights, securities, property and cash to be deposited under these Conditions or in order for Shares, other securities or other property to be distributed or otherwise dealt with under Conditions 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Issuer, to the extent not prohibited by applicable law, shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Issuer has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of the Issuer, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property or cash to be deposited under these Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary without, in the opinion of the Depositary, unreasonable burden or expense. To the extent commercially reasonable, the Depositary will forward to the Issuer such information from its records maintained by it in its capacity as Depositary hereunder as the Issuer may reasonably request to enable the Issuer to file any reports that are required in order for the Issuer and the Depositary to maintain the Deposit Agreement with governmental authorities or agencies.

#### **12. Voting Rights**

- (A) As soon as practicable after receipt from the Issuer of notice of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, the Depositary shall fix the record date (which shall be the same date as the corresponding record date set by the Issuer or as near as reasonably practical thereto) in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by the Issuer in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have

been received by the Depositary in a timely manner) and at the Issuer's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the FCA and the admission and disclosure standards of the London Stock Exchange) or Cyprus and/or other legal prohibitions (including without limitation the rules of any Future Stock Exchanges on which the Shares may be admitted to trading), exist, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the constitutive documents and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Issuer), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Upon the receipt from a Holder of GDRs as of the GDR record date of voting instructions in the manner and prior to the time specified by the Depositary, the Depositary shall endeavour, insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreement, the constitutive documents and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions. Notwithstanding anything contained in the Deposit Agreement or any GDR, the Depositary may, to the extent not prohibited by law or regulations, or by the requirements of the stock exchange on which the GDRs are listed, in lieu of distribution of the materials provided to the Depositary in connection with any meeting of, or solicitation of consents or proxies from, holders of Deposited Property, distribute to the Holders a notice that provides Holders with, or otherwise publicises to Holders, instructions on how to retrieve such materials or receive such materials upon request (i.e., by reference to a website containing the materials for retrieval or a contact for requesting copies of the materials).

- (B) Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian shall vote or attempt to exercise the right to vote the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. If the Depositary receives voting instructions from a Holder prior to the deadline established by the Depositary which fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depositary is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depositary from the Holder shall not be voted. The Issuer agrees to provide timely notice to the Depositary which will enable the timely notification of Holders as to any change in its constitutive documents resulting in limitations on the ability of the Depositary to vote a particular GDR according to the voting instructions received in regard to such GDR.
- (C) Notwithstanding anything else contained in the Deposit Agreement, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the FCA and the admission and disclosure standards of the London Stock Exchange) or Cyprus and/or other legal prohibitions (including without limitation the rules of any Future Stock Exchanges on which the Shares may be admitted to trading). The Issuer agrees that it shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement. If the Depositary is advised that it is not permissible under Cyprus law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Property in accordance herewith, the Depositary shall not vote or cause to be voted such Deposited Property.
- (D) The Issuer agrees to take all steps necessary to ensure that a poll is demanded with respect to each matter brought for a vote at any meeting at which the holders of Shares or other Deposited Properties are entitled to vote.

### **13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges**

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any



present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may, for the account of the Holder, discharge the same out of the proceeds of sale and subject to Cyprus laws, rules and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

#### **14. Liability**

- (A) In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Shares for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the owners of GDRs except that any funds received by the Depositary for the payment of any amount due, in accordance with these Conditions, on the GDRs shall be held by it in trust for the relevant Holder until duly paid thereto.
- (B) None of the Depositary, the Custodian, the Issuer, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR, beneficial owner of a GDR or any other person with an interest in a GDR if, by reason of any provision of any present or future law, rule or regulation of Cyprus, the United Kingdom, or any other country or jurisdiction or of any governmental or regulatory authority or any securities exchange or market or automated quotation system, or by reason of the interpretation or application of any such present or future law, rule or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depositary, the Custodian, or any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the constitutive documents of the Issuer, or any act of God, war, terrorism or other circumstance beyond any of their controls any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of its own wilful default or gross negligence) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay, caused as aforesaid, in performance of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement or these Conditions. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction, instruction or other document believed by it to be genuine and to have been duly signed, or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic) or given by the proper party or parties.
- (C) None of the Depositary, the Custodian nor any Agent shall be liable (except by reason of its own wilful default or gross negligence) to the Issuer or any Holder or owner of a GDR or any other person, by reason of having accepted as valid or not having rejected, any document relating to Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions. The Depositary and its agents will not be responsible for any failure to carry out any instructions to vote any of the Deposited Property, for the manner in which any such vote is cast or for the effect of any such vote.
- (D) The Depositary and each of its Agents (and any holding, subsidiary or associated company of the Depositary) may engage or be interested in any financial or other business transactions with the Issuer or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to the Holders or beneficial owners of GDRs or a person with an interest in a GDR or any other person for any profit arising therefrom. In connection with the conversion of foreign



currency into U.S. dollars, JPMorgan Chase Bank, N.A. may deduct out of such foreign currency the fees and expenses charged by it or its agent so appointed in connection with such conversion prior to providing such funds to the Depositary for distribution to Holders entitled thereto.

- (E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own wilful default or gross negligence or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible. In the absence of its own wilful default or gross negligence the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.
- (F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Issuer of, its obligations under or in connection with, the Deposit Agreement or these Conditions nor shall the Depositary be obligated to inform any person (including, without limitation, Holders and beneficial owners of GDRs) about the requirements of any laws, rules or regulations or any changes therein or thereto.
- (G) The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Issuer, any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof. The Issuer shall, subject to applicable laws, have no responsibility whatsoever to any Holder or owner of GDRs or a person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- (H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement or these Conditions, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or beneficial owners of GDRs or a person with an interest in a GDR or any other person.
- (I) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its reasonable opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.
- (J) Unless specifically required by Cyprus law and regulations and then to the extent practicable, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Cyprus law as the same may be amended from time to time.
- (K) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, solicitor, counsel, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Issuer, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof. Any such advice, opinion, certificate or information may be sent or obtained by letter, telex or facsimile transmission, and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's actual knowledge) the same shall contain some error or shall not be authenticated.
- (L) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Issuer by any director or officer of the Issuer or by a person reasonably believed to have been duly authorised by the Issuer's board of directors such other certificate from persons specified in Clause 12.11 of the Deposit Agreement which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate. The Depositary shall not be responsible for the contents of any materials forwarded to Holders on the Issuer's behalf or for the investment risks associated with investing in Shares, for the validity of the worth of the Shares or for the creditworthiness of any third party.

- (M) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the performance or non-performance of or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own wilful default or gross negligence.
- (N) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.
- (O) The Depositary may, in the performance of its obligations under the Deposit Agreement, instead of acting personally, employ and pay an agent, whether a lawyer or other person, including obtaining an opinion of legal advisers in form and substance satisfactory to it (such opinion to be obtained at the expense of the Issuer where agreed in the Deposit Agreement), to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. The Depositary will not be liable to anyone for the misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.
- (P) The Depositary shall under no circumstances have any liability arising from the Deposit Agreement or these Conditions or from any obligations which relate to the Deposit Agreement or these Conditions, including, but not limited to, obligations in tort, whether as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any person, whether or not foreseeable and expenses regardless of the type of action in which such a claim may be brought.

For the purposes hereof:

- (i) “consequential loss or damage” means loss or damage of a kind or extent which was not reasonably foreseeable at the time the Deposit Agreement was entered into as a serious possibility in the event of the breach of obligation in question.
- (ii) “special loss or damage” means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary either at the time the Deposit Agreement was entered into or later.
- (Q) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Register.
- (R) Where Deposited Property is held in a jurisdiction outside the United Kingdom, there may be settlement, legal and regulatory requirements in such jurisdiction which are different from those applying in the United Kingdom, and there may be different practices for the separate identification of assets held by a custodian for its clients.
- (S) The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Issuer may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interest of the Holders think fit provided that no objection from the Issuer to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary’s ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Issuer in making such delegation. The terms of any such delegation by the Depositary shall include a requirement that if the delegate sub-delegates all or any of the powers, authorities or discretions which have been delegated by the Depositary, it will exercise reasonable care in the selection of such sub-delegate. The Issuer shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Issuer, pursue (at the Issuer’s expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate, arising out of any such loss caused by reason of any such misconduct or default. The Depositary

shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Issuer. Any delegation under this Condition, which includes the power to sub-delegate, shall provide that the delegate or sub-delegate, as the case may be, shall be required to provide the services delegated or sub-delegated to it in substantially the same manner as such services are required to be provided under the Deposit Agreement and the delegate or the sub-delegate, as the case may be, shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice to the Issuer and the Depositary.

- (T) The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute and the Depositary shall not (in the case of deposit with itself, in the absence of its gross negligence) be responsible for any losses, liabilities or expenses incurred in connection with any such deposit.
- (U) The Depositary shall not be liable for the acts or omissions made by, or the insolvency of, any securities depository, clearing agency or settlement system. Furthermore, the Depositary shall not be responsible for, and shall incur no liability in connection with or arising from, the insolvency of any custodian that is not a branch or affiliate of JPMorgan Chase Bank, N.A. Notwithstanding anything to the contrary contained in the Deposit Agreement (including the GDRs), the Depositary shall not be responsible for, and shall incur no liability in connection with or arising from, any act or omission to act on the part of the Custodian except to the extent that the Custodian has (i) committed fraud or wilful misconduct in the provision of custodial services to the Depositary or (ii) failed to use reasonable care in the provision of custodial services to the Depositary as determined in accordance with the standards prevailing in the jurisdiction in which the Custodian is located.
- (V) The Depositary and the Custodian(s) may use third party delivery services and providers of information regarding matters such as pricing, proxy voting, corporate actions, class action litigation and other services in connection with the GDRs and/or the Deposit Agreement, and use local agents to provide extraordinary services including, without limitation, attendance at annual meetings of issuers of securities. Although the Depositary and the Custodian will use reasonable care (and cause their agents to use reasonable care) in the selection and retention of such third party providers and local agents, neither the Depositary nor the Custodian will be responsible for any errors or omissions made by any such agents in providing the relevant information or services.
- (W) The Depositary reserves the right to utilise a division, branch or affiliate of JPMorgan Chase Bank, N.A. to direct, manage and/or execute any public and/or private sale of securities hereunder. Such division, branch and/or affiliate may charge the Depositary a fee in connection with such sales, which fee is considered an expense of the Depositary contemplated in Condition 16 or elsewhere under the Deposit Agreement.
- (X) The Depositary shall not have any liability for the price received in connection with any sale of securities, the timing thereof or any delay in action or omission to act nor shall it be responsible for any error or delay in action, omission to act, default or negligence on the part of the party so retained in connection with any such sale or proposed sale. Further, the Depositary and its agents disclaim to the maximum extent permitted by law any and all liability for the price received in connection with any sale of securities or the timing thereof.

#### **15. Issue and Delivery of Replacement GDRs and Exchange of GDRs**

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the holder) at the specified office of any Agent.

#### **16. Depositary's Fees, Costs and Expenses**

- (A) The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
  - (i) for the issue of GDRs (or for the cancellation of GDRs upon the withdrawal of Deposited Property U.S.\$0.05 or less per GDR issued or cancelled;

- (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
- (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;
- (iv) for receiving and paying any cash dividend on or in respect of the Deposited Shares: a fee of U.S.\$0.02 or less per GDR for each such dividend or distribution;
- (v) for services performed by the Depositary in administering the GDRs a fee of U.S.\$0.03 or less per GDR per calendar year for such services (which fee may be charged on a periodic basis during each calendar year or in full at one time, and shall be assessed against Holders of GDRs as of the record date or record dates set by the Depositary during each calendar year and shall be payable at the sole discretion of the Depositary by billing such Holders or by deducting such charge from one or more cash dividends or other cash distributions);
- (vi) for receiving and paying any cash distribution (other than a cash dividend) on or in respect of the Deposited Shares: a fee of U.S.\$0.05 or less per GDR for each such dividend or distribution;
- (vii) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): U.S.\$0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution;
- (viii) an amount necessary to reimburse the Depositary, the Custodian and their respective agents for the fees and expenses they might incur in connection with any inspections of the relevant share register maintained by the local registrar, (such charge to be assessed against Holders of record as of the date or dates set by the Depositary as it sees fit and collected at the sole discretion of the Depositary by billing such Holders for such fee or by deducting such charge from one or more cash dividends or other cash distributions);
- (ix) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depositary for such issuance: a fee of U.S.\$0.05 or less per GDR (or portion thereof); and
- (x) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.\$0.05 or less per GDR.

together with all expenses, transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian and payment of a sum sufficient to pay or reimburse the Depositary for payment of any charges imposed by the London Stock Exchange or any Future Stock Exchanges or any other stock exchange, as the case may be, in connection with any of the above including, but not limited to charges imposed by a central depositary and such customary expenses as are incurred by the Depositary in the conversion of currencies other than U.S. dollars into U.S. dollars and fees imposed by any relevant regulatory authority. In connection with the conversion of foreign currency into U.S. dollars, JPMorgan Chase Bank, N.A. may deduct out of such foreign currency the fees and expenses charged by it or its agent so appointed in connection with such conversion prior to providing such funds to the Depositary for distribution to Holders entitled thereto.

- (B) The Depositary is entitled to receive from the Issuer such fees, taxes, duties, charges, costs, expenses and other payments as specified in a separate agreement between the Issuer and the Depositary concerning such fees, taxes, duties, charges, costs, expenses and other payments.
- (C) The Depositary anticipates reimbursing the Issuer for certain expenses incurred by the Issuer that are related to the establishment and maintenance of the GDR programme upon such terms and conditions as the Issuer and the Depositary may agree from time to time. The Depositary may make available to the Issuer a set amount or a portion of the Depositary fees charged in respect of the GDR programme or otherwise upon such terms and conditions as the Issuer and the Depositary may agree from time to time.
- (D) The right of the Depositary to receive payment of fees, charges and expenses as provided above shall survive the termination of the Deposit Agreement. As to any Depositary, upon the resignation or removal of such Depositary, such right shall extend for those fees, charges and expenses incurred, or with a record date, prior to the effectiveness of such resignation or removal.

## **17. Agents**

The Depositary shall be entitled to appoint one or more agents (the “**Agents**”) for the purpose, *inter alia*, of making distributions to the Holders as well as for any other reason under the Deposit Agreement or these Conditions.

## **18. Listing**

The Issuer has undertaken in the Deposit Agreement to use its reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List of the FCA and admission to trading on the market for listed securities of the London Stock Exchange. For that purpose the Issuer will pay all fees and sign and deliver all undertakings required by the FCA, the London Stock Exchange and any Future Stock Exchanges. In the event that a listing on the Official List of the FCA and admission to trading on the market for listed securities of the London Stock Exchange are not maintained, the Issuer has undertaken in the Deposit Agreement to use its reasonable endeavours with the reasonable assistance of the Depositary to obtain and maintain a listing of the GDRs on another international recognised investment exchange in Europe designated as a “recognised investment exchange” for the purposes of the United Kingdom Financial Services and Markets Act 2000, as amended.

## **19. The Custodian**

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depositary; provided that, if at any time the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Issuer. Upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor custodian, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may, after prior consultation with the Issuer if practicable, terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (after consultation with the Issuer), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, the Issuer shall have consented to such deposit and such consent of the Issuer shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Issuer if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depositary, of a reasonable amount.

## **20. Resignation and Termination of Appointment of the Depositary**

- (A) Unless otherwise agreed to in writing between the Issuer and Depositary from time to time, the Issuer may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days’ notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving 90 days’ notice in writing to the Issuer and the Custodian. Within 30 days after the giving of such notice, notice thereof shall be duly given by the Depositary to the Holders. The Depositary may resign as Depositary and appoint one of its affiliates as its successor Depositary hereunder by giving written notice to the Issuer and notice to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect until the appointment by the Issuer of a successor depositary (other than in the case of any appointment by the Depositary of one of its affiliates as its successor, which shall take effect at such time set by the Depositary), the grant of such approvals as may be necessary to comply with applicable laws



and with the constitutive documents for the transfer of the Deposited Property to such successor depositary, the acceptance of such appointment to act in accordance with the terms thereof by the successor depositary and the payment to the Depositary of all fees, taxes, duties, charges, costs, expenses and other payments as agreed by the Depositary and the Issuer in any agreement concerning such fees, taxes, duties, charges, costs, expenses and other payments. The Issuer has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 23.

- (B) Upon the termination of appointment or resignation of the Depositary, the Depositary shall, against payment of all fees, expenses and charges owing to it by the Issuer under the Deposit Agreement, deliver to its successor depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all Deposited Property held by it under the Deposit Agreement. Upon the date when such termination of appointment or resignation takes effect, the Deposit Agreement provides that the Custodian shall be deemed to be the Custodian thereunder for such successor depositary and shall hold the Deposited Property for such successor depositary and the Depositary shall thereafter have no obligation thereunder.
- (C) The Issuer has agreed not to appoint any other depositary for the issue of depositary receipts so long as JPMorgan Chase Bank, N.A. is acting as Depositary under the Deposit Agreement.

## **21. Termination of Deposit Agreement**

- (A) Subject as set out below, either the Issuer or the Depositary but, in the case of the Depositary, only if the Issuer has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

If the Issuer terminates the Deposit Agreement, it will be obligated, prior to such termination, to reimburse to the Depositary all amounts owed to the Depositary as set out in the Deposit Agreement and in any agreement between the Depositary and the Issuer.

- (B) During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of paragraph (D) of Condition 2 and upon compliance with Condition 2, and further upon payment by the Holder of any sums payable by the Depositary to the Custodian in connection therewith for such delivery and surrender but otherwise in accordance with the Deposit Agreement.
- (C) If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

## **22. Amendment of Deposit Agreement and Conditions**

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22 and Clause 16 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between the Issuer and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders (other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses or other such expenses) or which shall otherwise, in the opinion of the Depositary, be materially prejudicial

to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of thirty days after such notice shall have been given. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR. The Issuer and the Depositary may at any time amend and supplement the Deposit Agreement or these Conditions in order to comply with mandatory provisions of applicable laws, rules and regulations and such amendments or supplements to the Deposit Agreement and these Conditions may become effective before notice thereof is given to Holders or within any other period required to comply with such laws, rules or regulations. Notice of any amendment to the Deposit Agreement or form of GDRs shall not need to describe in detail the specific amendments effectuated thereby, and failure to describe the specific amendments in any such notice shall not render such notice invalid, provided, however, that, in each such case, the notice given to the Holders identifies a means for Holders to retrieve or receive the text of such amendment (e.g. upon retrieval from the Depositary's or the Issuer's website or upon request from the Depositary).

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or beneficial owners if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated.

### **23. Notices**

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between the Issuer and the Depositary and, so long as the GDRs are listed on the Official List of the FCA and admitted to trading on the main market for listed securities of the London Stock Exchange and if and to the extent that the rules of the FCA or any other stock exchange on which the GDRs are listed for trading so require, all notices to be given to Holders generally will also be published by the Issuer in a leading daily newspaper having general circulation in the United Kingdom. Any such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Failure to notify a Holder or any defect in the notification to a Holder shall not affect the sufficiency of notification to other Holders or to the beneficial owners of GDRs held by such other Holders.

All notices required to be given by the Issuer to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by the Issuer to the Depositary and upon receipt of any such notices, the Depositary shall forward such notices to the Holders. The Depositary shall not be liable for any notices required to be given by the Issuer which the Depositary has not received from the Issuer, nor shall the Depositary be liable to monitor the obligations of the Issuer to provide such notices to the Holders. All formal complaints to the Depositary should be made in writing to the compliance officer of the Depositary at the address set out in Clause 17 of the Deposit Agreement.

### **24. Reports and Information on the Issuer**

- (A) The Issuer has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language by mail, or one copy by facsimile or electronic transmission as agreed between the Issuer and the Depositary (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the FCA and admission to trading on the market for listed securities of the London Stock Exchange, or another other stock exchange, in accordance with Clause 10(a) and Condition 18, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Issuer's expense, arrange for an English translation thereof to be prepared.
- (B) The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

- (C) For so long as any Rule 144A GDRs or Rule 144A Shares remain outstanding are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDRs or the beneficial owner of an interest in such GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, beneficial owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time the Issuer is neither subject to and in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, the Issuer shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at the Issuer’s expense. The Issuer has authorised the Depositary to deliver such information as furnished by the Issuer to the Depositary during any period in which the Issuer informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4) to any such Holder, owner of Rule 144A GDRs, beneficial owner of an interest in Rule 144A GDRs or shares represented thereby or prospective purchaser at the request of such person. The Issuer has agreed to reimburse the Depositary for its reasonable expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time reasonably request. Subject to receipt, the Depositary will deliver such information, during any period in which the Issuer informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

**25. Copies of Issuer Notices**

The Issuer has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of any notice to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, and any other material (which in the opinion of the Issuer contains information having a material bearing on the interests of the Holders) furnished to such holders by the Issuer in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Issuer or the Custodian, the Depositary shall, at the Issuer’s expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

**26. Moneys Held by the Depositary**

The Depositary will hold moneys received by it, in respect of or in connection with the Deposited Property in an account with itself as banker and not as trustee, will not hold such moneys in accordance with the FCA’s client money rules, shall be entitled to deal with such moneys in the same manner as other moneys paid to it as a banker to its customers and shall not be liable to account to the Issuer or any holder or any other person for any interest on any moneys paid to it by the Issuer for the purposes of the Deposit Agreement, except as otherwise agreed.

**27. Severability**

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

**28. Disclosure of Beneficial Ownership, Other Information and Ownership Restrictions**

- (A) The Depositary may from time to time request Holders or former Holders to provide information as to the capacity in which they hold or held GDRs and regarding the identity of any other persons then or previously interested in such GDRs and the nature of such interest and various other matters. Each such Holder agrees to provide any such information reasonably requested by the Depositary pursuant to the Deposit Agreement whether or not still a Holder at the time of such request.

- (B) To the extent that provisions of or governing any Deposited Property, the constitutive documents or applicable law may require the disclosure of, or limitations in relation to, beneficial or other ownership of Deposited Property and other securities of the Issuer, the Holders, owners of GDRs and beneficial owners, as the case may be, shall comply with the Depositary's instructions to Holders, owners and beneficial owners, as the case may be, of GDRs in respect of such disclosure or limitation, as may be forwarded to them from time to time by the Depositary, to the extent they have knowledge of the identity of such owners or beneficial owners.
- (C) Notwithstanding any other provision of the Deposit Agreement, the constitutive documents of the Issuer and applicable law, each Holder and beneficial owner agrees to (a) provide such information as the Issuer or the Depositary may request pursuant to law (including, without limitation, relevant Cyprus law, any applicable law of the United States, the constitutive documents of the Issuer, any resolutions of the Issuer's board of directors adopted pursuant to its constitutive documents, the requirements of any markets or exchanges upon which the Shares or GDRs are listed or traded, or to any requirements of any electronic book-entry system by which the Shares or GDRs may be transferred and (b) be bound by and subject to applicable provisions of the laws of Cyprus, the constitutive documents of the Issuer and the requirements of any markets or exchanges upon which the Shares or GDRs are listed or traded, or pursuant to any requirements of any electronic book-entry system by which the Shares or GDRs may be transferred, to the same extent as if such Holder and beneficial owner held Shares directly, in each case irrespective of whether or not they are Holders or beneficial owners at the time such request is made. Each Holder and beneficial owner of GDRs further agrees to furnish the Issuer with any such notification made in accordance with this Condition and to comply with requests from the Issuer pursuant to the laws of Cyprus, the rules and requirements of the London Stock Exchange and any other stock exchange on which the GDRs are, or will be registered, traded or listed, and the Issuer's constitutive documents, whether or not they are Holders and/or beneficial owner at the time of such request. The Depositary agrees to use its reasonable efforts to forward upon the request of the Issuer, and at the Issuer's expense, any such request from the Issuer to the Holders and to forward to the Issuer such responses to such requests received by the Depositary.

## **29. Governing Law**

- (A) The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by Cyprus law except that the certifications in Schedule 3 hereto and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The Issuer has submitted in respect of the Deposit Agreement and these Conditions to the jurisdiction of the English courts. The Issuer has also agreed in the Deed Poll to allow the Holders to elect that disputes are resolved by arbitration.
- (B) The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not.)
- (C) The Issuer irrevocably appoints Aquila International Services Limited, currently situated at 2<sup>nd</sup> Floor, Berkeley Square House, Berkeley Square, London W1 6BD as its authorised agent for service of process in England. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law

## **30. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999 of the United Kingdom except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.

## SUMMARY OF THE PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILST IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR certificate in registered form and (ii) a single Master Rule 144A GDR certificate in registered form. The Master Regulation S GDR has been registered in the name of BNP Paribas Securities Services, Luxembourg branch as nominee and common depositary for Clearstream, Luxembourg and Euroclear, and the Master Rule 144A GDR is held by JP Morgan Chase Bank N.A., as custodian for, and registered in the name of Cede & Co., as nominee, for DTC. The Master GDRs contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the terms and conditions of the GDRs (the “**Conditions**”) set out in this Prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

Any increase or decrease in the number of GDRs evidenced hereby from that initially notified to the Holder, as defined in the Conditions, will promptly be notified to the Holder by the Depositary.

### Exchange

The Master Regulation S GDR and the Master Rule 144A GDR will only be exchanged for certificates in definitive registered form evidencing GDRs in the circumstances described in (i), (ii), (iii), or (iv) below in whole but not, except in the case of (iii) below, in part. Subject to the Conditions, the Depositary hereby irrevocably undertakes to deliver certificates evidencing GDRs in definitive registered form in exchange for either the Master Regulation S GDR or the Rule 144A Master GDR, as the case may be, to persons entitled to interests in the Master Regulation S GDR or the Rule 144A Master GDR, as the case may be, within 60 days in the event that:

- (i) the holder of the Master Rule 144A GDR is unwilling or unable to continue as common depositary (or as nominee thereof) and a successor common depositary (or successor depositary) (or successor nominee thereof), is not appointed within 90 calendar days; or
- (ii) DTC or any successor ceases to be a “clearing agency” registered under the Exchange Act; or
- (iii) either (a) Clearstream, Luxembourg or Euroclear, in the case of the Master Regulation S GDR, or (b) DTC, in the case of the Master Rule 144A GDR, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does, in fact, do so and no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or
- (iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Issuer, the Depositary or its Agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs in definitive form,

Any such exchange shall be at the expense of the relevant Holder.

In case of the Master Rule 144A GDR, in relation to (iii) above any person appearing in the records maintained by DTC as entitled to any interest in this Master Rule 144A GDR shall be entitled to require the Holder to procure the exchange of an appropriate part of this Master Rule 144A GDR for a definitive GDR for an interest held by such person in this Master Rule 144A GDR in the above circumstances upon notice to the Holder. Any such exchange shall be at the expense (including printing costs) of the Holder in the case of such appropriate part or at the expense of the Holders in case of exchange of the whole of the Master Rule 144A GDR for the definitive GDRs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through DTC.

Upon any exchange of a part of this Master Rule 144A GDR for a certificate evidencing a GDR or GDRs in definitive form or any distribution of GDRs pursuant to Conditions 3, 5, 6, 7 or 10, or any reduction in the number of GDRs evidenced hereby following any withdrawal of any Deposited Property pursuant to Condition 2, or any increase in the number of GDRs following the deposit of Shares pursuant to Condition 1, the relevant details shall be entered on the Register of the Depositary, whereupon the number of GDRs represented by this Master Rule 144A GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the Register, provided always that if the number of GDRs evidenced by the Master Regulation S GDR and/or the Master Rule 144A GDR is reduced to zero the Master Regulation S GDR and/or the Master Rule 144A GDR shall continue in existence until the obligations of the Issuer under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.



## **Voting rights, payments and distributions**

GDR holders will have voting rights in respect of the underlying shares as set forth in Condition 12 and the Deposit Agreement. The Depositary will exercise voting rights only upon receipt of written instructions in accordance with the Conditions and the Deposit Agreement and if permitted by law.

Payments of cash dividends and other amounts (including cash distributions) in respect of the GDRs evidenced by the Master Regulation S GDR or the Master Rule 144A GDR will be made by the Depositary through Clearstream, Luxembourg and Euroclear in respect of the Master Regulation S GDR and through DTC in respect of the Master Rule 144A GDR on behalf of persons entitled thereto upon receipt of funds therefor from the Issuer. Any free distribution or rights issue of Shares to the Depositary on behalf of Holders may result in the number of GDRs being adjusted to reflect the enlarged number of GDRs it thereby evidences.

## **Surrender of GDRs**

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by the common depositary on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by the common depositary. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all moneys or other property payable or distributable, in respect of the Deposited Property represented by such GDRs.

## **Notices**

In respect of the Master Regulation S GDR, for so long as it is registered in the name of a common depositary on behalf of Euroclear and Clearstream, Luxembourg, and, in respect of the Master Rule 144A GDR, for as long as it is registered in the name of DTC or its nominee, notices may be given by the Depositary by delivery of the relevant notice to the Common Depositary for communication to persons entitled thereto in substitution for publication required by Condition 23.

## **Information**

For so long as any Rule 144A GDRs or shares represented thereby are “restricted securities” within the meaning of Rule 144(a)(3) under the US Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Master Rule 144A GDR or the beneficial owner of an interest in such Rule 144A GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, beneficial owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4).

## **Governing law**

The Master Regulation S GDR and the Master Rule 144A GDR will be governed by and construed in accordance with English law.

## DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GLOBAL DEPOSITARY RECEIPTS

### **The Depositary**

The Depositary is a wholly-owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation. The Depositary is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. It is chartered, and its business is subject to examination and regulation, by the Office of the Comptroller of the Currency, a bureau of the United States Department of the Treasury. It is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation (the “FDIC”).

### ***Rights of Holders of GDRs***

*Relationship of Holders of GDRs with the Depositary:* The rights of Holders against the Depositary are governed by the Conditions and the Deposit Agreement, which is governed by English law. The Depositary and the Issuer are parties to the Deposit Agreement. Holders of GDRs have contractual rights in relation to cash or other Deposited Property (including Deposited Shares, which are Class A Shares of the Issuer represented by GDRs) deposited with the Depositary under the Deposit Agreement by virtue of the Deed Poll.

*Voting:* With respect to voting of Deposited Shares and other Deposited Property represented by GDRs, the Conditions and the Deposit Agreement provide that the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Issuer or as near as practicable thereto) such notice of meeting or solicitation of consent or proxy along with a brief statement on the manner in which such Holders may provide the Depositary with voting instructions for matters to be considered. The Deposit Agreement provides that the Depositary will endeavour to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with instructions from Holders. As of the date of this Prospectus, the Issuer confirms that there are no restrictions under applicable law, the constitutive documents of the Issuer or the provisions of the Deposited Shares that would prohibit or restrict the Depositary from voting any of the Deposited Shares in accordance with instructions from Holders.

*Delivery of GDRs:* The Deposit Agreement provides that the Deposited Shares can only be delivered out of the Regulation S and Rule 144A GDR facilities to, or to the order of, a Holder of related GDRs upon receipt and cancellation of such GDRs.

### ***Rights of the Issuer***

The Issuer has broad rights to remove the Depositary under the terms of the Deposit Agreement, but no specific rights under the Deposit Agreement which are triggered in the event of the insolvency of the Depositary.

### ***Insolvency of the Depositary***

*Applicable insolvency law:* If the Depositary becomes insolvent, the insolvency proceedings will be governed by US law applicable to the insolvency of banks.

*Effect of applicable insolvency law in relation to cash:* The Conditions state that any cash held by the Depositary for Holders is held by the Depositary as banker. Under current US law, it is expected that any cash held for Holders by the Depositary as banker under the Conditions would constitute an unsecured obligation of the Depositary. Holders would therefore only have an unsecured claim in the event of the Depositary’s insolvency for such cash that would be also be available to general creditors of the Depositary or the FDIC.

*Effect of applicable insolvency law in relation to non-cash assets:* The Deposit Agreement states that the Deposited Shares and other non-cash assets which are held by the Depositary for Holders are held by the Depositary as bare trustee and, accordingly, the Holders will be tenants in common for such Deposited Shares and other non-cash assets. Under current US law, it is expected that any Deposited Shares and other non-cash assets held for Holders by the Depositary on trust under the Conditions would not constitute assets of the Depositary and that Holders would have ownership rights relating to such Deposited Shares and other non-cash assets and be able to request the Depositary’s receiver or conservator to deliver such Depositary Shares and other non-cash assets that would be unavailable to general creditors of the Depositary or the FDIC.

### ***Default of the Depositary***

If the Depositary fails to pay cash or deliver non-cash assets to Holders in the circumstances required by the Deposit Agreement or otherwise engages in a default for which it would be liable under the terms of the Deposit

Agreement, the Depositary will be in breach of its contractual obligations under the Conditions. In such case Holders will have a claim under English law against the Depositary for the Depositary's breach of its contractual obligations under the Deposit Agreement.

### **The Custodian**

The Custodian is HSBC Bank plc, an entity established under English law and registered in England, acting by way of its Athens branch, HSBC Bank plc (Greece) via its department, HSBC Securities Services, Greece. For the avoidance of doubt, as a branch of HSBC Bank plc, HSBC Bank plc (Greece) is an entity established under English law and registered in England.

*Relationship of Holders of GDRs with the Custodian:* The Custodian and the Depositary are parties to a custody agreement, which is governed by New York law. The Holders do not have any contractual relationship with, or rights enforceable against, the Custodian. The Custodian will hold one or more certificates representing Deposited Shares, each of which will be registered in the Issuer's share register in the name of the Depositary or its nominee, as the case may be, and deposited in the Regulation S and Rule 144A GDR facilities. The Deposited Shares will not be registered in the name of the Custodian.

### **Default of the Custodian**

*Failure to deliver cash:* Notwithstanding the fact that the Issuer expects to pay dividends, if at all, in US dollars, payments denominated in any currency which are made in accordance with Depositary's current procedures and pursuant to the terms of the Deposit Agreement and Conditions will not be made through the Custodian. Rather, payments in US dollars will be made directly from the Issuer to an account in New York and then credited to the US dollar denominated accounts of the Holders. To the extent that payments are in a currency other than US dollars, such payments may be made to an account outside of Greece, converted into US dollars and, after deduction of any fees and expenses of the Depositary, credited to the appropriate accounts of the Holders.

*Failure to deliver non-cash assets:* If the Custodian fails to deliver Deposited Shares or other non-cash assets held for the Depositary as required by the Depositary or otherwise defaults under the terms of the custody agreement, the Custodian will be in breach of its obligations to the Depositary. In such case the Depositary will have a claim under New York law against the Custodian for the Custodian's breach of its obligations under the custody agreement. The Depositary can also remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

*The Depositary's obligations:* The Depositary has no obligation to pursue a claim for breach of obligations against the Custodian on behalf of Holders. The Depositary is not responsible for and shall incur no liability in connection with or arising from default by the Custodian due to any act or omission to act on the part of the Custodian, except to the extent that the Custodian has (i) committed fraud or wilful misconduct in the provision of custodial services to the Depositary or (ii) failed to use reasonable care in the provision of custodial services to the Depositary as determined in accordance with the standards prevailing in the jurisdiction in which the Custodian is located.

*Applicable law:* The custody agreement is New York law governed.

### **Insolvency of the Custodian**

*Applicable law:* If the Custodian becomes insolvent, the insolvency proceedings will be governed by applicable English law.

*Effect of applicable insolvency law in relation to cash:* For the reasons outlined above, it is not expected that any claim for cash will subsist against the Custodian as the Issuer will make payments directly to the Depositary or its nominee, as the case may be, and no cash will be paid to the Custodian.

*Effect of applicable insolvency law in relation to non-cash assets:* The certificates representing the Deposited Shares will be registered in the Issuer's share register in the name of the Depositary or its nominee, as the case may be. The Depositary or its nominee, as the case may be, will have ownership rights over certificates representing the Deposited Shares or other non-cash assets held by the Custodian at the time of its insolvency and will be able to request the Custodian's liquidator to deliver such certificates representing the Deposited Shares or other non-cash assets to it. If the Custodian or its liquidator or similar officer fails or refuses, such non-delivery will not affect the Depositary's or its nominee's, as the case may be, legal title to or ability to transfer the underlying Class A Shares. To complete such a transfer, the Depositary or its nominee, as the case may be, must provide a written notice or other evidence (such as an extract of the Issuer's share register) to the Issuer's board of directors. If such a transfer is made, it is expected that the Custodian would no longer have a claim for such certificates representing the Deposited Shares or other non-cash assets against the Depositary or its nominee, as the case may be.

*The Depositary's obligations:* The Depositary has no obligation to pursue a claim in the Custodian's insolvency on behalf of the Holders. The Depositary has no responsibility for, and will incur no liability in connection with or arising from, the insolvency of any custodian that is not a branch or affiliate of JPMorgan Chase Bank, N.A.. In the event of the insolvency of the Custodian which is not an affiliate of the Depositary, the Holders have no direct recourse to the Custodian under the Deposit Agreement, though the Depositary can remove the Custodian and appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

**PERSONS HOLDING BENEFICIAL TITLE TO GDRs OR INTERESTS THEREIN ARE REMINDED THAT THE ABOVE DOES NOT CONSTITUTE LEGAL ADVICE AND IN THE EVENT OF ANY DOUBT REGARDING THE EFFECT OF THE DEFAULT OR INSOLVENCY OF THE DEPOSITARY OR THE CUSTODIAN, SUCH PERSONS SHOULD CONSULT THEIR OWN ADVISORS IN MAKING A DETERMINATION.**

## TAXATION

*The following summary of material Cypriot, Russian, US federal income and United Kingdom tax consequences of ownership of GDRs is of a general nature and based upon laws, regulations, decrees, Circulars, rulings, double taxation conventions, agreements and arrangements, administrative practice and judicial decisions in effect as at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth in this Prospectus. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the GDRs.*

*The following is intended only as a general guide and is not intended to be, nor should it be considered, legal or tax advice to any particular holder of shares or GDRs. It is not intended to address all tax aspects that may be relevant to a holder of shares. Accordingly, potential investors should satisfy themselves as to the overall tax consequences in their own particular circumstances of their acquisition, ownership and disposal of shares, including any pending or proposed changes in relevant tax laws as at the date of this Prospectus and any actual changes in relevant tax laws after such date, by consulting their own tax advisers in all relevant jurisdictions.*

### **Cyprus Tax Considerations**

*The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular Cyprus tax resident holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under the Cyprus Income Tax, the Defence Tax, Capital Gains Tax and Stamp Duty Laws and practice, of acquisition, ownership and disposition of GDRs in their own particular circumstances, by consulting their own professional tax advisors.*

#### **Tax Residency**

A company which is considered to be a resident for tax purposes in Cyprus is subject to corporate income tax in Cyprus (the “**Corporate Income Tax**”) on its worldwide income, subject to certain exemptions. Non-Cyprus tax residents are taxed on income derived from sources in Cyprus (in case of individuals) or from business activity which is carried out through a permanent establishment in Cyprus (in case of companies). A company is considered to be a resident of Cyprus for tax purposes if its management and control is exercised from Cyprus.

There is no specific definition in the Cyprus tax legislation of the term “management and control” but it is understood that the OECD principles regarding “place of effective management” are followed.

With respect to individuals, an individual is considered to be a tax resident of Cyprus if he or she is physically present in Cyprus for a period or periods exceeding in aggregate 183 days in any calendar year.

#### **Rates of Taxation**

The rate of Corporate Income Tax in Cyprus is 12.5 per cent.

The Defence Tax is levied on certain types of income earned by Cyprus tax residents only. The Defence Tax applies, subject to any available exemptions, at the following tax rates:

- three per cent. on 75 per cent. of certain worldwide rental income (applicable for both individuals and legal entities);
- 30 per cent. on interest income not arising in the ordinary course of business or in close connection with the ordinary business activity (applicable for both individuals and legal entities);
- 20 per cent. on dividend income received or deemed to have been received by individuals from Cyprus companies or from abroad; and
- 20 per cent. on dividend income received by a Cypriot company unless an exemption applies.

The Defence Tax is levied on the gross amount of income without any deduction for expenses.

Where income from abroad is subject to tax in Cyprus, any foreign tax paid on such income could be credited against the Cyprus tax liability on the same income. Such claim must be supported with proper documentation proving the foreign tax paid.

Capital gains tax (the “**Capital Gains Tax**”) is levied in Cyprus at a rate of 20 per cent. on profits from disposal of immovable property situated in Cyprus or shares of companies which own immovable property situated in Cyprus (unless the shares are listed on a recognised stock exchange). (Depending on the tax residency of the seller, double tax treaty protection may be available.)



### *Gains from the Disposal of Securities/titles (as defined in the Cyprus tax legislation)*

Any gain arising from the disposal of securities/titles by the Issuer shall be exempt from Corporate Income Tax irrespective of the trading or capital nature of the gain, the number of shares held or the holding period and shall not be subject to the Defence Tax. Such gains shall also be exempt from capital gains tax provided that the company whose shares are disposed of will not own any immovable property situated in Cyprus at the point of disposal.

In accordance with the Cyprus tax legislation, securities/titles mean “shares, bonds, debentures, founder’s shares or other securities of companies or other legal entities which have been incorporated in Cyprus or abroad and options thereon”. Based on the Circular issued by the Commissioner of Income Tax GDRs are considered to be titles.

### *Dividends to be received by the Issuer*

Dividend income received by a Cyprus tax resident company (whether received from Cypriot resident or non-resident companies) is unconditionally exempt from Corporate Income Tax in Cyprus.

Dividend income received from Cypriot resident companies is also exempt from the Defence Tax. As from 1 January 2012, dividends which are paid indirectly by a company resident in the Republic of Cyprus, to another company, resident in the Republic of Cyprus, more than four years from the end of the year in which the profits which were paid distributed as dividends were earned are subject to the Defence Tax. Dividends paid out of income emanating directly or indirectly from dividends on which the Defence Tax was previously suffered are exempt.

Dividend income received from non-Cypriot resident companies is exempt from the Defence Tax, unless both following conditions are met: (i) the company paying the dividend engages, directly or indirectly, for more than 50 per cent. in activities which generate investment income (“**passive income**”) and (ii) the foreign tax burden of the company paying the dividend is substantially lower than the tax burden of the company in Cyprus receiving the dividend.

Therefore, any dividends received by the Issuer from its Russian subsidiary, should be exempt from the Defence Tax on the basis that the Russian subsidiary, TCS Bank, is engaged by more than 50 per cent. in trading activities.

If the exemption for the Defence Tax does not apply, dividends from non-Cypriot resident companies are subject to 20 per cent. Defence Tax. Any foreign withholding tax incurred by the Issuer can be credited against any Defence Tax payable in Cyprus (if at all) in respect of dividend income provided that appropriate documentation is available to support the foreign tax suffered (i.e. withholding tax certificate from the foreign tax authorities). Moreover, the Issuer is eligible to claim foreign tax relief in respect of any underlying tax (i.e. corporate tax on profits) incurred by its Russian subsidiaries in case the dividend income from such companies is subject to the Defence Tax, in accordance with the double tax treaty in force between Cyprus and Russia.

### *Interest Income*

Any interest accruing to the Issuer which is considered to arise in the ordinary course of its business, including interest which is closely connected with the ordinary course of its business qualifies as business income (“**active**”) and shall be subject to Corporate Income Tax in Cyprus at a rate of 12.5 per cent., after allowable deductions. Such interest income shall be exempt from the Defence Tax.

Specifically, in accordance with a Circular issued by the Commissioner of Income Tax, interest income arising in connection with the provision of loans to related or associated parties should be considered as income arising from activities closely connected with the ordinary carrying on of a business and should as such be exempt from the Defence Tax and only be subject to Corporate Income Tax.

Other interest income of the Issuer (not arising in the ordinary course of its business or closely connected therewith) shall generally be exempt from the Corporate Income Tax but shall be subject to the Defence Tax at a rate of 30 per cent. on the gross amount.

### *Arm’s Length Principle*

In accordance with the arm’s length provisions, transactions between related parties, including shareholders, should be carried out on an arm’s length basis, i.e. they should be carried out on the same terms and conditions as transactions with unrelated parties.

If not, the Cyprus tax authorities may deem that they were so carried out and tax the resulting profits/gains accordingly.

### *Deemed Distribution Rules*

As from the tax year 2003 onwards, companies are deemed to have distributed to their Cyprus tax resident shareholders 70 per cent. of their after tax accounting profits (excluding revaluations, impairments, fair value adjustments and some other adjustments) at the end of two years from the end of the year in which the profits were earned. On such a deemed distribution, 20 per cent. Defence Tax should be withheld and paid over to the Tax Authorities.

The deemed dividend distribution rules do not apply for groups/companies ultimately held by non-Cyprus tax resident shareholders. The Defence Tax is withheld only on the proportion of profits that are attributable directly or indirectly to shareholders that are considered to be tax residents of Cyprus as the deemed distribution rules do not apply to non-Cyprus tax resident shareholders.

### ***Withholding Taxes on payment of dividend by the Issuer to the GDR Holders***

Dividends paid by the Issuer to another Cyprus tax resident company are not subject to withholding tax in Cyprus and are exempt from the Defence Tax, however, as from 1 January 2012, the Defence Tax may be imposed on such dividends if they are paid indirectly after four years from the end of the year in which the profits distributed as dividends were earned.

There will be no withholding tax in Cyprus on any dividends paid by the Issuer to its non-Cyprus tax resident corporate and individual GDR Holders. For any dividends paid to Cyprus tax resident individuals the Issuer would have an obligation to withhold the Defence Tax at the rate of 20 per cent. GDR Holders must consult their own tax advisers on the consequences of their domicile or residence in relation to the receipt of dividends.

### ***Taxation of Capital Gains on Sale of GDRs by the GDR Holders***

Any gain arising on the sale of GDRs in the Issuer by the holder will not be subject to Corporate Income Tax and should not be subject to Capital Gains Tax in Cyprus on the basis that the Issuer does not own any immovable property situated in Cyprus.

### ***Deductibility of expenses***

The general principle of the Cyprus Income Tax law is that for an expense to be allowed as a deduction it must have been incurred wholly and exclusively for the production of income.

In accordance with Circular number 14/2008 issued by the Cyprus Tax Authorities, all direct expenses relating to the income from exempt activities should be disallowed for corporation tax purposes.

Any expenses relating to the offering of the GDRs are expected to be treated as expenses of a capital nature and therefore disallowed for tax purposes.

### ***Tax losses***

Tax losses can be carried forward and be set-off against the company's taxable income for the next five years from the end of the tax year in which they were incurred.

### ***Capital Duty***

Capital duty is payable in respect of the registered authorised and issued share capital of a Cypriot company upon its incorporation and upon subsequent increases in share capital thereon.

The capital duty rates for subsequent changes of the registered authorized and issued share capital are as follows:

- capital duties of 0.6 per cent. of the nominal value of additional registered authorised share capital; and
- €17.09 flat duty on every issue, whether the shares are issued at their nominal value or at a premium.

### ***Stamp Duty***

Cyprus levies stamp duty on every document if:

- it relates to any assets situated in Cyprus; or
- it relates to any matter or thing which is performed or done in Cyprus, irrespective of the place where it is executed.

Stamp duty on a contractual agreement entered into on or after 1 March 2013 is levied at the following progressive rates:

- no stamp duty is payable on the first €5,000 of consideration stated in the contract;

- on consideration between €5,001 to €170,000 the rate is 0.15 per cent.; and
- on consideration exceeding €170,000 the rate is 0.2 per cent.

The maximum amount of stamp duty payable is €20,000 per contract which applies to contracts with a consideration value of €10,046,250 or more.

The above obligation arises irrespective of whether the agreement is executed in Cyprus or abroad. If the agreements are executed outside Cyprus, payment of the stamp duty may be deferred until the agreements are first brought into Cyprus, whereupon they shall be deemed, for the purpose of the payment of stamp duty, to have been first executed on the date of their receipt in Cyprus.

In the case where loans will be provided by the Issuer to its foreign subsidiary, the Commissioner of Stamp Duty in Cyprus is usually expected to be satisfied that the loan agreements should not be subject to stamp duty in Cyprus provided the funds are used outside Cyprus.

### **Russian Tax Considerations Relevant to the Purchase, Ownership and Disposition of GDRs**

The following is a summary of certain Russian tax considerations relevant the purchase, ownership and disposition of GDRs by Russian resident and non-resident investors. This summary is based on the laws of Russia in effect as of the date of this Prospectus. The discussion with respect to Russian legislation is based on the Issuer's understanding of current Russian law and tax rules, which are subject to frequent change and varying interpretations.

This summary does not seek to address the applicability of, or procedures in relation to, taxes levied by the regions, municipalities and other non-federal-level authorities of the Russian Federation. The summary does not seek to address the availability of double tax treaty relief and, in any case, it should be noted that there may be practical difficulties in claiming relief under any applicable double tax treaty. You should consult your own professional advisors regarding the tax consequences of investing in GDRs. No representations with respect to the Russian tax consequences for any particular investor are made hereby.

For the purposes of this summary, a “**Russian resident investor**” means: (i) an individual investor actually present in the Russian Federation for 183 days (including days of arrival in Russia and days of departure from Russia) or more in 12 consecutive months (presence in Russia is not deemed interrupted if an individual departs for short periods (less than six months) for the purpose of medical treatment or education); (ii) an investor that is a Russian legal entity; or (iii) a legal entity or an organisation, in each case organised under foreign law, which holds and disposes of GDRs through its permanent establishment in Russia.

For the purposes of this summary, a “**non-resident investor**” is an investor in GDRs which does not qualify as a Russian resident investor as defined in the previous paragraph.

#### ***Taxation of Acquisition of GDRs***

No Russian tax implications should arise for Russian resident investors or non-resident investors in GDRs upon purchasing them. However, under certain conditions a taxable material gain may arise for individuals if GDRs are purchased at a price below the market value determined in accordance with Russian tax legislation. Also, in certain circumstances Russian resident investors that are not individuals, when acquiring GDRs, must fulfil the obligations of a tax agent with respect to withholding tax on the sales proceeds from GDRs that are to be transferred to a non-resident investor. Investors should consult their own tax advisors with respect to the tax consequences of acquisition of GDRs.

#### ***Taxation of Dividends***

##### ***Russian Resident Investors***

Please note that there are uncertainties surrounding the application of tax on payments under GDRs, primarily because the taxation of dividends payable under GDRs is poorly addressed in Russian tax law. Generally, payments under GDRs should be recognised as dividends if they are viewed as dividends under Cypriot law. Russian tax law also recognises payments under depositary receipts as dividends for the purposes of a participation exemption, which has indirectly been confirmed in several clarifications of the Russian Ministry of Finance. However, the possibility cannot be excluded that payments under GDRs might not be recognised as dividends. Should that be the case, Russian investors that are legal entities may be required to pay Russian corporate income tax at a rate of 20 per cent., while Russian resident investors who are individuals may be required to pay personal income tax at a rate of 13 per cent.

Dividends paid to a Russian resident investor that holds GDRs and is a Russian legal entity or organisation or individual will generally be subject to Russian tax at a rate of 9 per cent. Dividends received by Russian legal

entities from qualified foreign companies are taxable at a rate of 0 per cent. This participation exemption is available with respect to companies in which (1) the parent company holds at least 50 per cent. of shares in a foreign subsidiary (or the GDR holder is eligible to receive not less than 50 per cent. of all dividends payable by such foreign company), and (2) the participation has been held for more than 365 days, and (3) the respective company is not a resident of one of the jurisdictions included on the list of tax havens kept by the Russian Ministry of Finance. Please note that Cyprus is currently not on that list.

According to clarifications issued by the Russian tax authorities, it is possible to apply the 9 per cent. tax rate to dividends paid to a Russian permanent establishment of a foreign organisation based on the non-discrimination provisions of the relevant double tax treaty between Russia and the country of tax residency of the respective foreign organisation. However, as the Russian Tax Code does not specifically provide for application of the reduced tax rate in such situations and the application of treaty-based non-discrimination cases is still rare in Russian tax practice, no assurance can be given that attempted application of the 9 per cent. tax rate would not be challenged by the Russian tax authorities, in which case it is likely that a 15 per cent. tax rate would be applied.

#### *Non-resident Investors*

No Russian tax implications should arise for non-resident investors upon receipt of dividends payable under GDRs.

#### ***Taxation of Capital Gains***

##### *Taxation of Legal Entities and Organisations*

- **Russian resident investors.** Capital gains arising from the sale of GDRs by a Russian resident investor which is an organisation will be taxable at the regular Russian corporate profits tax rate of 20 per cent. Russian tax legislation contains a requirement that, in general, profit arising from activities connected with securities quoted on a stock exchange must be calculated and accounted for separately from profit earned from activities connected with securities that are not quoted on a stock exchange and from other profits. Therefore, Russian resident investors may be able to apply losses arising in respect of listed GDRs to offset capital gains, or as a carry-forward amount to offset future capital gains, from the sale, exchange or other disposal of securities that are quoted on a stock exchange, and, in respect of non-listed GDRs, from the sale, exchange or other disposal of securities that are not quoted on a stock exchange. Special tax rules apply to Russian organisations that hold a broker and/or dealer licence. The Russian Tax Code also establishes special rules for calculation of the tax base for transactions with securities.
- **Non-resident investors.** Capital gains arising from the sale, exchange or other disposal of GDRs by legal entities and organisations that are non-resident investors should not be subject to tax in Russia.

##### *Taxation of Individuals*

- **Russian resident investors.** Capital gains arising from the sale, exchange or other disposal of GDRs by individuals who are Russian resident investors are subject to personal income tax at a rate of 13 per cent., payable by individuals or tax agents in certain cases (please see “*Russian Tax Considerations Relevant to the Purchase, Ownership and Disposition of GDRs—Taxation of Capital Gains—Taxation of Individuals—Withholding of tax on capital gains (resident and non-resident investors)*” below). Income from the sale of GDRs by an individual is calculated as the sale proceeds less expenses proved by documentary evidence related to the purchase of the securities (including the cost of the securities themselves and expenses associated with the purchase, keeping and sale of the securities). Similarly for legal entities or organisations, Russian tax legislation contains a requirement that the financial result from activities involving securities quoted on a stock exchange must be calculated separately from the financial result from trading in non-quoted securities. Russian resident investors may carry forward losses arising from dealing with quoted securities, or with derivatives that have quoted securities as underlying assets, to offset future capital gains from the sale, exchange or other disposal of other quoted securities or derivatives that have quoted securities as underlying assets. No loss carry-forward is available for non-quoted securities and derivatives.
- **Non-resident investors.** Taxation of the income of non-resident individuals depends on whether the income is received from Russian or non-Russian sources. Russian tax law treats the place of sale as an indicator of source. Accordingly, the sale of GDRs outside of Russia by individuals who are non-resident investors should not be considered Russian source income and, therefore, should not be taxable in Russia. However, Russian tax law gives no clear indication as to how the place of sale of GDRs should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is inside or outside Russia. The sale, exchange or other disposal of GDRs by non-resident investors in Russia will be deemed Russian source income and will be

subject to tax at a rate of 30 per cent. on the difference between the selling price and the acquisition price of the GDRs as well as other documented expenses, such as depositary expenses and broker fees.

- **Withholding of tax on capital gains (resident and non-resident investors).** Under Russian law if a sale is made by a holder of securities through a professional asset manager or broker that is a Russian legal entity or a foreign legal entity or organisation with a permanent establishment in Russia, such professional asset manager or broker should also act as a tax agent and calculate (including applying deduction of the acquisition price or other expenses at the source of payment) and withhold the applicable tax and remit it to the Federal Treasury. If it is not possible to withhold tax, tax agents have an obligation to notify the tax authorities.

#### *Application of Double Tax Treaties to Capital Gains Received by Non-Residents Who Are Individuals*

- In some circumstances a non-resident investor may be exempt from Russian personal income tax on the sale, exchange or other disposal of GDRs under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident investor. Under the United States-Russia Tax Treaty, capital gains from the sale of GDRs by U.S. Holders (as defined below) should be exempt from taxation in Russia unless 50 per cent. or more of the Issuer's assets (as the term "fixed assets" is used in the Russian version of the United States-Russia Tax Treaty) consist of immovable property located in Russia. If this 50 per cent. threshold is not met, individuals who are U.S. Holders may seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposal of GDRs. The UK-Russia Tax Treaty provides for an exemption from personal income tax on capital gains received by UK holders (as defined below) unless the gains relate to shares that both (a) derive their value or the greater part of their value directly or indirectly from immovable property in Russia, and (b) are not quoted on an approved stock exchange. Therefore, individuals who are UK holders may also apply the provisions of the UK-Russia Tax Treaty, as it exempts any gain from disposal of GDRs quoted on an approved stock exchange from Russian taxation.
- In order to apply the provisions of the relevant double tax treaties, the individual investors should receive clearance from the Russian tax authorities as described below (see "*Taxation—Russian Tax Considerations Relevant to the Purchase, Ownership and Disposition of GDRs—Tax Treaty Procedures*").

#### ***Tax Treaty Procedures***

In accordance with the Russian Tax Code, a non-resident investor who is an individual must present to the tax authorities an apostilled (or legalised) document confirming his/her residency in his/her home country (a tax residency certificate issued by the competent authorities in their country of residence for tax purposes) and also other supporting documentation, including a statement confirming the income received and the tax paid offshore, issued or approved by the tax authorities in the country in which he/she is a resident for tax purposes. The Russian tax authorities may require a Russian translation of certain documents. Technically, the above requirements mean that an individual cannot rely on the tax treaty until he/she pays the tax in the jurisdiction of his/her residence. Therefore, advance relief from withholding taxes for individuals is generally impossible, as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the tax authorities obtained before year-end. A non-resident investor who is an individual may apply for treaty-based benefits up to one year following the end of the tax period in which the relevant income was received. The procedures for processing such claims have not been clearly established, and there is significant uncertainty regarding the availability and timing of such refunds.

Prospective non-resident holders should consult their own tax advisors should they need to obtain a refund of Russian taxes withheld on any payments received with respect to GDRs.

#### ***Stamp Duty***

No Russian stamp duty will be payable by investors holding GDRs upon carrying out transactions with GDRs (i.e. on the purchase of GDRs, sale of GDRs, etc.), except with respect to transactions involving inheritance.

#### **Certain U.S. Federal Income Tax Considerations**

**The discussion of U.S. tax matters set forth in this Prospectus was written in connection with the promotion or marketing of this offering and was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding tax-related penalties under U.S. federal, state or local tax law. Each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.**

The following summary is a description of certain U.S. federal income tax considerations relevant to a U.S. Holder acquiring, holding and disposing of the Class A Shares or GDRs. This summary is based upon existing



U.S. federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual investment circumstance, including investors subject to special tax rules including financial institutions, insurance companies, broker-dealers, traders in securities who mark their positions to market, tax-exempt organisations, partnerships or other pass-through entities, holders who are not U.S. Holders, holders who own (directly, indirectly or constructively) 10 per cent. or more of the Issuer's voting stock, investors that will hold the Class A Shares or GDRs as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for U.S. federal income tax purposes, or investors that have a functional currency other than the U.S. dollar. In addition, this summary does not discuss any other U.S. federal tax issues, such as the Medicare tax on net investment income or alternative minimum tax considerations, or state, local or non-U.S. tax considerations. This summary assumes that investors will hold their Class A Shares or GDRs as "**capital assets**" (generally, property held for investment) for U.S. federal income tax purposes. You are urged to consult your tax advisor regarding the U.S. federal, state, local and non-U.S. income and other tax considerations relevant to an investment in the Class A Shares or GDRs.

For purposes of this summary, a "**U.S. Holder**" is a beneficial owner of the Class A Shares or GDRs that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the law of, the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust.

If an entity classified as a partnership for U.S. federal income tax purposes holds the Class A Shares or GDRs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the Class A Shares or GDRs, you should consult your tax advisors.

The Issuer expects, and this discussion assumes, that it will not be a passive foreign investment company (a "**PFIC**"). See below under "*Taxation—Certain U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Rules*".

### ***Ownership of GDRs in General***

For U.S. federal income tax purposes, an owner of GDRs generally will be treated as the owner of the Class A Shares represented by such GDRs. However, the U.S. Treasury has expressed concerns that parties to whom interests such as the GDRs are delivered in transactions similar to pre-release transactions may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of GDRs. Accordingly, the analysis of the creditability of any applicable non-U.S. taxes or the eligibility for the lower rates on dividends received by certain holders could be affected by actions taken by parties to whom the GDRs are pre-released. No gain or loss will be recognised if you exchange GDRs for the Class A Shares represented by those GDRs. Your tax basis in such Class A Shares will be the same as your tax basis in such GDRs, and the holding period in such Class A Shares will include the holding period in such GDRs. You should consult your own tax advisor about how to calculate your tax basis and holding period if you acquire GDRs at different times or with different purchase prices.

The discussion below is based, in part, on representations by the Depositary and assumes that each obligation under the Deposit Agreements and any related agreement will be performed in accordance with its terms.

### ***Dividends***

The U.S. dollar value of distributions paid by the Issuer (including the amount of any taxes withheld) out of its earnings and profits, as determined under U.S. federal income tax principles, will be subject to tax as foreign source ordinary dividend income and will be includible in your gross income upon receipt. However, the Issuer does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Issuer with respect to Class A Shares or GDRs will constitute ordinary dividend income. Subject to applicable limitations, if the Issuer qualifies for benefits under the tax treaty between the United States and Cyprus, dividends paid to non-corporate U.S. Holders, including individuals, may be subject to U.S. federal income tax at reduced rates as compared to other types of ordinary income. If the Issuer is a PFIC in the taxable year a dividend is paid or the prior taxable year, such dividend will not be eligible for the reduced rates of taxation. Dividends received on the Class A Shares or GDRs will not be eligible for the dividends received deduction allowed to corporations. You should consult your own tax advisor about your eligibility for reduced rates of federal income taxation on dividends and how to account for payments that are not made in U.S. dollars.

### ***Sale or Other Disposition of Class A Shares or GDRs***

You will recognise U.S. source capital gain or loss upon the sale or other disposition of Class A Shares or GDRs in an amount equal to the difference between the U.S. dollar value of the amount realised upon the disposition and your adjusted tax basis in such Class A Shares or GDRs (generally their cost in U.S. dollars). Any capital gain or loss will be long-term if the Class A Shares or GDRs have been held for more than one year. Certain non-corporate U.S. Holders, including individuals, are eligible for reduced rates of tax on long term capital gains. The deductibility of capital losses may be subject to limitations. You should consult your own advisor about how to account for sale or other disposition proceeds that are not paid in U.S. dollars. Any gain or loss will generally be U.S. source.

### ***Passive Foreign Investment Company Rules***

The Issuer does not believe it was a PFIC for U.S. federal income tax purposes for its most recent taxable year and does not expect to be a PFIC for the current taxable year or in the foreseeable future. This is based on proposed Treasury regulations, which are proposed to be effective for taxable years beginning after 31 December 1994, and on estimates of the Issuer's income and assets. Because the proposed Treasury regulations may not be finalized in their current form, the application of the proposed regulations is not entirely clear and the composition of the Issuer's income and assets will vary over time, there can be no assurance that it was not or will not become a PFIC for any particular taxable year. In general, a non-U.S. corporation will be classified as a PFIC for any taxable year if at least (i) 75 per cent. of its gross income is classified as "**passive income**" or (ii) 50 per cent. of the average quarterly value of its assets produce or are held for the production of passive income. For this purpose, passive income generally includes, among other items, dividends, interest, gains from certain commodities transactions, certain rents, royalties and gains from the disposition of passive assets. However, under the proposed Treasury regulations referred to above, interest or other income derived from the active conduct of banking business of a non-U.S. corporation that meets certain conditions will not be considered passive income.

If the Issuer is classified as a PFIC at any time that you hold its Class A Shares or GDRs, you may be subject to materially adverse U.S. federal income tax consequences compared to an investment in a company that is not considered a PFIC, including being subject to greater amounts of U.S. tax and being subject to additional U.S. tax form filing requirements. You should consult your own tax advisor about the application of the PFIC rules to you.

### ***Information Reporting and Backup Withholding***

You may be subject to information reporting on amounts received by you from a distribution on, or disposition of, Class A Shares or GDRs, unless you establish that you are exempt from these rules. If you do not establish that you are exempt from these rules, you may be subject to backup withholding on the amounts received unless you provide your taxpayer identification number and otherwise comply with the requirements of the backup withholding rules. The amount of any backup withholding from a payment that you receive will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the IRS.

In addition, you should consult your tax advisors about any additional reporting obligations that may apply as a result of the acquisition, holding or disposition of the Class A Shares or GDRs. Failure to comply with applicable reporting obligations could result in the imposition of substantial penalties.

### ***United Kingdom taxation***

*The following is a general summary of certain UK tax considerations relating to the ownership and disposal of the GDRs and does not address all possible tax consequences relating to an investment in the GDRs. The comments below are of a general nature and are based on current UK law as applied in England and Wales (except where otherwise indicated) and the published practice of H.M. Revenue & Customs ("**HMRC**") as at the date of this Prospectus, each of which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of the GDRs (and any dividends paid in respect of them) in circumstances where the dividends paid are regarded for UK tax purposes as those persons' own income (and not the income of some other person) and who:*

- are resident solely in the UK for tax purposes (except where otherwise indicated); and*
- do not have a permanent establishment or a fixed base outside the UK with which the holding of the GDRs (and the payment of dividends in respect of the GDRs) is connected.*

*Such absolute beneficial owners of the GDRs are referred to in this summary as "**UK holders**".*

*In addition, this summary only addresses the principal UK tax consequences for UK holders who hold the GDRs as capital assets or investments. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies, banks, financial institutions, insurance companies, investment companies, collective investment schemes, tax-exempt organisations, persons holding the GDRs as part of hedging or conversion transactions or persons connected with the Issuer or TCS or who are or have been officers or employees of the Issuer or a company forming part of TCS, each of which may be subject to special rules.*

*Further, the summary assumes that:*

- a holder of the GDRs is for UK tax purposes, absolutely beneficially entitled to the underlying Class A Shares and to the dividends on those Class A Shares;*
- the UK holder does not control or hold, either alone or together with one or more connected persons, directly or indirectly, 10 per cent. or more of the shares and/or voting power or rights to income or capital of the Issuer;*
- there will be no register in the UK in respect of an interest in the GDRs or in the underlying Class A Shares;*
- the underlying Class A Shares and the GDRs will not be held by, or issued, as applicable, by a depositary incorporated in the UK;*
- neither the GDRs nor the underlying Class A Shares will be paired with shares issued by a company incorporated in the UK.*

**THE FOLLOWING IS INTENDED ONLY AS A GENERAL GUIDE AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR HOLDER. YOU SHOULD SATISFY YOURSELF AS TO THE OVERALL TAX CONSEQUENCES, INCLUDING, THE CONSEQUENCES UNDER UK LAW AND HMRC'S PRACTICE AND, IF YOU ARE SUBJECT TO TAXATION IN A JURISDICTION OTHER THAN THE UK, UNDER THE LAWS OF SUCH JURISDICTION OF ACQUISITION, OWNERSHIP AND DISPOSITION OF THE GDRS IN YOUR OWN PARTICULAR CIRCUMSTANCES, BY CONSULTING YOUR OWN TAX ADVISERS.**

## **Taxation of Dividends**

### ***Income Tax and Corporation Tax***

#### ***Withholding Tax***

Dividend payments in respect of the GDRs should not be subject to UK withholding tax.

UK holders are referred to the statements regarding Cyprus tax in “*Taxation—Cyprus Tax Considerations—Withholding Taxes on payment of dividend by the Issuer to the GDR Holders*”. The following paragraphs proceed on the basis that no withholding tax is levied in Cyprus on dividend payments in respect of the GDRs.

#### ***Individual Holders of GDRs***

Dividends received by individual UK holders will be subject to UK income tax. This is charged on the gross amount of any dividend paid as increased for any UK tax credit available as described below.

An individual UK holder who is resident for tax purposes in the UK and who receives a dividend from the Issuer will generally be entitled to a tax credit equal to one-ninth of the amount of the dividend paid which is equivalent to 10 per cent. of the aggregate of the dividend and the tax credit.

An individual UK holder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the gross dividend at the rate of 10 per cent. so that the tax credit will satisfy the income tax liability of such holder in full.

An individual UK holder who is subject to income tax at the higher rate will be liable to income tax on the gross dividend at the rate of 32.5 per cent. to the extent that such sum, when treated as the top slice of that holder's income, falls above the threshold for higher rate income tax (which is £32,010 in the 2013/2014 tax year). After taking into account the 10 per cent. tax credit, a higher rate taxpayer will therefore be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend.

An individual UK holder who is subject to income tax at the additional rate will be liable to income tax on the gross dividend at the rate of 37.5 per cent. to the extent that such sum, when treated as the top slice that holder's income, falls above the threshold for additional rate income tax (which is £150,000 for the 2013/2014 tax year).

After taking into account the 10 per cent. tax credit, an additional rate tax payer will therefore be liable to additional income tax of 27.5 per cent. of the gross dividend, equal to approximately 30.6 per cent. of the net dividend.

A UK individual holder who is not liable to income tax in respect of the gross dividend and other UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the company.

#### *Corporate Holders of GDRs*

For a UK holder within the charge to UK corporation tax, UK corporation tax will be chargeable on the gross amount of the dividends, unless (subject to special rules for such UK holders that are small companies) the dividend falls within an exempt class (and the UK holder does not elect for an otherwise exempt dividend to be taxable) and certain other conditions are met. Although it is likely that most dividends paid on the GDRs to UK holders within the charge to UK corporation tax would fall within one or more the classes of dividends qualifying for exemption from corporation tax, the exemptions are not comprehensive and are also subject to anti-avoidance rules.

#### **Provision of Information**

Persons in the United Kingdom paying “foreign dividends” to, or receiving “foreign dividends” on behalf of, another person may be required to provide certain information to HMRC regarding the identity of the payee or the person entitled to the “foreign dividend” and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the GDRs may constitute “foreign dividends” for this purpose. However, in accordance with guidance published by HMRC applicable for the 2013/2014 tax year, dividend payments in respect of the GDRs should not be treated as falling within the scope of the requirement. There is no guarantee that equivalent guidance will be issued with respect of future years.

#### **Taxation of Capital Gains**

UK holders are referred to the statements regarding Cyprus tax in “*Taxation—Cyprus Tax Considerations—Taxation of Capital Gains on Sale of GDRs by the GDR Holders*”. The following paragraphs proceed on the basis that no withholding tax is levied in Cyprus on disposal of the GDRs.

The disposal or deemed disposal of all or part of the GDRs by a UK holder may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (where the holder is an individual) or UK corporation tax on chargeable gains (where the UK holder is within the charge to corporation tax), depending on their circumstances and subject to any available exemption or relief.

As regards individual UK holders, the principal factors that will determine the extent to which such gain will be subject to UK capital gains tax are the extent to which they realise any other capital gains in the tax year in which the disposal takes place, the extent to which they have incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the “**annual exemption**”). The annual exemption for individuals is £10,900 for the 2013/2014 tax year.

If, after all allowable deductions, an individual UK holder’s taxable income for the year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal of GDRs will be taxed at 28 per cent. In other cases, a taxable capital gain accruing on a disposal of GDRs may be taxed at 18 per cent. or 28 per cent. or at a combination of both rates.

An individual UK holder who ceases to be resident in the United Kingdom or falls to be regarded as resident in a territory outside the UK for the purposes of double taxation relief arrangements (as appropriate) for a period of less than five years and who disposes of his or her GDRs during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the UK or upon ceasing to be regarded as resident outside the UK for the purposes of double taxation relief arrangements (as applicable) (subject to available exemptions or reliefs).

In the case of a corporate UK holder, indexation allowance may be available to reduce or eliminate a chargeable gain, but not generate or increase an allowable loss.

Any gains or losses in respect of currency fluctuations relating to the GDRs would be brought into account on disposal, although different rules may apply to UK corporate holders in relation to disposals of GDRs on or after 1 September 2013 depending on the currency in which their accounts are prepared.

## **Stamp Duty and Stamp Duty Reserve Tax**

No UK stamp duty or stamp duty reserve tax (“**SDRT**”) will arise in respect of (i) the issue of the GDRs, (ii) the delivery of the GDRs into DTC, Euroclear or Clearstream, Luxembourg, (iii) any dealings in the GDRs once they are delivered into such clearance service, where such dealings are effected in book-entry form in accordance with the procedures of such clearance service and not by written instrument of transfer or (iv) any agreement to transfer full legal and beneficial ownership of the GDRs.

No SDRT is payable in respect of any agreement to transfer the GDRs.

No UK stamp duty will be payable in connection with a transfer of GDRs or an agreement to transfer an equitable interest only in GDRs provided that any instrument of transfer or agreement to transfer is executed outside the UK and does not relate to any property situate, or any matter or thing done or to be done, in the UK. Even if a document effecting a transfer of, or being an agreement to transfer an equitable interest only in, GDRs is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK in practice it should not be necessary to pay any UK stamp duty on such a document unless the document is required for any purposes in the UK. If it is necessary to pay UK stamp duty, it may also be necessary to pay interest and penalties.



## TRANSFER RESTRICTIONS

### Rule 144A GDRs

Each subscriber for or purchaser of GDRs located in the United States, by its acceptance of delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

1. The subscriber or purchaser (i) is a QIB as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such GDRs has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, (iii) is acquiring such GDRs for its own account or for the account of one or more QIBs and (iv) if it is acquiring such GDRs for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.
2. The subscriber or purchaser is aware that the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act have not been and will not be registered under the Securities Act and are being offered in the United States only in transactions not involving any public offering in the United States and are “restricted securities” as defined in Rule 144(a)(3) under the Securities Act (“**Restricted Securities**”).
3. In the future, if the subscriber or purchaser decides to offer, resell, pledge or otherwise transfer the GDRs subscribed for or purchased, as applicable, pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, such GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act will bear unless otherwise determined by TCS and the Depositary in accordance with applicable law:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE CLASS A SHARES OF TCS GROUP HOLDING PLC REPRESENTED HEREBY (THE “**CLASS A SHARES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“**QIB**”) (WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE BENEFICIAL OWNER OF CLASS A SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH CLASS A SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF CLASS A SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH CLASS A SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE CLASS A SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GLOBAL DEPOSITARY RECEIPT OR A BENEFICIAL INTEREST IN THE RULE 144A GLOBAL DEPOSITARY RECEIPT EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

4. For so long as GDRs are Restricted Securities, it will not deposit such Class A Shares into any depositary receipt facility in respect of Class A Shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.

5. The Issuer, the JGCs and the JBRs and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

**Investors are hereby notified that the sellers of the GDRs subscribed for or purchased pursuant to Rule 144A under the Securities Act may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.**

#### **Regulation S GDRs**

Each subscriber for or purchaser of the Regulation S GDRs will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. the subscriber or purchaser is, at the time of the offer to it of GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;
2. the subscriber or purchaser is aware that the Regulation S GDRs have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S;
3. any offer, sale, pledge or other transfer made other than in compliance with the above stated restrictions shall not be recognised by TCS in respect of the Regulation S GDRs;
4. the Issuer, the JGCs, the JBRs and the Selling Agent and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements; and
5. the subscriber or purchaser understands that the Regulation S GDRs and the Master Regulation S GDR will bear a legend substantially to the following effect:

THIS REGULATIONS GLOBAL DEPOSITARY RECEIPT AND THE CLASS A SHARES OF TCS GROUP HOLDING PLC REPRESENTED HEREBY (THE “**CLASS A SHARES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

## PLAN OF DISTRIBUTION

The Offering consists of an offering of up to 62,111,802 GDRs excluding GDRs sold in the Over-allotment Option, with one GDR representing an interest in one Class A Share. The GDRs are being offered outside the United States in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, registration under the Securities Act.

Under the terms of, and subject to, the conditions contained in the Underwriting Agreement dated 22 October 2013 entered into amongst the Issuer, the Selling Shareholders, the JGCs and the JBRs, the JGCs and the JBRs named below have severally agreed to procure subscribers or purchasers for, or to themselves purchase, at the Offer Price, the number of GDRs in the aggregate amount as specified in the table. The Issuer and the Selling Shareholders have agreed to make available, at the Offer Price, to the JGCs and the JBRs, the following number of GDRs in respect of the Offering and the Over-allotment Selling Shareholders have agreed to make available, at the Offer Price, to the Stabilising Manager, the following number of GDRs in respect of the Over-allotment Option for such respective purposes:

	<i>Number of GDRs in respect of the Offering</i>	<i>Number of GDRs in respect of the Over-allotment Option</i>
<b>JGCs</b>		
Goldman Sachs International .....	18,501,388	2,775,208
Morgan Stanley & Co. International plc .....	18,501,388	2,775,208
SIB (Cyprus) Limited .....	13,215,277	1,982,291
	<u>50,218,053</u>	<u>7,532,707</u>
	<i>Number of GDRs in respect of the Offering</i>	<i>Number of GDRs in respect of the Over-allotment Option</i>
<b>JBRs</b>		
J.P. Morgan Securities plc .....	7,929,166	1,189,375
Renaissance Securities (Cyprus) Limited .....	3,964,583	594,688
	<u>11,893,749</u>	<u>1,784,063</u>

See “*Use of Proceeds*” for an explanation of expenses paid pursuant to the Offering.

The JGCs and the JBRs will be soliciting non-binding indications of interest in acquiring GDRs in the Offering from investors. In addition, the Selling Agent will be soliciting non-binding indications of interest in acquiring GDRs in the Offering from certain investors in Denmark, Finland, Iceland, Norway and Sweden. Investors will be required to specify the number of GDRs they would be prepared to acquire at the Offer Price. This process is known as book-building. GDRs allocated under the Offering, following the determination of the Offer Price, will be fully underwritten by the JGCs and the JBRs as described in this section. Allocations will be determined by the JGCs and the JBRs in consultation with the Issuer, Tadek Holding & Finance S.A. and Tasos Invest & Finance Inc. after non-binding indications of interest from investors have been received in the book-building process.

All GDRs sold in the Offering will be sold at the Offer Price. The Offer Price for the GDRs will be determined by agreement between the Issuer, the Selling Shareholders, the JGCs and the JBRs. A number of factors may be considered in determining the Offer Price and the bases of allocation under the Offering, including the level and nature of demand for the GDRs and the objective of encouraging the development of an orderly after-market in the GDRs. The Offer Price may be established at a level determined in accordance with these arrangements, taking into account indications of interest received (whether before or after the times and/or dates stated) from persons (including market makers and fund managers) connected with the JGCs and the JBRs.

Application has been made to: (A) the UKLA for a listing of (i) up to 62,111,802 GDRs to be issued on the Closing Date (ii) up to 9,316,770 GDRs in connection with the Over-allotment Option and (iii) up to 109,760,503 additional GDRs to be issued from time to time against the deposit of Class A Shares (to the extent permitted by law) with the Custodian, as custodian for the Depositary, as depositary, to be admitted to the Official List, and (B) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities through its IOB. Prior to the Offering, there has been no substantial market for the GDRs. Trading in the GDRs on the London Stock Exchange is expected to commence on an if-and-when-issued basis on or about 8:00 a.m. on 22 October 2013. Closing and settlement are expected to take place on or about 8:00 a.m. on 25 October 2013, and admission to the Official List and to unconditional trading on the London Stock Exchange are expected to take place on or about 8:00 a.m. on 25 October 2013.

Investors wishing to enter into transactions in the GDRs prior to the closing of the Offering, whether such transactions are effected on the London Stock Exchange or otherwise, should be aware that the closing of the

Offering may not take place on 25 October 2013 or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or do not occur on or prior to such date. All such transactions will be of no effect if the Offering does not become unconditional.

### **Underwriting Agreement and Over-allotment Option**

The Underwriting Agreement and related arrangements contain the following provisions, amongst others:

- The Over-Allotment Selling Shareholders have granted an Over-allotment Option to the JGCs and the JBRs to acquire up to 9,316,770 additional GDRs at the Offer Price for the purpose of covering over-allotments and other short positions, if any, in connection with the Offering. The Over-allotment Option is exercisable upon written notice to the Over-Allotment Selling Shareholders at any time up to and including the 30<sup>th</sup> calendar day following the announcement of the Offer Price. If the JGCs and the JBRs exercise the Over-allotment Option, the Over-allotment Selling Shareholders will be obligated to sell and each of the JGCs and the JBRs will be severally obligated, subject to the conditions contained in the Underwriting Agreement, to purchase and pay for a number of additional GDRs proportionate to each respective JGC's or JBR's initial allocation of GDRs, as indicated in the table above.
- The JGCs and the JBRs will deduct from the proceeds of the Offering:
  - certain costs and expenses incurred by the JGCs and JBRs in connection with the Offering, including, but not limited to, fees, expenses and disbursements of their legal counsel and out-of-pocket and other expenses; and
  - a base commission payable by the Company and the Selling Shareholders amounting to 2.5 per cent. of the aggregate gross sale proceeds of the Offering including in respect of any GDRs purchased by the JGCs and JBRs pursuant to the Over-allotment Option.
- The Company and each Selling Shareholder, at the Company's discretion may agree to pay the JGCs and JBRs an incentive fee of up to 1.5 per cent. of the aggregate gross sale proceeds of the Offering, including in respect of any GDRs purchased by the JGCs and JBRs pursuant to the Over-allotment Option.
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties contained in the Underwriting Agreement and the application for admission to the Official List and to trading on the London Stock Exchange having been approved on or prior to the closing of the Offering. The JGCs and the JBRs may terminate the Underwriting Agreement prior to the closing of the Offering in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in TCS's condition, including its business and financial condition, and certain changes in financial, political or economic conditions (as set out more fully in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, the closing of the Offering, then the Offering will lapse.
- The Issuer and the Selling Shareholders have given certain customary representations and warranties to the JGCs and the JBRs, including, in the case of the Issuer, Tadek Holding & Finance S.A. and Tasos Invest & Finance Inc. in relation to the business, the financial statements and the legal compliance of TCS, in relation to the GDRs and in relation to the contents of this Prospectus.
- The Issuer and the Selling Shareholders have given customary indemnities to the JGCs and the JBRs in connection with the Offering.
- If a JGC and JBR defaults, the Underwriting Agreement provides that in certain circumstances, the subscription and purchase commitments of each non-defaulting JGC and JBR may be increased or the Underwriting Agreement may be terminated.

The JGCs and the JBRs are offering the GDRs when, as and if, delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the GDRs and other conditions contained in the Underwriting Agreement, such as the receipt by the JGCs and the JBRs of, amongst other things, officer's certificates and legal opinions.

### **Lock-up Provisions**

Each of the Issuer and the Selling Shareholders have agreed that neither it, nor any of its affiliates or subsidiaries, nor any person acting on its behalf will, subject to certain exceptions including transfers between existing holders of Class A Shares at the date of this Prospectus, from the date hereof until 180 days after (or, in

the case of Tasos Invest & Finance Inc. and Tadek Holding & Finance S.A., Maitland Commercial Inc., Vizer Limited and Normal Legal S.A., the entities owned by Mr Tinkov, and Altruco Trustees Limited, 365 days after) the later of the Closing Date or the Over-allotment Option closing date, without the prior written consent of the JGCs and the JBRs:

- (i) issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any GDRs, Class A Shares, Class B Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any GDRs, Class A Shares or Class B Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; or
- (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of GDRs, Class A Shares or Class B Shares; or
- (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above,

whether any such transaction described above is to be settled by delivery of GDRs, Class A Shares, Class B Shares or other securities, in cash or otherwise, subject to certain customary exceptions.

The lock-up arrangement described above shall not apply to the Offering, the Over-allotment Option and any GDRs lent by the Issuer in connection therewith.

### **Stabilisation**

In connection with the Offering, the Stabilising Manager or any agent or other person acting for the Stabilising Manager, may over-allot or effect transactions intended to enable it to satisfy any over-allocations or which stabilise, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail for a period of 30 calendar days following the announcement of the Offer Price. However, there is no obligation on the Stabilising Manager or any agent of the Stabilising Manager, to do this. Such transactions may be effected on the London Stock Exchange and any other securities market, over-the-counter-market, stock exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end 30 calendar days following the announcement of the Offer Price. Save as required by law, the JGCs and the JBRs do not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering.

In connection with the Offering, each of the JGCs and the JBRs and any affiliate acting as an investor for its own account may take up the GDRs offered in the Offering and in that capacity may retain, subscribe for, purchase or sell the GDRs for its own account and may offer or sell such securities otherwise than in connection with the Offering. The JGCs and the JBRs do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

### **Other Relationships**

ELQ Investors II Ltd, is wholly-owned by The Goldman Sachs Group, Inc. the parent company of Goldman Sachs International. ELQ Investors II Ltd is also one of the Selling Shareholders. Goldman Sachs International may therefore be deemed to be an affiliate of the Issuer and have a conflict of interest with the Issuer as it is also acting as a JGC in connection with the Offering.

The JGCs, the JBRs and the Selling Agent are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The JGCs, the JBRs and the Selling Agent and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for TCS from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for TCS in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the JGCs, the JBRs and the Selling Agent and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve TCS's securities and instruments.



## SELLING RESTRICTIONS

The distribution of this Prospectus and the Offering in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions, including those set forth in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

### General

None of the JGCs, the JBRs or the Selling Agent, or any person acting on their behalf, has taken or will take any action in any jurisdiction that would permit a public offering of the GDRs, or possession, circulation or distribution of this Prospectus or any other offering material relating to the Issuer or the GDRs, in any country or jurisdiction where action for such purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer, subscription and sale of the GDRs offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or purchase any of the GDRs offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

### Australia

- (a) No prospectus or other disclosure document has been lodged with, or registered by the Australian Securities and Investments Commission in relation to the offering of the GDRs. This Prospectus does not constitute a prospectus or other disclosure document under the Corporations Act 2001 (the “**Corporations Act**”) and does not purport to include the information required for a prospectus or other disclosure document under the Corporations Act.
- (b) This Prospectus is being distributed in Australia by the JGCs or the JBRs to persons (the “**Exempt Investors**”) who are “sophisticated investors” (within the meaning of section 708(8) of the Corporations Act, to “professional investors” (within the meaning of section 708(11) of the Corporations Act) and/or otherwise pursuant to one of more exemptions contained in section 708 of the Corporations Act. The entity receiving this document represents and warrants that if it is in Australia, it is either a professional or a sophisticated investor or a person to whom it is lawful to offer the GDRs without disclosure to investors under Chapter 6D of the Corporations Act and that it will not distribute this Prospectus to any other person.
- (c) Any of the GDRs applied for by Exempt Investors in Australia must not be offered for sale in Australia for 12 months from the date of issue, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 or 708A of the Corporations Act. This Prospectus is not supplied in connection with any offering or proposed offering of securities or financial products that require disclosure in accordance with Chapter 6D or Part 7.9 of the Corporations Act. Chapters 6D and 7 of the Corporations Act are complex. Any person acquiring the GDRs must observe such Australian on-sale restrictions and if in any doubt as to the application or effect of this legislation, should confer with its professional advisors.

### Cyprus

Each of the JGCs and the JBRs has represented, warranted and agreed that:

- (a) it has not offered or sold and will not offer or sell any GDRs, except in conformity with the provisions of the Public Offer and Prospectus Law, Law 114(I)/2005 and the provisions of the Companies Law;
- (b) it has not and will not offer or sell any GDRs other than in compliance with the provisions of the Investment Services and Activities and Regulated Markets Law, Law 144(I)/2007 (the “**Cyprus Investment Services Law**”);
- (c) it has not and will not distribute copies of the Underwriting Agreement or this Prospectus or any other offering material to the information distribution channels or the public in Cyprus, nor (when distributed by a duly licensed investment firm established or operating through a branch in Cyprus) to any person in Cyprus other than a “professional client” as defined in the Cyprus Investment Services Law;

- (d) it has not used the material and disclosure statements in the Underwriting Agreement or in this Prospectus for solicitation purposes for or in connection with the acquisition of the Securities in circumstances under which is unlawful under Cyprus laws to make such an offer or solicitation; and
- (e) it will not be providing from or within Cyprus any “investment services”, “investment activities” and “non-core services” (as such terms are defined in the Cyprus Investment Services Law) in relation to the GDRs or will be otherwise providing investment services, investment activities and non-core services to residents or persons domiciled in Cyprus and will not be concluding in Cyprus any transaction relating to such investment services, investment activities and non-core services in contravention of the Cyprus Investment Services Law and/or any applicable regulations adopted pursuant thereto or in relation thereto.

### European Economic Area

Each of the JGCs and the JBRs has represented and agreed in relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) that neither it nor any of its affiliates has made nor will make an offer to the public of any GDRs which are the subject of the Offering contemplated herein in that Relevant Member State, except that it may make an offer of the GDRs to the public in that Relevant Member State with effect from and including the Relevant Implementation Date under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to legal entities which are qualified investors as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the JGCs and JBRs for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the GDRs shall result in a requirement for the publication by TCS or any JGC or JBR of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “*offer of any GDRs to the public*” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information of the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

In the case of any GDRs being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the GDRs acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any GDRs to the public other than their offer or resale in a Relevant Member State to qualified investors who are not financial intermediaries as so defined or in circumstances in which the prior consent of the JGCs and the JBRs has been obtained to each such proposed offer or resale. The Issuer, the JGCs and the JBRs and their respective affiliates, and others will rely (and the Issuer acknowledges that the JGCs and the JBRs and their respective affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the JGCs and the JBRs of such fact in writing may, with the consent of the JGCs and the JBRs, be permitted to subscribe for or purchase GDRs.

### Hong Kong

Please note that (1) the GDRs may not be offered or sold in Hong Kong by means of this Prospectus or any other document other than to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571) (“**SFO**”) and any rules made thereunder, or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance of Hong Kong (Cap. 32) (“**CO**”) or which do not constitute an offer or invitation to the public for the purposes of the CO or the SFO, and (2) no person shall issue, or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the GDRs which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to GDRs which are or are intended to be disposed of only to persons outside Hong Kong or only to such professional investors.

## **Japan**

The GDRs have not been and will not be registered under the Final Instruments and Exchange Law, as amended (the “FIEL”). This Prospectus is not an offer of securities for sale, directly or indirectly, in Japan or to or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exception from the registration requirements under the FIEL, and otherwise in compliance with, the FIEL and other relevant laws and otherwise in compliance with such law and any other applicable laws, regulations or ministerial guidelines of Japan.

## **Norway**

This Prospectus has not been produced in accordance with the prospectus requirements laid down in the Norwegian Securities Trading Act of 2007. This Prospectus has not been approved or disapproved by or registered with the Oslo Stock Exchange, the Norwegian FSA (Finanstilsynet) nor the Norwegian Registry of Business Enterprises.

The interests described herein have not been and will not be offered or sold to the public in Norway, and no offering or marketing materials relating to the interests may be made available or distributed in any way that would constitute, directly or indirectly, an offer to the public in Norway. This Prospectus is for the recipient only and may not in any way be forwarded to any other person or to the public in Norway.

## **Russian Federation**

Each of the JBRs and JGCs has represented and agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution in the Russian Federation, or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

## **Singapore**

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the GDRs may not be circulated or distributed, nor may the GDRs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1) or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the GDRs are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the GDRs pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## **South Africa**

This Prospectus will not be registered as a prospectus in terms of the South African Companies Act, 2008 (“**SA Companies Act**”) and nothing herein is to be construed as an offer to the public as contemplated in section 95 of the SA Companies Act. As such, any offer of the GDRs in South Africa is subject to a minimum acceptance of the offer by any single addressee acting as principal of that number of GDRs having a total acquisition cost of at least Rand 1,000,000. Furthermore, any offer or sale of the GDRs shall be subject to compliance with South African exchange control regulations.

## **Switzerland**

This Prospectus does not constitute a prospectus within the meaning of Articles 652a and 1156 of the Swiss Code of Obligations or a listing prospectus according to Article 32 of the Listing Rules of the SIX Swiss Exchange.

The GDRs will not be listed on the SIX Swiss Exchange and, therefore, the Prospectus may not comply with the disclosure standards of the Listing Rules of the SIX Swiss Exchange.

The GDRs will not be publicly offered or sold in Switzerland. The GDRs will be offered and sold in Switzerland to a selected number of investors in Switzerland in circumstances which will not result in the offer of the GDRs being a public offering within the meaning of Article 652a CO.

## **United Kingdom**

Each of the JGCs and the JBRs has represented, warranted and agreed that it has:

- (i) only communicated and caused to be communicated, and will only communicate, or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

## **United States**

The GDRs offered in the Offering have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from or not subject to the registration requirements of the Securities Act.

The JGCs and the JBRs propose (i) to offer the GDRs to institutional investors outside the United States in accordance with Regulation S under the Securities Act and (ii) to offer the GDRs to QIBs in the United States as defined under and in accordance with Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the GDRs into or within the United States by a dealer, whether or not such dealer is participating in the Offering, may violate the registration and prospectus delivery requirements of the Securities Act if such offer or sale is not made in accordance with Rule 144A.

## CLEARING AND SETTLEMENT

### Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

### The Clearing Systems

#### *Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including JGCs and the JBRs, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective clients may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

**Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.**

### DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a “banking organisation” within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See “*Taxation—Certain U.S. Federal Income Tax Considerations*”.

**As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.**

### Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of BNP Paribas Securities Services, Luxembourg branch, as nominee and common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by JP Morgan Chase Bank N.A., as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.



The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and clients having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from TCS for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Issuer for holders holding through DTC are received by DTC.

The Issuer will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement. See “*Terms and Conditions of the Global Depositary Receipts*.”

## **Global Clearance and Settlement Procedures**

### ***Initial Settlement***

The GDRs will be in global form evidenced by the two Master GDRs. Investors electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

### ***Secondary Market Trading***

For a description of the transfer restrictions relating to the GDRs, see “*Transfer Restrictions*”.

### ***Trading between Euroclear and Clearstream, Luxembourg Participants***

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

### ***Trading between DTC Participants***

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

### ***Trading between a DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser***

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to:

- decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR; and
- increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Master Regulation S GDR.

### ***Trading between a Clearstream, Luxembourg/Euroclear Seller and DTC Purchaser***

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to:

- decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR; and
- increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

### ***General***

Although the foregoing sets forth the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

*None of the Issuer, the JGCs, the JBRs, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.*

### **Settlement of the GDRs**

Payment for the GDRs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream, Luxembourg on or about the Closing Date. Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of BNP Paribas Securities Services, Luxembourg branch, as nominee and common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by JP Morgan Chase Bank N.A., as custodian for DTC. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, Luxembourg, as applicable.

Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

## INFORMATION RELATING TO THE DEPOSITARY

JPMorgan Chase Bank, N.A. (the “**Depositary**”) is a national banking association, organised and existing under the laws of the United States of America and with its main office in Columbus, Ohio, United States of America. JPMorgan Chase Bank, N.A. is the principal banking subsidiary of JPMorgan Chase & Co.. The Depositary was organised as a national banking association under the National Bank Act on 13 November 2004. Previously, it had been a New York State-chartered bank incorporated under the Banking Law of New York. The Depositary is subject to the regulation of, and supervision by, the Office of the Comptroller of the Currency, a bureau of the U.S. Department of the Treasury. The registered office of the Depositary is located at 1111 Polaris Parkway, Columbus, Ohio 43240, United States of America.

## INDEPENDENT AUDITORS

The consolidated financial statements as of and for the years ended 31 December 2012, 2011 and 2010 have been audited by PricewaterhouseCoopers Limited (“**PwC**”), independent auditors, as stated in their report appearing herein (the “**Independent Auditor’s Report**”). PwC has registered offices at City House, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus and is a member of the Institute of Certified Public Accountants of Cyprus.

The Unaudited Interim Financial Statements have been reviewed by PwC in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. Their report dated 16 September 2013 and appearing at page F-4 (the “**Independent Auditor’s Review Report**”) states that they did not audit and they do not express an opinion on this information. Accordingly, the degree of reliance on their review report should be restricted in light of the limited nature of the review procedures applied.

PwC accepts responsibility for the information contained in the Independent Auditor’s Report and Independent Auditor’s Review Report and, to the best of PwC’s knowledge, having taken all reasonable care to ensure that such is the case, the information contained in the Independent Auditor’s Report and the Independent Auditor’s Review Report is in accordance with the facts and does not omit anything likely to affect its import. This declaration is included in this Prospectus in compliance with item 1.2 of Annex X to the Prospectus Directive Regulation (EC/809/2004).

For the purpose of compliance with Annex X item 23.1 in Appendix 3 to the Prospectus Rules, PwC has given and not withdrawn its written consent to the inclusion of the Independent Auditor’s Report and the Independent Auditor’s Review Report, in the form and context in which they are included and has authorised the contents of such audit report and review report.

The written consent described above is different from a consent filed with the SEC under Section 7 of the Securities Act, which is applicable only to transactions involving securities registered under the Securities Act. As the GDRs have not and will not be registered under the Securities Act, PwC has not filed consent under Section 7 of the Securities Act.

## **LEGAL MATTERS**

Certain legal matters with respect to the Offering will be passed upon for the Issuer in respect of the laws of England and the United States by Clifford Chance LLP and in respect of the laws of the Russian Federation by Clifford Chance CIS Limited. Certain legal matters with respect to the Offering will be passed upon for the JGCs and the JBRs in respect of the laws of England by Latham & Watkins (London) LLP and the laws of the Russian Federation and the United States by Latham & Watkins LLP. Certain legal matters with respect to the Offering will be passed upon for the Issuer in respect of the laws of Cyprus by Aristodemou Loizides Yiolitis LLC—member firm of Harney Westwood and Riegels.



## GENERAL INFORMATION

### 1. Listing

It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR and the Master Rule 144A GDR, to the Official List on or about 25 October 2013. Application has been made for the GDRs to be traded on the London Stock Exchange through its IOB. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules on an if-and-when basis. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.

### 2. Authorisations

The Issuer has obtained all consents, approvals and authorisations in Cyprus in connection with the issue of the GDRs.

### 3. Documents Available for Inspection

Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of the Issuer from the date of publication of this Prospectus to Admission:

- This Prospectus;
- The Issuer's Memorandum of Association and Articles of Association; and
- The Financial Statements.

The registered office of the Issuer is located at 4 Profiti Ilia Kanika, International Business Center, 6<sup>th</sup> Floor, 4046 Germasogeia, Limassol, Cyprus.

### 4. Security Codes

The Rule 144A GDR Common Code is 097456585; the Rule 144A GDR ISIN is US87238U1043; the Rule 144A GDR CUSIP is 87238U104; the Rule 144A SEDOL is BF233R9; the Regulation S GDR Common Code is 097457107; the Regulation S GDR ISIN is US87238U2033; the Regulation S GDR CUSIP is 87238U203; the Regulation S SEDOL is BF233S0; and the London Stock Exchange GDR trading symbol is "TCS".

### 5. Offer Price

The GDRs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the book-building exercise conducted by the JGCs and the JBRs. The results of the Offering will be made public by the Issuer through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering.

### 6. Depositary

Holders of GDRs may contact JPMorgan Chase Bank N.A., as Depositary for the GDRs with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the Depositary's office at with a copy to: 1111 Polaris Parkway, Columbus, Ohio 43240, United States of America.

If definitive certificates are issued in exchange for the Master GDRs, the Issuer will appoint an agent in the United Kingdom.

### 7. Significant Change

Except as described in "*Business—Recent Developments—Changes in Risk-Weighting Coefficients on Higher Rate Loans*", there has been no significant change in the financial or trading position of TCS since 30 June 2013, the end of the last financial period for which financial information has been published.

## 8. Significant subsidiaries

As at the date of this Prospectus, the Issuer is a parent company of a banking group that comprises other companies which form TCS. These companies undertake various types of activities including banking and other finance activities. TCS has, on occasion, acquired companies operating in specific areas of the financial services sector which then became centres for launching its new business products. Details of the Issuer's significant subsidiaries as at the date of this Prospectus are provided below.

<u>Name of subsidiary</u>	<u>Jurisdiction of incorporation</u>	<u>Issuer's share (per cent.)</u>	<u>Industry</u>
Tinkoff. Credit Systems .....	Russia	100	Bank operations
OOO "T-Finance" .....	Russia	100	Bank operations
GOWARD Group Limited .....	British Virgin Islands	99	Bank operations
OOO "TCS" .....	Russia	100	Bank operations
OOO "Tinkoff On-Line Insurance" .....	Russia	80.08	Insurance operations

## 9. TCS Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by TCS within the two years immediately preceding the date of this Prospectus and are, or may be, material or have been entered into at any time by TCS and contain provisions under which TCS has an obligation or entitlement which is, or may be, material to TCS at the date of this Prospectus:

### 9.1 Relationship Agreement

On 22 October 2013 the Issuer and the Majority Shareholders and Mr Tinkov entered into a relationship agreement (the "**Relationship Agreement**").

The Relationship Agreement contains certain covenants intended to prevent the Majority Shareholders and Mr Tinkov and their affiliates from:

- carrying on any activity that competes directly with TCS Bank's business (which is defined to include (i) the marketing, issuance, acquisition, holding, servicing, sale and funding of credit cards, credit card receivables and consumer loans, banking and insurance, as carried on by TCS from time to time, (ii) the retail financial products and services business, including, but not limited to, mortgages, asset management, pensions, brokerage, leasing, and payments and collections, and (iii) any other financial services approved by the Issuer's board of directors prior to Admission) in the Russian Federation (and/or former USSR countries);
- investing in any entity that is engaged in competition with such businesses in the Russian Federation (and/or former USSR countries);
- inducing any employee of TCS to terminate their employment contract;
- disparaging TCS or any employee or former employee of TCS; or
- improperly using or disclosing confidential or proprietary information or know-how relating to TCS or TCS Bank's business (unless such information or know-how is generally available, or in the public domain, or lawfully obtained from a source outside TCS or required to be disclosed by applicable laws and regulations),

provided that any of the Majority Shareholders or Mr Tinkov or their affiliates may act as the holder by way of bona fide investment only, of securities not exceeding 5 per cent. in aggregate of the voting share capital in any publicly traded business; and provided further that nothing in the Relationship Agreement shall limit the right of the Majority Shareholders or Mr Tinkov or their affiliates to sell, exchange or otherwise dispose of the Class A Shares, the Class B Shares, GDRs and/or any equity securities issued in exchange for such shares for any non-cash consideration (collectively, the "**Non-Competition Covenants**"). For the discussion of the expansion of the Majority Shareholders' and Mr Tinkov's non-competition obligations over time, see "*Principal and Selling Shareholders*".

The Relationship Agreement includes an obligation by the Issuer to pay Mr Tinkov or any of the Majority Shareholders or their respective affiliates each year two per cent. of the Issuer's audited net income in the previous year (as per the Issuer's audited consolidated annual financial statements) (the "**Enhanced Exclusivity Payment**"). The amount of such future fees over the life of the Relationship Agreement shall not exceed in aggregate, US\$17.6 million (representing US\$20 million less RUB 76.6 million paid to Mr Tinkov in May 2013).

The Relationship Agreement becomes effective from Admission, provided that Admission occurs by 30 June 2014. The Relationship Agreement shall continue in full force and effect until the earlier of:

- an effective resolution being passed or a binding order being made for the winding up of the Issuer other than to effect a scheme of reconstruction or amalgamation; or
- the Majority Shareholders and their affiliates and Mr Tinkov, collectively cease to hold any interest in the Class A Shares, the Class B Shares and/or GDRs; or
- the Issuer failing to pay the Enhanced Exclusivity Payment as and when due.

As a result of these termination provisions, the Non-Competition Covenants may cease to be binding on the Majority Shareholders and their affiliates and Mr Tinkov in the circumstances described above.

## 9.2 **Loan Participation Notes due 2014**

On 21 April 2011, TCS Finance Limited (“**TCS Finance**”), a special purpose vehicle incorporated in Ireland, issued loan participation notes in an amount of US\$175 million with an annual coupon of 11.5 per cent. maturing on 21 April 2014 subject to repayment of the loan under the Loan Agreement 2011 (as defined below) (the “**LPN 2014**”). The coupon is paid on a semi-annual basis. The notes are listed on the Official List of the Irish Stock Exchange and are Regulation S compliant. They are in registered form, without coupons attached, in the denomination of US\$200,000, and integral multiples of US\$1,000 in excess thereof.

The proceeds of the issue of the notes were used to finance a loan to TCS Bank pursuant to a loan agreement dated 19 April 2011 (the “**Loan Agreement 2011**”) between TCS Finance as lender, TCS Bank as borrower and the Issuer as parent guarantor. The proceeds from the loan were used by TCS Bank for general corporate purposes. The notes are secured limited recourse obligations of TCS Finance. The notes constitute the obligation of TCS Finance to apply an amount equal to the proceeds from the issue solely for the purpose of financing the Loan Agreement 2011.

The notes are secured by three charges: firstly, over the amounts paid and payable by TCS Bank and/or the Issuer to TCS Finance as lender under the Loan Agreement 2011; secondly, over the right to receive all sums which may be paid or be or become payable by TCS Bank and/or the Issuer under any claim, award or judgment relating to the Loan Agreement 2011; and thirdly, over an account in the name of TCS Finance with The Bank of New York Mellon.

The LPN 2014 contains customary covenants by TCS Finance including, among others, covenants against modification of the Loan Agreement 2011, establishment of subsidiaries, declaration of dividends, acquisition of real property, share issuance and petitioning for winding-up or bankruptcy. Where withholding tax is payable, TCS Bank will indemnify TCS Finance against such amounts. The LPN 2014 also contains a change of control provision, according to which the holders of the notes have the right to require TCS Finance to redeem the notes in the event Mr Tinkov ceases to own (whether directly or indirectly) more than 50 per cent. of the issued ordinary share capital of TCS Bank or if there is a sale of all or substantially all of the assets of the Issuer and its subsidiaries taken as a whole.

## 9.3 **The Loan Agreement 2011**

The Loan Agreement 2011 provides a single advance of US\$175 million on which interest is payable at 11.5 per cent. per annum. The Loan Agreement 2011 contains customary representations, warranties and covenants. The covenants include, among others, a negative pledge, a limitation of disposals of material assets which are not at arm’s length or for securitisation purposes and maintenance of capital adequacy not less than: (1) at any time that (I) the foreign long term bank deposit rating (or its equivalent) of TCS Bank by Moody’s is below Ba3 or by Fitch is below BB-, or (II) neither Moody’s nor Fitch is rating TCS Bank, not less than 13 per cent.; or (2) at any time that the foreign long term bank deposit rating (or its equivalent) of TCS Bank by Moody’s is at or above Ba3 and by Fitch is at or above BB-, not less than 12 per cent.

The Loan Agreement 2011 also contains customary events of default and a cross-default provision (at a threshold of US\$3 million). Upon the occurrence of an event of default, the lender may declare any outstanding advance immediately due and payable.

The Loan Agreement 2011 allows for voluntary prepayment by TCS Bank of the whole (but not part only) of the outstanding principal together with accrued interest for specified tax reasons or for reasons of increased costs. No other prepayment is allowed under the Loan Agreement 2011.

#### 9.4 **Loan Participation Notes due 2015**

On 18 September 2012, TCS Finance issued loan participation notes in an amount of US\$250 million with an annual coupon of 10.75 per cent. maturing on 18 September 2015 subject to repayment of the loan under the Loan Agreement 2012 (as defined below) (the “**LPN 2015**”). The coupon is paid on a semi-annual basis. The notes are listed on the Official List of the Irish Stock Exchange and are Regulation S compliant. They are in registered form, without coupons attached, in the denomination of US\$200,000, and integral multiples of US\$1,000 in excess thereof.

The proceeds of the issue of the notes were used to finance a loan to TCS Bank pursuant to a loan agreement dated 17 September 2012 (the “**Loan Agreement 2012**”) between TCS Finance as lender, TCS Bank as borrower and the Issuer as parent guarantor. The proceeds from the loan were used by TCS Bank for general corporate purposes. The notes are secured limited recourse obligations of TCS Finance. The notes constitute the obligation of TCS Finance to apply an amount equal to the proceeds from the issue solely for the purpose of financing the Loan Agreement 2012.

The notes are secured by three charges: firstly, over the amounts paid and payable by TCS Bank and/or the Issuer to TCS Finance as lender under the Loan Agreement 2012; secondly, over the right to receive all sums which may be paid or be or become payable by TCS Bank and/or the Issuer under any claim, award or judgment relating to the Loan Agreement 2012; and thirdly, over an account in the name of TCS Finance with The Bank of New York Mellon.

The LPN 2015 contains customary covenants by TCS Finance including, among others, covenants against modification of the Loan Agreement 2012, establishment of subsidiaries, declaration of dividends, acquisition of real property, issuance of shares and petitioning for winding-up or bankruptcy. Where withholding tax is payable, TCS Bank will indemnify TCS Finance against such amounts. The LPN 2015 also contains a change of control provision, according to which the holders of the notes have the right to require TCS Finance to redeem the notes in the event Mr Tinkov ceases to own (whether directly or indirectly) more than 50 per cent. of the issued ordinary share capital of TCS Bank or if there is a sale of all or substantially all of the assets of the Issuer and its subsidiaries taken as a whole.

#### 9.5 **The Loan Agreement 2012**

The Loan Agreement 2012 provides a single advance of US\$250 million on which interest is payable at 10.75 per cent. per annum. The Loan Agreement 2012 contains customary representations, warranties and covenants. The covenants include, among others, a negative pledge, a limitation of disposals of material assets which are not at arm’s length or for securitisation purposes and maintenance of capital adequacy at not less than certain specified rates.

The Loan Agreement 2012 also contains customary events of default and a cross-default provision (at a threshold of US\$3 million). Upon the occurrence of an event of default, the lender may declare any outstanding advance immediately due and payable.

The Loan Agreement 2012 allows for voluntary prepayment by TCS Bank of the whole (but not part only) of the outstanding principal together with accrued interest for specified tax reasons or for reasons of increased costs. No other prepayment is allowed under the Loan Agreement 2012.

#### 9.6 **Loan Participation Notes due 2018**

On 6 December 2012, TCS Finance issued loan participation notes in an amount of US\$125 million with an annual coupon of 14.0 per cent. maturing on 6 June 2018 (the “**Original LPN 2018**”). On 20 February 2013, TCS Finance issued further loan participation notes in an amount of US\$75 million to be consolidated and form a single series with the Original LPN 2018 (the “**Further LPN 2018**”, and together with the Original LPN 2018, the “**LPN 2018**”). The LNP 2018 is subject to repayment under the Subordinated Loan Agreement (as defined below). The coupon is paid on a semi-annual basis. The notes are listed on the Official List of the Irish Stock Exchange and are Regulation S compliant. They are in registered form, without coupons attached, in the denomination of US\$200,000, and integral multiples of US\$1,000 in excess thereof.

The proceeds of the issue of the notes were used to finance a subordinated loan to TCS Bank pursuant to a subordinated loan agreement dated 4 December 2012 between TCS Finance as lender and TCS Bank as borrower (the “**Original Subordinated Loan Agreement**”) as supplemented by a supplemental subordinated loan agreement dated 18 February 2013 between TCS Finance as lender and TCS Bank as borrower (the “**Supplemental Subordinated Loan Agreement**”, and together with the Original

Subordinated Loan Agreement, the “**Subordinated Loan Agreement**”). The proceeds from the loan were included into TCS Bank’s Tier II capital and were used by TCS Bank for general corporate purposes. The notes are secured limited recourse obligations of TCS Finance. The notes constitute the obligation of the TCS Finance to apply an amount equal to the proceeds from the issue solely for the purpose of financing the Subordinated Loan Agreement.

The notes are secured by three charges: firstly, over the amounts paid and payable by TCS Bank to TCS Finance as lender under the Subordinated Loan Agreement; secondly, over the right to receive all sums which may be paid or be or become payable by TCS Bank under any claim, award or judgment relating to the Subordinated Loan Agreement; and thirdly, over an account in the name of TCS Finance with The Bank of New York Mellon.

The LPN 2018 contains customary covenants by TCS Finance including covenants against modification of the Subordinated Loan Agreement, establishment of subsidiaries declaration of dividends, acquisition of real property, issuance of shares and petitioning for winding-up or bankruptcy. Where withholding tax is payable, TCS Bank will indemnify TCS Finance against such amounts.

#### 9.7 **The Subordinated Loan Agreement**

The Original Subordinated Loan Agreement provides a single advance of US\$125 million with interest payable at 14.0 per cent. per annum. The Supplemental Subordinated Loan Agreement provides a further advance of US\$75 million. The claims of TCS Finance in respect of the principal of, and interest on, the subordinated loan under the Subordinated Loan Agreement are subordinated to the claims of senior creditors of TCS Bank.

The Subordinated Loan Agreement contains customary representations and warranties. It also contains covenants customary for subordinated loan agreement of this type but does not contain covenants usual for senior loan agreements (such as negative pledge, limitation of disposals or maintenance of capital adequacy).

TCS Finance may declare all amounts immediately due and payable in the case of TCS Bank’s bankruptcy. The Subordinated Loan Agreement allows for voluntary prepayment by TCS Bank of the whole (but not part only) of the outstanding principal together with accrued interest for specified regulatory reasons, for specified tax reasons or for reasons of increased costs. Any prepayment following the inclusion of the subordinated loan into Tier II capital of TCS Bank will be subject to the consent of the CBR. No other prepayment is allowed under the Subordinated Loan Agreement.

#### 9.8 **Deposit Agreement**

On or about 24 October 2013, the Issuer and the Depositary entered into the Deposit Agreement for the establishment and maintenance of (i) the Regulation S Facility and the Regulation S GDRs issued pursuant thereto and (ii) the Rule 144A Facility and the Rule 144A GDRs issued pursuant thereto, pursuant to which the Issuer also executed a Deed Poll in favour of the Holders of the GDRs in the form attached to the Deposit Agreement. For more information, see “*Terms and Conditions of the Global Depositary Receipts*” and “*Description of arrangements to safeguard the rights of the Holders of the Global Depositary Receipts*”.

#### 9.9 **Shareholders’ Agreement**

The Shareholders’ Agreement provides that the Minority Shareholders shall be entitled to nominate one director to the board of directors of the Issuer, and the Majority Shareholders shall vote in favour of any board resolution for his/her appointment. The Minority Shareholders may require that the director nominated by them to be removed or replaced. The Minority Shareholders may, provided that they have consulted with the Majority Shareholders prior to such appointment, nominate a candidate for appointment as an alternate for the director appointed by them, and the Majority Shareholders shall use their respective best endeavours to procure that any directors appointed by them vote in favour of such alternate. The Minority Shareholders shall have the right to have one observer, acceptable to the Majority Shareholders (acting reasonably), attend meetings of the board of directors of the Issuer.

Under the provisions of the Shareholders’ Agreement, the Majority Shareholders shall, and shall procure that any of the directors nominated by them shall, vote in such manner as is required to prevent the following unless approved by a notice from the Minority Shareholders (which has been approved by a majority of the Minority Shareholders):

- de-listing of the GDRs, the Class A Shares, the Class B Shares and any equity securities issued in exchange for the Class A Shares or the Class B Shares from the London Stock Exchange;



- save for any disposition of delinquent receivables to collection agencies and any securitisation, sale and lease back or secured financing in each case in an arm's length market-based transaction, entry by TCS into any acquisition, sale or merger with a third party (or one of a series of linked transactions) (in each case whether made by way of reconstruction, merger, amalgamation, transfer, or disposition) of any assets the aggregate market value or consideration (collectively, "**Consideration**") of which exceeds 20 per cent. of the Issuer's market capitalisation determined as of the date that is no more than three (3) Business Days prior to the proposed date of execution of a letter of intent, memorandum of understanding or any similar document by the parties thereto, in each case containing all material terms of the proposed transaction; provided that if following such determination the Consideration payable in respect of the transaction is increased, the determination shall be re-assessed as of the date of such increase in the Consideration; and
- any amendments to the Issuer's Articles of Association that are prejudicial to the rights of any Minority Shareholder.

In addition, pursuant to the Shareholders' Agreement, if one or more of the Majority Shareholders propose to transfer by one or a series of linked transactions their GDRs, the Class A Shares, the Class B Shares and any equity securities issued in exchange for the Class A Shares or the Class B Shares having an aggregate market value collectively equivalent to 10 per cent. or more of the Issuer's market capitalisation to a third party, whether for cash or in-kind consideration, and whether payable at closing of the transaction or fully or partially deferred for any period of time, they shall allow the Minority Shareholders the opportunity to participate pro rata in such transfer on the same terms.

The Shareholders' Agreement becomes effective from Admission, provided that Admission occurs by 30 June 2014. The Shareholders' Agreement shall continue in full force and effect without limit in point of time until the earlier of:

- the parties agreeing in writing to terminate it;
- an effective resolution being passed or a binding order being made for the winding up of the Issuer other than to effect a scheme of reconstruction or amalgamation; or
- the proportion of Class A Shares held by the Minority Shareholders (whether directly or represented by way of GDRs) in aggregate falling below the lower of 10 per cent. of the issued share capital of the Issuer at Admission and 10 per cent. of the total issued share capital of the Issuer at any later point in time.

#### 10. **Frank Research Group Responsibility and Consent Statement**

Frank Research Group, whose office is at Office 515, bldg. 3, 37 Leningradsky prospect, Moscow 125167, has given and not withdrawn its written consent to the inclusion of the Frank Research Group data and to the inclusion of the references to it and its name in the form an context in which they are included in this Prospectus and has authorized the contents of such data for the purposes of paragraph 5.5.4(R)(2)(f) of the Prospectus Rules and Annex X item 23.1 of the Prospectus Directive Regulation (EC/809/2004), as amended. Frank Research Group accepts responsibility for the information contained in the Frank Research Group data, and to the best of Frank Research Group's knowledge and belief that, having taken all reasonable care to ensure that such is the case, the information contained is in accordance with the facts and does not omit anything likely to affect the import of such information.

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**TCS Group Holding PLC (formerly named  
Egidaco Investments PLC)  
International Financial Reporting Standards  
Consolidated Condensed Interim Financial Information (Unaudited)**

**30 June 2013**

## **TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

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## Report on review of Interim Financial Information

To the Board of Directors of TCS Group Holding PLC (formerly named Egidaco Investments PLC)

### Introduction

We have reviewed the accompanying consolidated condensed interim statement of financial position of TCS Group Holding PLC (formerly named Egidaco Investments PLC) and its subsidiaries (the “Group”) as of 30 June 2013 and the related consolidated condensed interim statements of profit or loss and other comprehensive income for the three-month and six-month periods then ended, and of changes in equity and cash flows for the six month period then ended. The Board of Directors is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Financial Reporting Standards as adopted by the European Union applicable to interim financial reporting (International Accounting Standard 34 “Interim Financial Reporting”). Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information is not prepared in all material respects in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers Limited  
Chartered Accountants

Limassol, 16 September 2013

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**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Consolidated Condensed Interim Statement of Financial Position**

<i>In thousands of USD</i>	<i>Note</i>	<i>30 June 2013 (Unaudited)</i>	<i>31 December 2012</i>
<b>ASSETS</b>			
Cash and cash equivalents	6	279,908	457,382
Mandatory cash balances with the CBRF		27,424	22,560
Loans and advances to customers	7	1,951,609	1,573,266
Financial derivatives	20	22,222	826
Current income tax asset		2,030	—
Deferred income tax assets		11,722	11,370
Guarantee deposits with payment systems		48,196	33,592
Fixed assets		22,128	17,952
Intangible assets		12,889	13,460
Other financial assets		39,847	38,995
Other non-financial assets		829	4,068
<b>TOTAL ASSETS</b>		<b>2,418,804</b>	<b>2,173,471</b>
<b>LIABILITIES</b>			
Due to banks		16,602	16,930
Customer accounts	8	977,293	878,146
Debt securities in issue	9	806,273	762,414
Subordinated debt	10	198,354	123,897
Financial derivatives	20	921	11,927
Current income tax liabilities		—	2,779
Other financial liabilities		52,362	70,570
Other non-financial liabilities		11,136	8,541
<b>TOTAL LIABILITIES</b>		<b>2,062,941</b>	<b>1,875,204</b>
<b>EQUITY</b>			
Share capital	11	6,835	6,777
Share premium	11	118,724	118,724
Treasury shares	11	(135)	(77)
Share-based payment	22	13,582	10,990
Retained earnings		249,260	169,928
Accumulated loss on translation		(32,403)	(8,075)
<b>TOTAL EQUITY</b>		<b>355,863</b>	<b>298,267</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,418,804</b>	<b>2,173,471</b>

Approved for issue and signed on behalf of the Board of Directors on 16 September 2013.



Laoura Michael  
Director



Mary Trimithiotou  
Director

The notes set out on pages F-9 to F-24 form an integral part of this Consolidated Condensed Interim Financial Information.

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Consolidated Condensed Interim Statement of Profit or Loss and Other Comprehensive Income**

<i>In thousands of USD</i>	<i>Note</i>	<i>Six-Months Period Ended 30 June 2013 (Unaudited)</i>	<i>Three-Months Period Ended 30 June 2013 (Unaudited)</i>	<i>Six-Months Period Ended 30 June 2012 (Unaudited)</i>	<i>Three-Months Period Ended 30 June 2012 (Unaudited)</i>
Interest income	12	519,551	280,329	271,458	151,138
Interest expense	12	(125,983)	(66,689)	(63,982)	(36,940)
<b>Net interest income</b>		<b>393,568</b>	<b>213,640</b>	<b>207,476</b>	<b>114,198</b>
Provision for loan impairment	7	(140,396)	(65,456)	(37,927)	(21,000)
<b>Net interest income after provision for loan impairment</b>		<b>253,172</b>	<b>148,184</b>	<b>169,549</b>	<b>93,198</b>
Customer acquisition expense	14	(68,906)	(44,564)	(46,745)	(29,043)
Fee and commission expense	13	(5,181)	(2,907)	(3,397)	(1,448)
Losses less gains from operations with foreign currencies		(1,531)	2,418	(3,463)	2,737
Gain from sale of bad debts	7	6,711	5,125	809	352
Insurance agency fee	15	1,086	662	—	—
Other operating income		207	19	325	189
Administrative and other operating expenses	16	(82,663)	(49,269)	(49,557)	(31,477)
<b>Profit before tax</b>		<b>102,895</b>	<b>59,668</b>	<b>67,521</b>	<b>34,508</b>
Income tax expense	17	(23,563)	(14,242)	(15,262)	(7,688)
<b>Profit for the period</b>		<b>79,332</b>	<b>45,426</b>	<b>52,259</b>	<b>26,820</b>
Other comprehensive loss:					
<i>Items that will be reclassified to profit or loss</i>					
Exchange differences on translation to presentation currency		(24,328)	(17,084)	(7,687)	(19,949)
<b>Other comprehensive loss for the period</b>		<b>(24,328)</b>	<b>(17,084)</b>	<b>(7,687)</b>	<b>(19,949)</b>
<b>Total comprehensive income for the period</b>		<b>55,004</b>	<b>28,342</b>	<b>44,572</b>	<b>6,871</b>
<b>Earnings per share for profit attributable to the owners of the Company, basic (expressed in USD per share)</b>		<b>11.84</b>	<b>6.78</b>	<b>8.18</b>	<b>4.14</b>
<b>Earnings per share for profit attributable to the owners of the Company, diluted (expressed in USD per share)</b>		<b>11.59</b>	<b>6.65</b>	<b>8.08</b>	<b>4.09</b>

The notes set out on pages F-9 to F-24 form an integral part of this Consolidated Condensed Interim Financial Information.

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Consolidated Condensed Interim Statement of Changes in Equity**

<i>In thousands of USD</i>	<i>Note</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Share-based payment</i>	<i>Treasury shares</i>	<i>Retained earnings</i>	<i>Accumulated loss on translation</i>	<i>Total</i>
<b>Balance at 31 December 2011</b> .....		<b>6,370</b>	<b>81,631</b>	<b>—</b>	<b>(77)</b>	<b>48,014</b>	<b>(18,848)</b>	<b>117,090</b>
Profit for the six-months period ended 30 June 2012 (Unaudited) .....		—	—	—	—	52,259	—	52,259
Other comprehensive loss:								
Exchange differences on translation to presentation currency .....		—	—	—	—	—	(7,687)	(7,687)
<b>Total comprehensive income for the six-months period ended 30 June 2012 (Unaudited)</b> .....		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>52,259</b>	<b>(7,687)</b>	<b>44,572</b>
Share issue .....	11	407	37,093	—	—	—	—	37,500
<b>Balance at 30 June 2012 (Unaudited)</b> .....		<b>6,777</b>	<b>118,724</b>	<b>—</b>	<b>(77)</b>	<b>100,273</b>	<b>(26,535)</b>	<b>199,162</b>
<b>Balance at 31 December 2012</b> .....		<b>6,777</b>	<b>118,724</b>	<b>10,990</b>	<b>(77)</b>	<b>169,928</b>	<b>(8,075)</b>	<b>298,267</b>
Profit for the six-months period ended 30 June 2013 (Unaudited) .....		—	—	—	—	79,332	—	79,332
Other comprehensive loss:								
Exchange differences on translation to presentation currency .....		—	—	—	—	—	(24,328)	(24,328)
<b>Total comprehensive income for the six-months period ended 30 June 2013 (Unaudited)</b> .....		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>79,332</b>	<b>(24,328)</b>	<b>55,004</b>
Share issue .....	11	58	—	—	(58)	—	—	—
Share-based payment .....	22	—	—	2,592	—	—	—	2,592
<b>Total transactions with owners</b> .....		<b>58</b>	<b>—</b>	<b>2,592</b>	<b>(58)</b>	<b>—</b>	<b>—</b>	<b>2,592</b>
<b>Balance at 30 June 2013 (Unaudited)</b> .....		<b>6,835</b>	<b>118,724</b>	<b>13,582</b>	<b>(135)</b>	<b>249,260</b>	<b>(32,403)</b>	<b>355,863</b>

The notes set out on pages F-9 to F-24 form an integral part of this Consolidated Condensed Interim Financial Information.

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Consolidated Condensed Interim Statement of Cash Flows**

<i>In thousands of USD</i>	<i>Note</i>	<i>Six-months period ended 30 June 2013 (Unaudited)</i>	<i>Six-months period ended 30 June 2012 (Unaudited)</i>
<b>Cash flows from operating activities</b>			
Interest received		436,354	223,521
Interest paid		(127,711)	(67,000)
Customers acquisition expenses paid		(53,386)	(41,777)
Cash received from trading in foreign currencies		5,353	4,426
Cash received from sale of bad debts		6,711	809
Fees and commissions paid		(3,225)	(4,339)
Other operating income received		207	181
Administrative and other operating expenses paid		(36,479)	(24,812)
Income tax paid		(26,713)	(23,207)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>201,111</b>	<b>67,802</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in Central Bank mandatory reserves		(6,475)	(6,778)
Net increase in due from banks		—	(2,518)
Net increase in loans and advances to customers		(564,600)	(411,724)
Net increase in securities at fair value through profit or loss		—	(1,548)
Net increase in Guarantee deposits with payment systems		(13,604)	(8,459)
Net (increase)/decrease in other financial assets		(3,638)	7,085
Net decrease/(increase) in other non-financial assets		3,035	(542)
Net increase in due to banks		929	—
Net increase in customer accounts		173,235	238,996
Net (decrease)/increase in other financial liabilities		(18,208)	10,993
Net increase in other non-financial liabilities		1,781	299
<b>Net cash used in operating activities</b>		<b>(226,434)</b>	<b>(106,394)</b>
<b>Cash flows used in investing activities</b>			
Acquisition of fixed assets		(11,552)	(9,740)
Acquisition of intangible assets		(2,692)	(4,034)
<b>Net cash used in investing activities</b>		<b>(14,244)</b>	<b>(13,774)</b>
<b>Cash flows from financing activities</b>			
Proceeds from debt securities in issue		144,527	76,843
Repayment of debt securities in issue		(102,883)	(5,250)
Proceeds from Subordinated debt		72,850	—
Ordinary shares issue	11	—	37,500
<b>Net cash from financing activities</b>		<b>114,494</b>	<b>109,093</b>
Effect of exchange rate changes on cash and cash equivalents		(51,290)	4,375
<b>Net decrease in cash and cash equivalents</b>		<b>(177,474)</b>	<b>(6,700)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	6	<b>457,382</b>	<b>163,191</b>
<b>Cash and cash equivalents at the end of the period</b>	6	<b>279,908</b>	<b>156,491</b>

The notes set out on pages F-9 to F-24 form an integral part of this Consolidated Condensed Interim Financial Information.

## TCS Group Holding PLC (formerly named Egidaco Investments PLC)

### Notes to the Consolidated Condensed Interim Financial Information—30 June 2013

#### 1 Introduction

This consolidated condensed interim financial information replaces the original version issued on 30 August 2013. This consolidated condensed interim financial information updates the version issued on 30 August 2013 to reflect the change of name of the Company from Egidaco Investments PLC to TCS Group Holding PLC on 6 September 2013 and the additional disclosure of a placement of Euro-Commercial Papers (ECP) after the balance sheet date (Note 23).

This consolidated condensed interim financial information for the six-months period ended 30 June 2013 for TCS Group Holding PLC (formerly named Egidaco Investments PLC) (the “Company”) and its subsidiaries (together referred to as the “Group” or “TCS Group Holding PLC (formerly named Egidaco Investments PLC)”) has been prepared in accordance with International Accounting Standard 34 (IAS 34) “Interim Financial Reporting” as adopted by the European Union. This consolidated condensed interim financial information has been reviewed, not audited.

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 is comprised of: Constantinos Economides, Alexios Ioannides, Julian Charles Salisbury, Per Brilioth, Mary Trimithiotou, Laoura Michael, Michael Calvey, Nasia Vryonidou and Denis Tafintsev.

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

As at 30 June 2013 and 31 December 2012 the shareholders of the Company were:

	<i>30 June 2013</i>	<i>31 December 2012</i>	<i>Country of Incorporation</i>
TADEK Holding and Finance S.A. ....	54.43%	54.90%	British Virgin Islands
Vostok Komi (Cyprus) Limited .....	13.21%	13.32%	Cyprus
ELQ II Investors Ltd .....	12.30%	12.41%	United Kingdom
Rousse Nominees Ltd. ....	7.93%	8.00%	Guernsey
TASOS Invest and Finance Inc. ....	6.18%	6.24%	British Virgin Islands
Lorimer Ventures Limited .....	3.97%	4.00%	Cyprus
Altruco Holdings Limited .....	1.98%	1.13%	Cyprus
Vizer Limited .....	0.00%*	0.00%*	British Virgin Islands
Maitland Commercial Inc. ....	0.00%*	0.00%*	British Virgin Islands
Norman Legal S.A. ....	0.00%*	0.00%*	British Virgin Islands
<b>Total</b> .....	<b>100%</b>	<b>100%</b>	

\* Vizer Limited, Maitland Commercial Inc and Norman Legal S.A. own 1 share of the Company each (2012: 1 share).

As at 30 June 2013 and 31 December 2012 the ultimate beneficiaries of the Group are the Russian entrepreneur Oleg Tinkov (60.61% and 61.14%, respectively), investment fund Vostok Nafta (13.21% and 13.32%, respectively), the global investment firm Goldman Sachs (12.30% and 12.41%, respectively), Baring Vostok Private Equity Fund IV, L.P. (7.93% and 8.00%, respectively) and Horizon Capital (3.97% and 4.00%, respectively).

Subsidiaries and special purpose entity included in this consolidated condensed interim financial information are listed below:

<i>Name</i>	<i>30 June 2013</i>			<i>31 December 2012</i>		
	<i>Nature of business</i>	<i>Percentage of ownership</i>	<i>Percentage of voting rights</i>	<i>Percentage of ownership</i>	<i>Percentage of voting rights</i>	<i>Country of registration</i>
CJSC “Tinkoff. Credit Systems”						
Bank .....	Bank operations	100%	100%	100%	100%	Russia
LLC “TCS” .....	Services	100%	100%	100%	100%	Russia
LLC “T-Finance” .....	Assets holding	100%	100%	100%	100%	Russia
Goward Group Limited .....	Services	100%	100%	100%	100%	BVI
TCS Finance Ltd .....	Financing	—	—	—	—	Ireland



## TCS Group Holding PLC (formerly named Egidaco Investments PLC)

### Notes to the Consolidated Condensed Interim Financial Information—30 June 2013

#### 1 Introduction (Continued)

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

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

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

**Registered address and place of business.** The Company’s registered address is Kanika International Business Center, 6<sup>th</sup> floor, Profiti Ilia No 4 Germasogeia, Limassol 4046 Cyprus. The Bank’s registered address is 1-st Volokolamsky passage, 10, building 1, 123060, Moscow, Russian Federation. The Group’s principal place of business is the Russian Federation.

**Presentation currency.** This consolidated condensed interim financial information is presented in thousands of USD.

#### 2 Operating Environment of the Group

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

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 5.

#### 3 Summary of Significant Accounting Policies

**Basis of preparation.** This consolidated condensed interim financial information has been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the European Union (EU) and should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the requirements of the Cyprus Companies Law, Cap. 113.

Except as described below, the same accounting policies and methods of computation were followed in the preparation of this consolidated condensed interim financial information as compared with the annual consolidated financial statements for the year ended 31 December 2012.

**Interim period tax measurement.** Interim period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, that is, the estimated weighted average annual effective income tax rate applied to the pre-tax income of the interim period.

Certain new standards, interpretations and amendments to the existing standards, as disclosed in the consolidated financial statements for the year ended 31 December 2012, became effective for the Group from 1 January 2013.

These new or amended standards had an impact on presentation and disclosures. The amendments to IAS 1, “Presentation of Financial Statements”, require us to separate items presented in other comprehensive income

## TCS Group Holding PLC (formerly named Egidaco Investments PLC)

### Notes to the Consolidated Condensed Interim Financial Information—30 June 2013

#### 3 Summary of Significant Accounting Policies (Continued)

into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to “statement of profit or loss and other comprehensive income”. Implementation of IFRS 13, “Fair Value Measurement”, resulted in additional disclosures about fair values of financial instruments (Note 21). IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements. Other new or amended standards or interpretations did not have any impact on this consolidated condensed interim financial information.

At 30 June 2013 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 32.7090 (31 December 2012: USD 1 = RR 30.3727). The principal average rate of exchange used for translating income and expenses was USD 1 = RR 31.6130 and USD 1 = RR 30.4142 for the 2<sup>nd</sup> and 1<sup>st</sup> quarters 2013, respectively (USD 1 = RR 31.0134 and USD 1 = RR 30.2642 for the 2<sup>nd</sup> and 1<sup>st</sup> quarters 2012, respectively).

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

The effect of reclassifications for presentation purposes was as follows on amounts for the six-months period ended 30 June 2012:

<i>In thousands of USD</i>	<i>As originally presented</i>	<i>Reclassification</i>	<i>As reclassified for the six-months ended 30 June 2012</i>
Customer acquisition expense . . . . .	(37,653)	(9,092)	(46,745)
Administrative and other operating expenses . . . . .	(58,649)	9,092	(49,557)

The effect of reclassifications for presentation purposes was as follows on amounts for the three-months period ended 30 June 2012:

<i>In thousands of USD</i>	<i>As originally presented</i>	<i>Reclassification</i>	<i>As reclassified for the three-months ended 30 June 2012</i>
Customer acquisition expense . . . . .	(23,619)	(5,424)	(29,043)
Administrative and other operating expenses . . . . .	(36,901)	5,424	(31,477)

In six-months period ended 30 June 2012 and three-months period ended 30 June 2012 administrative and other operating expenses included staff costs and telecom expenses directly related to acquisition of new customers.

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

#### 4 New Accounting Pronouncements

Since the Group published its last annual financial statements, certain new standards and interpretations have been issued that are mandatory for the Group’s annual accounting periods beginning on or after 1 January 2014 and which the Group has not early adopted:

**IFRIC 21—Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).** The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its financial statements.

**Amendments to IAS 36—Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).** The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**4 New Accounting Pronouncements (Continued)**

**Amendments to IAS 39—Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014).** The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

**Offsetting Financial Assets and Financial Liabilities—Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

All of the above standards, interpretations and amendments are subject to European Union endorsement with the exception of Offsetting Financial Assets and Financial Liabilities which has been endorsed by the EU.

The Group has also not early adopted any of the new standards and interpretations disclosed in the “New Accounting Pronouncements” note in its last annual financial statements and effective for its annual periods beginning on or after 1 January 2014.

**5 Critical Accounting Estimates and Judgments in Applying Accounting Policies**

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

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

Given the nature of the borrowers and the loans it is the Group’s view and experience that the time lag between a possible loss event that could lead to impairment and the non or under payment of a monthly installment is minimal. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In accordance with internal methodology for the provision estimation the Group uses a seven months horizon for assessment of probabilities of default in calculating the provision for impairment as these statistics provide better information to estimate and project credit card losses.

**6 Cash and Cash Equivalents**

<i>In thousands of USD</i>	<i>30 June 2013</i>	<i>31 December 2012</i>
Cash on hand . . . . .	238	308
Cash balances with the CBRF (other than mandatory reserve deposits) . . . . .	29,457	39,366
Placements with other banks with original maturities of less than three months . . . . .	250,213	417,708
<b>Total Cash and Cash Equivalents . . . . .</b>	<b>279,908</b>	<b>457,382</b>

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**6 Cash and Cash Equivalents (Continued)**

Cash and cash equivalents are not impaired and not past due. Refer to Note 21 for the disclosure of the fair value of financial instruments.

**7 Loans and Advances to Customers**

<i>In thousands of USD</i>	<i>30 June 2013</i>	<i>31 December 2012</i>
<b>Loans to individuals:</b>		
<i>Credit card loans</i> .....	2,109,208	1,674,651
<i>Installments</i> .....	46,371	29,349
<i>POS loans</i> .....	11,743	8,854
<b>Total loans and advances to customers before impairment</b> .....	<b>2,167,322</b>	<b>1,712,854</b>
Less: Provision for loan impairment .....	(215,713)	(139,588)
<b>Total loans and advances to customers</b> .....	<b>1,951,609</b>	<b>1,573,266</b>

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

The Group has a restructuring program for delinquent borrowers who demonstrate a willingness to settle their debt by switching to fixed monthly repayments of outstanding amounts (“installments”).

POS 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:

<i>In units</i>	<i>30 June 2013</i>	<i>31 December 2012</i>
<b>Credit card limits</b>		
Up to 10 RR thousand .....	339,709	260,840
10-20 RR thousand .....	195,407	196,312
20-30 RR thousand .....	242,523	254,379
30-40 RR thousand .....	231,358	209,698
40-50 RR thousand .....	204,217	186,634
50-60 RR thousand .....	180,579	143,124
60-80 RR thousand .....	271,643	210,745
80-100 RR thousand .....	190,702	159,806
More than 100 RR thousand .....	172,727	64,926
<b>Total cards</b> .....	<b>2,028,865</b>	<b>1,686,464</b>

Movements in the provision for loan impairment during six-months period ended 30 June 2013 are as follows:

<i>In thousands of USD</i>	<i>As at 31 December 2012</i>	<i>Effect of translation</i>	<i>Sales of bad debts</i>	<i>Provision for impairment during the period</i>	<i>As at 30 June 2013</i>
<b>Loans to individuals:</b>					
<i>Credit card loans</i> .....	132,758	(14,276)	(43,203)	124,663	199,942
<i>Installments</i> .....	5,881	(789)	(5,802)	13,058	12,348
<i>POS loans</i> .....	949	(201)	—	2,675	3,423
<b>Total provision for loan impairment</b> .....	<b>139,588</b>	<b>(15,266)</b>	<b>(49,005)</b>	<b>140,396</b>	<b>215,713</b>

Movements in the provision for loan impairment during three-months period ended 30 June 2013 are as follows:

<i>In thousands of USD</i>	<i>As at 31 March 2013</i>	<i>Effect of translation</i>	<i>Sales of bad debts</i>	<i>Provision for impairment during the period</i>	<i>As at 30 June 2013</i>
<b>Loans to individuals:</b>					
<i>Credit card loans</i> .....	184,609	(10,026)	(31,487)	56,846	199,942
<i>Installments</i> .....	11,137	(614)	(5,645)	7,470	12,348
<i>POS loans</i> .....	2,442	(159)	—	1,140	3,423
<b>Total provision for loan impairment</b> .....	<b>198,188</b>	<b>(10,799)</b>	<b>(37,132)</b>	<b>65,456</b>	<b>215,713</b>

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**7 Loans and Advances to Customers (Continued)**

Movements in the provision for loan impairment during six-months period ended 30 June 2012 are as follows:

<i>In thousands of USD</i>	<i>As at 31 December 2011</i>	<i>Effect of translation</i>	<i>Sales of bad debts</i>	<i>Provision for impairment during the period</i>	<i>As at 30 June 2012</i>
<b>Loans to individuals:</b>					
<i>Credit card loans</i> .....	42,686	(2,826)	(6,148)	36,580	70,292
<i>Installments</i> .....	3,629	(107)	(683)	1,257	4,096
<i>POS</i> .....	—	(6)	—	90	84
<b>Total provision for loan impairment</b> .....	<b>46,315</b>	<b>(2,939)</b>	<b>(6,831)</b>	<b>37,927</b>	<b>74,472</b>

Movements in the provision for loan impairment during three-months period ended 30 June 2012 are as follows:

<i>In thousands of USD</i>	<i>As at 31 March 2012</i>	<i>Effect of translation</i>	<i>Sales of bad debts</i>	<i>Provision for impairment during the period</i>	<i>As at 30 June 2012</i>
<b>Loans to individuals:</b>					
<i>Credit card loans</i> .....	59,856	(7,403)	(2,726)	20,565	70,292
<i>Installments</i> .....	4,788	(486)	(551)	345	4,096
<i>POS</i> .....	—	(6)	—	90	84
<b>Total provision for loan impairment</b> .....	<b>64,644</b>	<b>(7,895)</b>	<b>(3,277)</b>	<b>21,000</b>	<b>74,472</b>

During 6 months ended 30 June 2013 the Group sold bad debts to third parties (external debt collection agencies) with gross amount of USD 49,005 thousand (30 June 2012: USD 6,831 thousand), and provision for impairment of USD 49,005 thousand (30 June 2012: USD 6,831 thousand). The difference between the carrying amount of these loans and the consideration received was recognised in profit or loss as gain from the sale of bad debts in the amount of USD 6,711 thousand (30 June 2012: USD 809 thousand).

During 3 months ended 30 June 2013 the Group sold bad debts to third parties (external debt collection agencies) with gross amount of USD 37,132 thousand (30 June 2012: USD 3,277 thousand), and provision for impairment of USD 37,132 thousand (30 June 2012: USD 3,277 thousand). The difference between the carrying amount of these loans and the consideration received was recognised in profit or loss as gain from the sale of bad debts in the amount of USD 5,125 thousand (30 June 2012: USD 352 thousand).

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

<i>In thousands of USD</i>	<i>30 June 2013</i>			<i>31 December 2012</i>		
	<i>Credit card loans</i>	<i>POS loans</i>	<i>Install- ments</i>	<i>Credit card loans</i>	<i>POS loans</i>	<i>Install- ments</i>
Neither past due nor impaired:						
— <i>new</i> .....	109,094	1,827	—	88,321	3,964	—
Loans collectively assessed for impairment (gross):						
— <i>non-overdue</i> .....	1,724,077	6,417	36,297	1,393,421	3,790	21,477
— <i>less than 30 days overdue</i> .....	82,240	397	4,145	70,655	495	2,827
— <i>30 to 90 days overdue</i> .....	68,043	473	3,515	45,587	295	1,892
— <i>90 to 180 days overdue</i> .....	60,798	1,394	2,248	41,784	234	2,018
— <i>180 to 360 days overdue</i> .....	18,219	1,154	26	10,450	76	201
— <i>over 360 days overdue</i> .....	393	81	140	190	—	934
— <i>loans in courts</i> .....	46,344	—	—	24,243	—	—
Less: Provision for loan impairment .....	(199,942)	(3,423)	(12,348)	(132,758)	(949)	(5,881)
<b>Total loans to individuals</b> .....	<b>1,909,266</b>	<b>8,320</b>	<b>34,023</b>	<b>1,541,893</b>	<b>7,905</b>	<b>23,468</b>

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

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

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



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**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**7 Loans and Advances to Customers (Continued)**

The Bank considers overdue loans as impaired. Refer to Note 21 for the disclosure of the fair value of financial instruments.

Information on related party balances is disclosed in Note 22.

**8 Customer Accounts**

<i>In thousands of USD</i>	<i>30 June 2013</i>	<i>31 December 2012</i>
<b>Legal entities</b>		
—Current/settlement accounts of corporate entities .....	1,900	189
—Term deposits of corporate entities .....	35,784	35,144
<b>Individuals</b>		
—Current/settlement accounts of individuals .....	137,825	79,360
—Term deposits of individuals .....	801,784	763,453
<b>Total Customer Accounts .....</b>	<b>977,293</b>	<b>878,146</b>

Information on related party balances is disclosed in Note 22. Refer to Note 21 for the disclosure of the fair value of financial instruments.

**9 Debt Securities in Issue**

<i>In thousands of USD</i>	<i>30 June 2013</i>	<i>31 December 2012</i>
USD denominated bonds issued in September 2012 .....	254,203	252,627
USD denominated bonds issued in April 2011 .....	177,173	176,341
RR denominated bonds issued in May 2013 .....	91,959	—
RR denominated bonds issued in July 2012 .....	64,769	69,440
Euro-Commercial Papers issued in March 2013 .....	47,444	—
RR denominated bonds issued in April 2012 .....	46,571	50,283
RR denominated bonds issued in July 2010 .....	46,343	49,550
RR denominated bonds issued in November 2010 .....	37,875	40,747
RR denominated bonds issued in February 2011 .....	21,078	22,548
RR denominated bonds issued in September 2010 .....	18,858	19,710
SEK denominated bonds issued in December 2011 .....	—	81,168
<b>Total Debt Securities in Issue .....</b>	<b>806,273</b>	<b>762,414</b>

On 18<sup>th</sup> of September 2012 the Group issued USD denominated bonds with a nominal value of USD 250 mln at 10.75% coupon rate maturing on 18 September 2015. On the 4<sup>th</sup> of December 2012 the Group repurchased some of these bonds with nominal amount of USD 999 thousand and a discount of 0.15%.

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

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

On 16<sup>th</sup> July 2012 the Group issued RR denominated bonds with a nominal value of RR 2,000 mln (equivalent of USD 61.2 mln) at 13.9% coupon rate maturing on 14 February 2015. The holders of these bonds have the right to require the Group to purchase these bonds at their nominal amount on 16 July 2013.

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

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

On 26<sup>th</sup> of July 2010 the Group issued RR denominated bonds with nominal value of RR 1,400 mln (equivalent of USD 46.1 mln) at 20% coupon rate maturing on 28 July 2013.

On 30<sup>th</sup> of November 2010 the Group issued RR denominated bonds with a nominal value of RR 1,500 mln (equivalent of USD 47.9 mln) at 16.5% coupon rate maturing on 26 November 2013. As a result of offer event as at 26 November 2011 732,134 securities were repurchased by the Group at nominal value. The amount of

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**9 Debt Securities in Issue (Continued)**

transaction comprised USD 23,338 thousand. In November 2011 the Group has set the coupon rate at 16.5% of RR denominated bonds till maturity date on 26 November 2013.

On 22<sup>nd</sup> February 2011 the Group issued RR denominated bonds with a nominal value of RR 1,500 mln (equivalent of USD 51.4 mln) at 14.0% coupon rate maturing on 18 February 2014. On 22<sup>nd</sup> of August 2012 the Group redeemed part of these bonds in according with the public offer at nominal value of RR 855 mln (equivalent of USD 26.8 mln).

On 20<sup>th</sup> of September 2010 the Group issued RR denominated bonds with nominal value of RR 1,600 mln (equivalent of USD 51.5 mln) at 14.22% coupon rate maturing on 20 September 2013. On 5<sup>th</sup> of October 2012 the Group redeemed part of these bonds in accordance with the public offer at nominal value of RR 1,006 mln (equivalent of USD 32.3 mln).

On 29<sup>th</sup> of December 2011 the Group issued SEK denominated bonds with a nominal value of SEK 550 mln (equivalent of USD 79.5 mln) at 12.75% coupon rate and 5.0% discount maturing on 29 December 2013. On the 26<sup>th</sup> of February 2013 the Group repurchased some of these bonds with nominal amount of SEK 50,000 thousand (equivalent of USD 7,802 thousand) and a premium of 5.77%. On the 28<sup>th</sup> of June 2013 the Group repurchased the rest of these bonds with nominal amount of SEK 500,000 thousand (equivalent of USD 74,359 thousand) and a premium of 2.50%.

All bonds issued by the Group are traded on stock exchanges. Refer to Note 21 for the disclosure of the fair value of financial instruments. Refer to Note 22 for the disclosure of the balances with related parties.

**10 Subordinated Debt**

As at 30 June 2013 the carrying value of the subordinated debt was USD 198,354 thousand (31 December 2012: USD 123,897 thousand). On 6 December 2012 and 18 February 2013 the Group issued USD denominated subordinated bonds with a nominal value of USD 125 mln with zero premium and USD 75 mln at a premium of 7.0% at 14.0% coupon rate maturing on 6 June 2018. The claims of the lenders against the Group in respect of the principal and interest on these bonds are subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation. Refer to Note 21 for the disclosure of the fair value of financial instruments.

**11 Share Capital**

<i>In thousands of USD except for number of shares</i>	<i>Number of authorised shares</i>	<i>Number of outstanding shares</i>	<i>Ordinary shares</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Total</i>
<b>At 31 December 2011</b> .....	<b>7,619,180</b>	<b>6,370,536</b>	<b>6,370</b>	<b>81,631</b>	<b>(77)</b>	<b>87,924</b>
Shares issued .....	—	406,637	407	37,093	—	37,500
<b>At 30 June 2012</b> .....	<b>7,619,180</b>	<b>6,777,173</b>	<b>6,777</b>	<b>118,724</b>	<b>(77)</b>	<b>125,424</b>
<b>At 31 December 2012</b> .....	<b>7,619,180</b>	<b>6,777,173</b>	<b>6,777</b>	<b>118,724</b>	<b>(77)</b>	<b>125,424</b>
Shares issued .....	—	57,990	58	—	(58)	—
<b>At 30 June 2013</b> .....	<b>7,619,180</b>	<b>6,835,163</b>	<b>6,835</b>	<b>118,724</b>	<b>(135)</b>	<b>125,424</b>

The total authorised number of ordinary shares is 7,619,180 shares (31 December 2012: 7,619,180 shares) with a par value of USD 1 per share (31 December 2012: USD 1 per share). All issued ordinary shares are fully paid.

In June 2013 the Group issued 57,990 ordinary shares with a par value of USD 1 per share to Altruco Holdings Limited under the Employee share option plan (“ESOP”). Refer to Note 22.

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

Treasury shares represent shares issued by the Group under the Employee share option plan (“ESOP”) and all are owned by a trustee. Refer to Note 22.

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**12 Interest Income and Expense**

<i>In thousands of USD</i>	<i>Six-Months Period Ended 30 June 2013</i>	<i>Three-Months Period Ended 30 June 2013</i>	<i>Six-Months Period Ended 30 June 2012</i>	<i>Three-Months Period Ended 30 June 2012</i>
<b>Interest income</b>				
Loans and advances to customers, including:				
<i>Credit card loans</i> .....	509,922	274,922	270,029	150,511
<i>Installments</i> .....	5,492	3,134	214	121
<i>POS loans</i> .....	3,606	2,046	57	57
Placements with other banks .....	531	227	1,158	449
<b>Total Interest Income</b> .....	<b>519,551</b>	<b>280,329</b>	<b>271,458</b>	<b>151,138</b>
<b>Interest expense</b>				
Customer accounts .....	56,325	28,485	29,934	19,168
Eurobonds .....	35,764	19,698	16,852	8,452
RR denominated bonds .....	19,682	9,989	17,157	9,281
Subordinated debt .....	12,323	7,190	—	—
Due to banks .....	1,026	491	39	39
Euro-Commercial Papers .....	863	836	—	—
<b>Total Interest Expense</b> .....	<b>125,983</b>	<b>66,689</b>	<b>63,982</b>	<b>36,940</b>
<b>Net Interest Income</b> .....	<b>393,568</b>	<b>213,640</b>	<b>207,476</b>	<b>114,198</b>

**13 Fee and Commission Expense**

<i>In thousands of USD</i>	<i>Six-Months Period Ended 30 June 2013</i>	<i>Three-Months Period Ended 30 June 2013</i>	<i>Six-Months Period Ended 30 June 2012</i>	<i>Three-Months Period Ended 30 June 2012</i>
Service fees .....	4,822	2,730	3,217	1,366
Banking and other fees .....	359	177	180	82
<b>Total fee and commission expense</b> .....	<b>5,181</b>	<b>2,907</b>	<b>3,397</b>	<b>1,448</b>

**14 Customer Acquisition Expenses**

<i>In thousands of USD</i>	<i>Six-Months Period Ended 30 June 2013</i>	<i>Three-Months Period Ended 30 June 2013</i>	<i>Six-Months Period Ended 30 June 2012</i>	<i>Three-Months Period Ended 30 June 2012</i>
Marketing and advertising .....	33,788	24,106	23,939	16,764
Staff costs .....	23,458	13,623	8,483	5,110
Personalisation, printing and distribution .....	5,166	2,909	10,345	5,261
Credit bureaux .....	2,882	1,773	1,531	675
Acquisition and partnerships .....	2,665	1,603	1,838	919
Telecom acquisition .....	947	550	609	314
<b>Total customer acquisition expenses</b> .....	<b>68,906</b>	<b>44,564</b>	<b>46,745</b>	<b>29,043</b>

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

Staff costs represent salary expenses and related costs on employees involved in customer acquisition.

Included in staff costs are statutory social contributions to pension fund for six-months period ended 30 June 2013 in the amount of USD 3,438 thousand (30 June 2012: USD 1,275 thousand).

Included in staff costs are statutory social contributions to pension fund for three-months period ended 30 June 2013 in the amount of USD 2,166 thousand (30 June 2012: USD 761 thousand).

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

**15 Insurance Agency Fee**

Insurance agency fee represents fee income received from sale of insurance services provided by third party insurance companies via the Bank's Internet site. The Group acts as an agent in such operations.

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**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**16 Administrative and Other Operating Expenses**

<i>In thousands of USD</i>	<i>Six-Months Period Ended 30 June 2013</i>	<i>Three-Months Period Ended 30 June 2013</i>	<i>Six-Months Period Ended 30 June 2012</i>	<i>Three-Months Period Ended 30 June 2012</i>
Staff costs .....	47,324	29,056	25,899	15,420
Taxes other than income tax .....	10,810	6,955	7,602	5,879
Communication services .....	5,870	3,578	5,507	3,742
Rental expenses .....	5,752	2,987	1,788	1,102
Depreciation of fixed assets .....	3,954	1,840	1,866	1,147
Amortization of intangible assets .....	1,857	911	1,557	830
Expenses on deposits insurance .....	1,725	875	980	554
Stationary and office expenses .....	1,441	1,083	746	494
Information services .....	1,287	765	1,460	769
Professional services .....	1,139	409	513	337
Transportation .....	268	110	180	100
Other administrative expenses .....	1,236	700	1,459	1,103
<b>Total administrative and other operating expenses .....</b>	<b>82,663</b>	<b>49,269</b>	<b>49,557</b>	<b>31,477</b>

Included in staff costs are statutory social contributions to pension fund for six-months period ended 30 June 2013 in the amount of USD 5,295 thousand (30 June 2012: USD 2,605 thousand).

Included in staff costs are statutory social contributions to pension fund for three-months period ended 30 June 2013 in the amount of USD 2,688 thousand (30 June 2012: USD 1,382 thousand).

Included in staff costs for six-months period ended 30 June 2013 is the amount of USD 5,093 thousand (30 June 2012: USD 4,117 thousand), which represents share-based remuneration (Note 22).

Included in staff costs for three-months period ended 30 June 2013 is the amount of USD 3,222 thousand (30 June 2012: USD 3,520 thousand), which represents share-based remuneration (Note 22).

**17 Income Taxes**

Income tax expense comprises the following:

<i>In thousands of USD</i>	<i>Six-Months Period Ended 30 June 2013</i>	<i>Three-Months Period Ended 30 June 2013</i>	<i>Six-Months Period Ended 30 June 2012</i>	<i>Three-Months Period Ended 30 June 2012</i>
Current tax .....	(24,785)	(11,210)	(17,990)	(5,328)
Deferred tax .....	1,222	(3,032)	2,728	(2,360)
<b>Income tax expense for the period .....</b>	<b>(23,563)</b>	<b>(14,242)</b>	<b>(15,262)</b>	<b>(7,688)</b>

**18 Contingencies and Commitments**

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

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

Amended Russian transfer pricing legislation is effective from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis.

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**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**18 Contingencies and Commitments (Continued)**

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and the overall operations of the Group.

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

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity. The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

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

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

<i>In thousands of USD</i>	<i>30 June 2013</i>	<i>31 December 2012</i>
Not later than 1 year .....	11,055	6,462
<b>Total operating lease commitments .....</b>	<b>11,055</b>	<b>6,462</b>

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its debt securities in issue and subordinated debt. Non-compliance with such covenants may result in negative consequences for the Group. The Group was in compliance with covenants as at 30 June 2013 and 31 December 2012.

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

<i>In thousands of USD</i>	<i>30 June 2013</i>	<i>31 December 2012</i>
Unused limits on credit cards loans .....	1,000,370	833,026
<b>Total unused limits on credit cards loans .....</b>	<b>1,000,370</b>	<b>833,026</b>



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**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**18 Contingencies and Commitments (Continued)**

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

**19 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 entity. The functions of CODM are performed by the Board of Directors of the Group.

The business of the Group is represented by one operating segment (the “retail banking”) as the Group specializes in issuance of credit cards. All the management decisions are based on the financial information related to the retail banking segment.

***Measurement of operating segment profit or loss, assets and liabilities***

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

**20 Financial Derivatives**

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

	30 June 2013		31 December 2012	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In thousands of USD</i>				
<b>Foreign exchange and swaps: fair values, at the end of the reporting period, of</b>				
—USD receivable on settlement (+)	426,159	164,740	—	308,953
—RR payable on settlement (-)	(395,671)	(162,661)	(87,923)	(320,880)
—SEK (payable)/receivable on settlement (-)/(+)	(8,266)	(3,000)	88,749	—
<b>Net fair value of foreign exchange swaps</b>	<b>22,222</b>	<b>(921)</b>	<b>826</b>	<b>(11,927)</b>

Included in financial derivatives held by the Group as at 30 June 2013 is one outstanding swap contract with negative fair value of USD 921 thousand with reference to the default of JSC VTB Bank and two outstanding swap contracts with total positive fair values of USD 6,052 thousand and USD 3,843 thousand, respectively, with reference to the default of the Bank.

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

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**21 Fair Value of Financial Instruments**

**(a) Fair values of financial instruments carried at amortised cost.**

Fair values of financial instruments carried at amortised cost is as follows:

<i>In thousands of USD</i>	<i>30 June 2013</i>		<i>31 December 2012</i>	
	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>
<b>FINANCIAL ASSETS CARRIED AT AMORTISED COST</b>				
<b>Cash and cash equivalents</b>				
—Cash on hand . . . . .	238	238	308	308
—Cash balances with the CBRF (other than mandatory reserve deposits) . . . .	29,457	29,457	39,366	39,366
—Placements with other banks with original maturities of less than three months . . . . .	250,213	250,213	417,708	417,708
<b>Mandatory cash balances with the CBRF . . . . .</b>	<b>27,424</b>	<b>27,424</b>	<b>22,560</b>	<b>22,560</b>
<b>Loans and advances to customers</b>				
Credit card loans . . . . .	1,909,266	1,909,266	1,541,893	1,541,893
Installments . . . . .	34,023	34,023	23,468	23,468
POS loans . . . . .	8,320	8,320	7,905	7,905
Guarantee deposits with payment systems . . . . .	48,196	48,196	33,592	33,592
Other financial assets . . . . .	39,847	39,847	38,995	38,995
<b>TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST . . . .</b>	<b>2,346,984</b>	<b>2,346,984</b>	<b>2,125,795</b>	<b>2,125,795</b>
<i>In thousands of USD</i>	<i>30 June 2013</i>		<i>31 December 2012</i>	
	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>
<b>FINANCIAL LIABILITIES CARRIED AT AMORTISED COST</b>				
<b>Due to banks . . . . .</b>	<b>16,602</b>	<b>16,602</b>	<b>16,930</b>	<b>16,930</b>
<b>Customer accounts</b>				
Legal entities				
—Current/settlement accounts of corporate entities . . . . .	1,900	1,900	189	189
—Term deposits of corporate entities . . . . .	38,078	35,784	37,888	35,144
Individuals				
—Current/settlement accounts of individuals . . . . .	137,825	137,825	79,360	79,360
—Term deposits of individuals . . . . .	822,228	801,784	773,772	763,453
<b>Debt securities in issue</b>				
USD denominated bonds . . . . .	467,242	431,376	437,932	428,968
SEK denominated bonds . . . . .	—	—	87,537	81,168
RR Bonds issued on domestic market . . . . .	331,596	327,453	260,945	252,278
ECP . . . . .	47,769	47,444	—	—
Subordinated debt . . . . .	222,211	198,354	128,422	123,897
Other financial liabilities . . . . .	52,362	52,362	70,570	70,570
<b>TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST . . . . .</b>	<b>2,137,813</b>	<b>2,050,884</b>	<b>1,893,545</b>	<b>1,851,957</b>

**(b) Analysis by fair value hierarchy of financial instruments carried at fair value.**

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

<i>In thousands USD</i>	<i>30 June 2013</i>	<i>31 December 2012</i>
	<i>Valuation technique with inputs observable in markets (Level 2)</i>	<i>Valuation technique with inputs observable in markets (Level 2)</i>
<b>FINANCIAL ASSETS</b>		
Financial derivatives . . . . .	22,222	826
<b>TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE . . . . .</b>	<b>22,222</b>	<b>826</b>
<i>In thousands of USD</i>	<i>30 June 2013</i>	<i>31 December 2012</i>
	<i>Valuation technique with inputs observable in markets (Level 2)</i>	<i>Valuation technique with inputs observable in markets (Level 2)</i>
<b>FINANCIAL LIABILITIES</b>		
Financial derivatives . . . . .	921	11,927
<b>TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE . . . . .</b>	<b>921</b>	<b>11,927</b>

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**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**21 Fair Value of Financial Instruments (Continued)**

*Methods and assumptions applied in determining fair values*

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

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

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

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

<i>In % p.a.</i>	<i>30 June 2013</i>	<i>31 December 2012</i>
<b>Assets</b>		
Cash and cash equivalents	1.0	0.4
Loans and advances to customers	58.9	60.0
<b>Liabilities</b>		
Due to banks	8.0	8.0
Customer accounts	9.8	9.6
Debt securities in issue	7.8	11.3
Subordinated debt	11.7	13.4

**22 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:

<i>In thousands of USD</i>	<i>30 June 2013</i>		<i>31 December 2012</i>	
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Key management personnel</i>	<i>Other related parties</i>
<b>ASSETS</b>				
Gross amounts of loans and advances to customers (contractual interest rate: 24% (2012: 24%))	77	—	55	—
<b>LIABILITIES</b>				
Customer accounts (contractual interest rate: 11%-15% p.a. (2012: 11%-15% p.a.))	6,040	35,307	2,079	34,632
Securities issued (coupon rate: 20.5% p.a.)	—	—	66	—

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

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**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**22 Related Party Transactions (Continued)**

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

	<i>Six-months period ended 30 June 2013</i>		<i>Three-months period ended 30 June 2013</i>		<i>Six-months period ended 30 June 2012</i>		<i>Three-months period ended 30 June 2012</i>	
<i>In thousands of USD</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Key management personnel</i>	<i>Other related parties</i>
Interest income .....	4	—	2	—	6	—	3	—
Interest expense .....	(305)	(2,201)	(73)	(1,163)	(219)	(472)	(96)	(225)
Gains less losses from operations in foreign currencies .....	—	(2,490)	—	(1,766)	—	(413)	—	(863)

Key management compensation is presented below:

	<i>30 June 2013</i>			<i>31 December 2012</i>		
<i>In thousands of USD</i>	<i>Expense for the six-months period ended 30 June 2013</i>	<i>Share based payment (reserve in equity)</i>	<i>Accrued liability</i>	<i>Expense for the six-months period ended 30 June 2012</i>	<i>Share based payment (reserve in equity)</i>	<i>Accrued liability</i>
Short-term benefits:						
—Salaries .....	4,000	—	—	2,713	—	—
—Short-term bonuses .....	3,762	—	—	1,201	—	—
Long-term benefits:						
—Share-based payment .....	3,494	13,582	—	4,019	10,990	—
—Long term incentive plan .....	1,599	—	3,309	98	—	1,931
<b>Total .....</b>	<b>12,855</b>	<b>13,582</b>	<b>3,309</b>	<b>8,031</b>	<b>10,990</b>	<b>1,931</b>

	<i>Expense for the three-months period ended 30 June 2013</i>	<i>Expense for the three-months period ended 30 June 2012</i>
<i>In thousands of USD</i>		
Short-term benefits:		
—Salaries .....	1,616	1,826
—Short-term bonuses .....	2,776	601
Long-term benefits:		
—Share-based payment .....	1,911	3,437
—Long term incentive plan .....	1,311	83
<b>Total .....</b>	<b>7,614</b>	<b>5,947</b>

In 2011 the Group introduced a share-based payment plan as a long-term incentive and retention tool for the key management of the Bank. As at 30 June 2013 total amount of shares issued for the share-based payment purposes comprised 135 thousand (31 December 2012: 77). The maximum total number of share capital attributable to the plan is 2.98% of issued share capital at the date of 20 May 2011 (i.e. 2.8% of issued share capital at the date of 30 June 2013 and 31 December 2012).

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

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

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

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Condensed Interim Financial Information—30 June 2013**

**22 Related Party Transactions (Continued)**

In 2011 the Group also introduced a long term incentive plan (“LTIP”) for the management of the Bank. The key and middle management is entitled to cash payment equal to individual packages defined as a percentage of shares in 2011. The liquidity event is the earliest of the IPO or change of control.

**23 Subsequent Events**

On 10th of July 2013 the Group issued USD denominated Euro-Commercial Papers (ECP) with a nominal value of USD 20,000 thousand with a discount of 5.25% maturing on 9 July 2014.

On 10th of July 2013 the Group issued USD denominated Euro-Commercial Papers (ECP) with a nominal value of USD 75,000 thousand with a discount of 4.5% maturing on 10 January 2014.

On 18th of July 2013 the Group redeemed part of RR denominated bonds issued in July 2012 in accordance with the public offer at nominal value of RR 1,142 mln (equivalent of USD 35.2 mln).

On 28th of July 2013 the Group fully redeemed 1,400 thousand RR denominated bonds issued in July 2010 in accordance with contractual conditions at nominal value.

On 7th of August 2013 the Group acquired 100% share in an insurance company—JSC “SK” Moskva”. Subsequently to the purchase the name of the subsidiary was changed to LLC “Tinkoff Online-Insurance”. The purchase consideration amounted to USD 12,076 thousand.

The subsidiary shall provide insurance services to the clients of the Group. The carrying value of total assets and net assets as at the date of purchase determined in accordance with Russian accounting standards amounted to USD 10,900 thousand and USD 10,600 thousand, respectively. The insurance company was dormant and no material revenue, profit or loss was gained in 2013.



**TCS Group Holding PLC (formerly named  
Egidaco Investments PLC)  
International Financial Reporting Standards  
Consolidated Financial Statements**

**31 December 2012, 2011 and 2010**

## **TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

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## **Independent auditor's report**

### **To the Shareholders of TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

We have audited the accompanying consolidated financial statements of TCS Group Holding PLC (formerly named Egidaco Investments PLC) and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of 31 December 2012, 2011 and 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the three years then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

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

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

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

### **Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, 2011 and 2010, and their financial performance and cash flows for each of the three years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers Limited  
Chartered Accountants

Limassol  
16 September 2013

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**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Consolidated Statement of Financial Position**

<i>In thousands of USD</i>	<i>Note</i>	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>31 December 2010</i>
<b>ASSETS</b>				
Cash and cash equivalents	6	457,382	163,191	50,892
Mandatory cash balances with the CBRF		22,560	6,975	2,463
Due from banks		—	2,236	—
Loans and advances to customers	7	1,573,266	663,413	316,418
Financial derivatives	28	826	15,271	—
Current income tax assets		—	—	409
Deferred income tax assets	23	11,370	1,356	529
Guarantee deposits with payment systems	8	33,592	24,030	12,555
Tangible fixed assets	9	17,952	4,511	4,427
Intangible assets	9	13,460	7,695	4,646
Other financial assets	10	38,995	21,963	10,501
Other non-financial assets	10	4,068	4,482	2,296
<b>TOTAL ASSETS</b>		<b>2,173,471</b>	<b>915,123</b>	<b>405,136</b>
<b>LIABILITIES</b>				
Due to banks		16,930	—	—
Customer accounts	11	878,146	361,664	174,149
Debt securities in issue	12	762,414	412,875	143,591
Syndicated loan	13	—	—	31,378
Financial derivatives	28	11,927	—	—
Provisions for liabilities and charges	15	—	—	4,747
Current income tax liabilities		2,779	4,950	—
Other financial liabilities	16	70,570	13,687	6,424
Other non-financial liabilities	16	8,541	4,857	982
Subordinated debt	14	123,897	—	—
<b>TOTAL LIABILITIES</b>		<b>1,875,204</b>	<b>798,033</b>	<b>361,271</b>
<b>EQUITY</b>				
Share capital	17	6,777	6,370	6,283
Share premium	17	118,724	81,631	66,641
Treasury shares	17	(77)	(77)	—
Share-based payment	31	10,990	—	—
Retained earnings		169,928	48,014	(20,380)
Accumulated loss on translation		(8,075)	(18,848)	(8,679)
<b>TOTAL EQUITY</b>		<b>298,267</b>	<b>117,090</b>	<b>43,865</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,173,471</b>	<b>915,123</b>	<b>405,136</b>

Approved for issue and signed on behalf of the Board of Directors on 16 September 2013.



Laoura Michael  
Director



Mary Trimithiotou  
Director

The notes set out on pages F-32 to F-68 form an integral part of these consolidated financial statements.

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Consolidated Statement of Comprehensive Income**

<i>In thousands of USD</i>	<i>Note</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Interest income	18	657,836	331,935	138,693
Interest expense	18	(157,601)	(78,246)	(43,110)
<b>Net interest income</b>		<b>500,235</b>	<b>253,689</b>	<b>95,583</b>
Provision for loan impairment	7	(124,378)	(41,924)	(27,965)
<b>Net interest income after provision for loan impairment</b>		<b>375,857</b>	<b>211,765</b>	<b>67,618</b>
Customer acquisition expense	20	(85,258)	(54,516)	(21,991)
(Losses less gains)/gains less losses from operations with foreign currencies	21	(8,321)	(191)	6,240
Gain from sale of bad debts	7	5,103	2,651	2,268
Fee and commission expense	19	(7,417)	(6,328)	(2,726)
Administrative and other operating expenses	22	(122,527)	(69,654)	(40,084)
Release of provision for liabilities and charges	15	—	4,923	1,786
Insurance agency fee		306	—	—
Other operating income		219	248	187
Gains/(losses) on repurchase of debt securities in issue		116	(182)	(359)
<b>Profit before tax</b>		<b>158,078</b>	<b>88,716</b>	<b>12,939</b>
Income tax expense	23	(36,164)	(20,322)	(3,814)
<b>Profit for the year</b>		<b>121,914</b>	<b>68,394</b>	<b>9,125</b>
Other comprehensive income/(loss):				
Exchange differences on translation to presentation currency		10,773	(10,169)	(300)
<b>Other comprehensive income/(loss) for the year</b>		<b>10,773</b>	<b>(10,169)</b>	<b>(300)</b>
<b>Total comprehensive income for the year</b>		<b>132,687</b>	<b>58,225</b>	<b>8,825</b>
<b>Earning per share for profit attributable to the owners of the Bank, basic (expressed in USD per share)</b>	17	<b>18.63</b>	<b>10.87</b>	<b>1.54</b>
<b>Earning per share for profit attributable to the owners of the Bank, diluted (expressed in USD per share)</b>	17	<b>18.32</b>	<b>10.77</b>	<b>1.54</b>

The notes set out on pages F-32 to F-68 from an integral part of these consolidated financial statements.



**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Consolidated Statement of Changes in Equity**

<i>In thousands of USD</i>	<i>Note</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Share-based payment</i>	<i>Obligation under warrants</i>	<i>Treasury shares</i>	<i>(Accumulated losses)/ Retained earnings</i>	<i>Accumulated loss on translation</i>	<i>Total</i>
<b>Balance at 31 December 2009</b>		<b>5,905</b>	<b>65,148</b>	—	1,871	—	(29,505)	(8,379)	35,040
Profit for the year		—	—	—	—	—	9,125	—	9,125
Other comprehensive loss:									
Exchange differences on translation to presentation currency		—	—	—	—	—	—	(300)	(300)
<b>Total comprehensive income for 2010</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9,125</b>	<b>(300)</b>	<b>8,825</b>
Share issue	17	378	1,493	—	(1,871)	—	—	—	—
<b>Balance at 31 December 2010</b>		<b>6,283</b>	<b>66,641</b>	—	—	—	<b>(20,380)</b>	<b>(8,679)</b>	<b>43,865</b>
Profit for the year		—	—	—	—	—	68,394	—	68,394
Other comprehensive loss:									
— Exchange differences on translation to presentation currency		—	—	—	—	—	—	(10,169)	(10,169)
<b>Total comprehensive income for 2011</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>68,394</b>	<b>(10,169)</b>	<b>58,225</b>
Share issue	17	87	14,990	—	—	(77)	—	—	15,000
<b>Total transactions with owners</b>		<b>87</b>	<b>14,990</b>	—	—	<b>(77)</b>	—	—	<b>15,000</b>
<b>Balance at 31 December 2011</b>		<b>6,370</b>	<b>81,631</b>	—	—	<b>(77)</b>	<b>48,014</b>	<b>(18,848)</b>	<b>117,090</b>
Profit for the year		—	—	—	—	—	121,914	—	121,914
Other comprehensive income:									
Exchange differences on translation to presentation currency		—	—	—	—	—	—	10,773	10,773
<b>Total comprehensive income for 2012</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>121,914</b>	<b>10,773</b>	<b>132,687</b>
Share-based payment	31	—	—	10,990	—	—	—	—	10,990
Share issue	17	407	37,093	—	—	—	—	—	37,500
<b>Total transactions with owners</b>		<b>407</b>	<b>37,093</b>	<b>10,990</b>	—	—	—	—	<b>48,490</b>
<b>Balance at 31 December 2012</b>		<b>6,777</b>	<b>118,724</b>	<b>10,990</b>	—	<b>(77)</b>	<b>169,928</b>	<b>(8,075)</b>	<b>298,267</b>

The notes set out on pages F-32 to F-68 form an integral part of these consolidated financial statements.

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Consolidated Statement of Cash Flows**

<i>In thousands of USD</i>	<i>Note</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<b>Cash flows from operating activities</b>				
Interest received		578,359	291,259	139,386
Interest paid		(163,064)	(75,756)	(24,564)
Customers acquisition expenses paid		(91,441)	(55,020)	(21,956)
Cash (paid)/received from trading in foreign currencies		(403)	2,047	—
Cash received from sale of bad debts	7	5,103	2,651	2,268
Fees and commissions paid		(8,339)	(6,028)	(2,340)
Other operating income received		219	530	283
Administrative and other operating expenses paid		(35,196)	(43,996)	(35,224)
Income tax paid		(48,247)	(15,232)	(6,710)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>236,991</b>	<b>100,455</b>	<b>51,143</b>
<b>Changes in operating assets and liabilities</b>				
Net increase in Central Bank mandatory reserves		(14,815)	(5,086)	(1,281)
Net decrease/(increase) in due from banks		2,236	(2,236)	—
Net increase in loans and advances to customers		(896,356)	(403,417)	(168,256)
Net (increase)/decrease in derivative financial instruments		—	(77)	510
Net increase in Guarantee deposits with payment systems		(9,563)	(11,111)	(10,551)
Net increase in other financial assets		(14,685)	(10,921)	(7,014)
Net decrease/(increase) in other non-financial assets		206	(2,093)	(434)
Net increase/(decrease) in due to banks		16,930	—	(4,977)
Net increase in customer accounts		521,200	193,119	163,519
Net increase in other financial liabilities		5,969	7,048	4,171
Net increase in other non-financial liabilities		5,350	409	123
<b>Net cash (used in)/from operating activities</b>		<b>(146,537)</b>	<b>(133,910)</b>	<b>26,953</b>
<b>Cash flows from investing activities</b>				
Acquisition of tangible fixed assets	9	(17,972)	(2,858)	(3,388)
Acquisition of intangible assets	9	(8,506)	(5,744)	(1,928)
<b>Net cash used in investing activities</b>		<b>(26,478)</b>	<b>(8,602)</b>	<b>(5,316)</b>
<b>Cash flows from financing activities</b>				
Proceeds from debt securities in issue		385,351	326,351	137,064
Repayment of debt securities in issue		(65,164)	(58,249)	(85,997)
Repayment of syndicated loan		—	(33,303)	(40,708)
Proceeds from subordinated debt		121,656	—	—
Proceeds from issue of shares	17	37,500	15,077	—
<b>Net cash from financing activities</b>		<b>479,343</b>	<b>249,876</b>	<b>10,359</b>
Effect of exchange rate changes on cash and cash equivalents		(12,137)	4,935	(50)
<b>Net increase in cash and cash equivalents</b>		<b>294,191</b>	<b>112,299</b>	<b>31,946</b>
<b>Cash and cash equivalents at the beginning of the year</b>	6	<b>163,191</b>	<b>50,892</b>	<b>18,946</b>
<b>Cash and cash equivalents at the end of the year</b>	6	<b>457,382</b>	<b>163,191</b>	<b>50,892</b>

The notes set out on pages F-32 to F-68 form an integral part of these consolidated financial statements.

## TCS Group Holding PLC (formerly named Egidaco Investments PLC)

### Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010

#### 1 Introduction

These consolidated financial statements replace the original version issued on 2 September 2013. These consolidated financial statements update the version issued on 2 September 2013 to reflect the change of name of the Company from Egidaco Investments PLC to TCS Group Holding PLC on 6 September 2013 and the additional disclosure of placements of Euro-Commercial Papers (ECP) after the balance sheet date (Note 32).

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the years ended 31 December 2012, 2011 and 2010 for TCS Group Holding PLC (formerly named Egidaco Investments PLC) (the “Company”) and its subsidiaries (together referred to as the “Group” or “TCS Group Holding PLC (formerly named Egidaco Investments PLC)”).

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

Board of Directors of the Company at the date of authorisation of these consolidated financial statements: Constantinios Economides, Alexios Ioannides, Julian Charles Salisbury, Per Brilioth, Mary Trimithiotou, Laoura Michael, Michael Calvey, Nasia Vryonidou and Denis Tafintsev.

Company Secretary: Altruco Secretarial Limited, Kanika International Business Center, 6th floor, 4 Profiti Ilia Street Germasogeia, 4046 Limassol, Cyprus. Mail: P.O.Box 50734, 3609 Limassol, Cyprus

As at 31 December 2012, 2011 and 2010 the shareholders of the Company were:

	<i>31 December 2012</i>	<i>31 December 2011</i>	<i>31 December 2010</i>	<i>Country of Incorporation</i>
TADEK Holding and Finance S.A. ....	54.90%	62.71%	61.45%	British Virgin Islands
Vostok Komi (Cyprus) Limited .....	13.32%	15.80%	17.08%	Cyprus
ELQ II Investors Ltd. ....	12.41%	13.64%	14.75%	United Kingdom
Rousse Nominees Ltd. ....	8.00%	—	—	Guernsey
TASOS Invest and Finance Inc. ....	6.24%	6.63%	6.71%	British Virgin Islands
Lorimer Ventures Limited .....	4.00%	—	—	Cyprus
Altruco Holdings Limited (Note 17) .....	1.13%	1.22%	0.00%	Cyprus
Vizer Limited .....	0.00%*	0.00%*	0.00%*	British Virgin Islands
Maitland Commercial Inc. ....	0.00%*	0.00%*	0.00%*	British Virgin Islands
Norman Legal S.A. ....	0.00%*	0.00%*	0.00%*	British Virgin Islands
<b>Total</b> .....	<b>100%</b>	<b>100%</b>	<b>100%</b>	

\* Vizer Limited, Maitland Commercial Inc and Norman Legal S.A. own 1 share of the Company each (2011-2010: 1 share).

As at 31 December 2012, 2011 and 2010 the ultimate beneficiaries of the Group are the Russian entrepreneur Oleg Tinkov (61.14%, 69.34% and 68.16%, respectively), the global investment bank Goldman Sachs (12.41%, 13.64% and 14.75%, respectively), investment fund Vostok Nafta (13.32%, 15.80% and 17.08%, respectively), Baring Vostok Private Equity Fund IV, L.P. (8.00% since May 2012) and Horizon Capital (4.00% since September 2012).

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

<i>Name</i>	<i>Nature of business</i>	<i>2012</i>		<i>2011</i>		<i>2010</i>		<i>Country of registration</i>
		<i>Percentage of ownership</i>	<i>Percentage of voting rights</i>	<i>Percentage of ownership</i>	<i>Percentage of voting rights</i>	<i>Percentage of ownership</i>	<i>Percentage of voting rights</i>	
CJSC “Tinkoff. Credit Systems” Bank ....	Bank operations	100%	100%	100%	100%	100%	100%	Russia
LLC “TCS” .....	Services	100%	100%	100%	100%	—	100%	Russia
LLC “T-Finance” ....	Assets holding	100%	100%	100%	100%	100%	100%	Russia
Goward Ltd .....	Services	100%	100%	100%	100%	—	—	BVI
TCS Finance Ltd ....	Financing	—	—	—	—	—	—	Ireland

In February 2011 the Group purchased 100% ownership of previously consolidated LLC “TCS” and its holding company Goward Ltd, respectively. LLC “TCS” and LLC “T-Finance” bear the expenses of the Group related to the issue of credit card loans, some administrative expenses and intangible assets.

## **TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

### **Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

#### **1 Introduction (Continued)**

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

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

**Registered address and place of business.** The Company's registered address at the date of authorization of these consolidated financial statements is Kanika International Business Center, 6<sup>th</sup> floor, 4 Profiti Ilia Street Germasogeia, Limassol 4046 Cyprus. The Bank's registered address is 1-st Volokolamsky passage, 10, building 1, 123060, Moscow, Russian Federation. The Group's principal place of business is the Russian Federation.

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

#### **2 Operating Environment of the Group**

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

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

#### **3 Summary of Significant Accounting Policies**

**Basis of preparation.** The consolidated financial statements for the years ended 31 December 2012, 2011 and 2010 were authorized for issue by the Board of Directors on 28 February 2013, 7 March 2012 and 9 March 2010, respectively.

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

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

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

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

### 3 Summary of Significant Accounting Policies (Continued)

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

**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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**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 statement of financial position.

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

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

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

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



### 3 Summary of Significant Accounting Policies (Continued)

**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.

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

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

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

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss 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 is its overdue status.

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

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

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

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

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

## TCS Group Holding PLC (formerly named Egidaco Investments PLC)

### Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010

#### 3 Summary of Significant Accounting Policies (Continued)

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 rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

In the course of business the Group sells bad debts to third parties, and the difference between the carrying amount of bad debt and the consideration received is recorded in profit and loss at the settlement date.

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

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

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

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

At each reporting date management assesses whether there is any indication of impairment of tangible fixed assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit 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.

**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:

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

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

**Intangible assets.** The Group's intangible assets have definite useful life and include capitalised computer software and development of software.

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

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**3 Summary of Significant Accounting Policies (Continued)**

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

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

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

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

**Debt securities in issue.** Debt securities in issue include bonds issued by the Group. Debt securities are stated at amortised cost.

**Syndicated loans.** Syndicated loans are non-derivative instruments, which are stated at amortised cost. A substantial modification of the terms of existing syndicated loans or a part of it is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial liability.

**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)/gains less losses 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 financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other expenses.

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

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**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**3 Summary of Significant Accounting Policies (Continued)**

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

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

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

**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. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

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

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

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

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

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

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

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

**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

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**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**3 Summary of Significant Accounting Policies (Continued)**

entity operates. The Management selected as a presentation currency of the consolidated financial statements the national currency of the United States of America, US Dollars (“USD”) to enable users to compare financial statements with other issuers of debt securities denominated in foreign currencies.

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

The results and financial position of each group entity are translated into the presentation currency as follows:

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

At 31 December 2012 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.3727 (2011: USD 1 = RR 32.1961; 2010: USD 1 = RR 30.4769), and the principal average rate of exchange used for translating income and expenses was USD 1= RR 31.0928 (2011: USD 1= RR 29.3874; 2010: USD 1 = RR 30.3692).

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

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

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

**Equity-settled share-based payment.** The expense is recognized gradually over the vesting period and is measured at the fair value of the award determined at the grant date, which is amortized over the service (vesting) period. The fair value of the equity award is estimated only once at the grant date and is trued up to the estimated number of instruments that are expected to vest.

**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.

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 liability.

**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



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**3 Summary of Significant Accounting Policies (Continued)**

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

**Changes in presentation.** The consolidated statement of comprehensive income has been adjusted by Management to reflect certain presentation changes to further improve understandability and comparability of the Group's financial position and its results.

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

<i>In thousands of USD</i>	<i>As originally presented</i>	<i>Reclassification</i>	<i>As reclassified for the year ended 31 December 2012</i>
Customer acquisition expense .....	(65,361)	(19,897)	(85,258)
Administrative and other operating expenses .....	(142,424)	19,897	(122,527)

The effect of reclassifications for presentation purposes was as follows on amounts for the year ended 31 December 2011:

<i>In thousands of USD</i>	<i>As originally presented</i>	<i>Reclassification</i>	<i>As reclassified for the year ended 31 December 2011</i>
Customer acquisition expense .....	(43,970)	(10,546)	(54,516)
Administrative and other operating expenses .....	(80,200)	10,546	(69,654)

The effect of reclassifications for presentation purposes was as follows on amounts for the year ended 31 December 2010:

<i>In thousands of USD</i>	<i>As originally presented</i>	<i>Reclassification</i>	<i>As reclassified for the year ended 31 December 2010</i>
Customer acquisition expense .....	(17,121)	(4,870)	(21,991)
Administrative and other operating expenses .....	(44,954)	4,870	(40,084)

During the years ended 31 December 2011 and 2010 administrative and other operating expenses included staff costs and telecom expenses directly related to acquisition of new customers.

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

**4 Critical Accounting Estimates and Judgements in Applying Accounting Policies**

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

**Impairment losses on loans and advances.** The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The primary factor that the Group considers as objective evidence of impairment is the overdue status of the loan. In general, loans where there are no breaches in loan servicing are not considered to

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

be impaired. Given the nature of the borrowers and the loans it is the Group's view and experience that the time lag between a possible loss event that could lead to impairment and the non or under payment of a monthly installment is minimal. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In accordance with internal methodology for the provision estimation the Group uses a seven months horizon for assessment of probabilities of default in calculating the provision for impairment as these statistics provide better information to estimate and project credit card losses.

To the extent that the incurred losses as at 31 December 2012 resulting from future cash flows change by 0.5% (2011: 0.5%; 2010: 0.5%), the profit would be approximately USD 8,564 thousand (2011: USD 3,549 thousand; 2010: USD 1,708 thousand) higher or USD 8,564 thousand (2011: USD 3,549 thousand; 2010: USD 1,708 thousand) lower.

**Offsetting of intercompany transactions transferred through third parties based on the substance of transactions.** Management applies judgement in assessing whether intercompany transactions performed via non-related third parties should be off-set in the consolidated financial statements based on the substance of the transactions. The principal considerations that the Group analyses are the substance of transactions, the management intention to settle these transactions simultaneously after the year end, matching maturity, currency and interest rates of the respective financial assets and liabilities, level of credit and liquidity risks, and underlying business reasons of the transactions. Management believes that offsetting of intercompany transactions transferred through third parties in the consolidated financial statements showing net financial result of the deal, i.e. the administration fee of the third party, will not detract users' ability both to understand the transactions and conditions that have occurred and to assess the entity's future cash flows. Financial assets and liabilities attributable to intercompany transactions performed via non-related intermediary entities that were off-set in the consolidated financial statements for the year ended 31 December 2011 comprise USD 29,507 thousand (2010: USD 45,116 thousand), with an interest rate ranging from 3% to 5% and maturity ranging from 18 January 2012 to 7 March 2012 (2010: from 4% to 7% and maturity ranging from 26 January 2011 to 23 August 2011). The Group incurred administrative fees for these transactions in the amount of USD 460 thousand during 2011 and USD 386 thousand during 2010, recorded within banking and other fee expenses.

**Entities controlled in substance, but not in form.** Judgement is applied in determining that certain entities, though not legally owned, were controlled by the Group in substance, and are therefore consolidated, as described in Note 1. Management considers that, although the Group has no legal title to the entities' assets, the substance of the relationships between the Group and the entities, is such that the Group has the power to govern the financial and operating policies of the entities.

**Employee share option plan (ESOP).** The fair value as at the recognition date of 30 September 2012 of the equity-settled share-based payment is determined on the basis of independent valuation of the Company.

The fair value as at 31 December 2011 of the cash-settled share-based payment is determined on the basis of independent valuation of the Company.

Due to the nature of the Company and lack of comparable market data, the fair value of the Company as at 31 December 2012 is estimated based on the future cash flow discounting method, where the value is estimated from the expected growth of the loan portfolio and discounting rate (2011, 2010: not applicable).

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

- The discount rate was assumed to be in the range of 15.3%-16.3% (2011: 16.7%-18.7%) in the forecast period of 2013-2018 (2011: 2012-2018). Should this discount rate increase/decrease by 1 percentage

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

point, the carrying value of the share-based payment would be USD 594 thousand lower (2011: USD 175 thousand lower)/694 USD thousand higher (2011: USD 104 thousand higher).

- Projected loan portfolio growth rate was assumed to be in the range of 3.0%-51.6% (2011: 4.0%-24.0%) in the forecast period of 2013-2018 (2011: 2012-2018). Should this growth rate increase/decrease by 10 percent (2011: 10 percent), the carrying value of the share-based payment would be USD 560 thousand higher/USD 549 thousand lower (2011: USD 114 thousand higher/USD 204 thousand lower).

There was no share option plan in 2010.

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

**5 Adoption of New or Revised Standards and Interpretations**

As of the date of the authorisation of the consolidated financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2012 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 “Financial Instruments: Recognition and Measurement” relating to portfolio hedge accounting.

During the year ended 31 December 2012 the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2012. This adoption did not have a material effect on the accounting policies of the Group.

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

**(i) Adopted by the European Union**

*New standards*

- IFRS 10, “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2014).
- IFRS 11, “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2014).
- IFRS 12, “Disclosure of Interests in Other entities” (effective for annual periods beginning on or after 1 January 2014).
- IFRS 13, “Fair Value Measurement” (effective for annual periods beginning on or after 1 January 2013).
- IAS 27, “Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2014).
- IAS 28, “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2014).

*Amendments*

- Amendment to IFRS 1 “First-time adoption of International Financial Reporting Standards” on IAS 20 ‘Accounting for Government Grants and Disclosure on Government Assistance’—exemption on the retrospective application of IFRSs in relation to government grants (effective for annual periods beginning on or after 1 January 2013).
- Annual Improvements 2011 (effective for annual periods beginning on or after 1 January 2013).
- Amendment to IAS 1 “Financial Statements Presentation” on Presentation of Items of Other Comprehensive Income” (effective for annual periods beginning on or after 1 July 2012).
- Amendments to IAS 19 “Employee Benefits” (effective for annual periods beginning on or after 1 January 2013).

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**5 Adoption of New or Revised Standards and Interpretations (Continued)**

- Amendments to IFRS 7 “Financial Instruments: Disclosures” on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 32 “Financial Instruments: Presentation” on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).

*New IFRICs*

- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual period beginning on or after 1 January 2013).

**(ii) Not adopted by the European Union**

*New standards*

- IFRS 9 “Financial Instruments” (and subsequent amendments to IFRS 9 and IFRS 7) (effective for annual periods beginning on or after 1 January 2015).

*Amendments*

- Amendments to IFRS 10, IFRS 12 and IAS 27 on consolidation for investment entities (effective for annual periods beginning on or after 1 January 2014).
- Amendments to IFRS 10, IFRS 11 and IFRS 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 36—Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).
- Amendments to IAS 39—Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014).

*New IFRICs*

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

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

**6 Cash and Cash Equivalents**

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Cash on hand	308	367	452
Cash balances with the CBRF (other than mandatory reserve deposits)	39,366	22,024	8,066
Placements with other banks with original maturities of less than three months, including:			
—A- to A+ rated	104,103	—	5,128
—BBB rated	267,785	131,484	5,958
—BB- to BB+ rated	49	6,240	12,628
—B- to B+ rated	41,107	2,818	17,382
—Unrated	4,664	258	1,278
<b>Total Cash and Cash Equivalents</b>	<b>457,382</b>	<b>163,191</b>	<b>50,892</b>

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

Cash and cash equivalents are not impaired and not past due. Refer to Note 29 for the disclosure of the fair value of cash and cash equivalents.

Interest rate, maturity and geographical risk concentration analysis of cash and cash equivalents is disclosed in Note 25.

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**7 Loans and Advances to Customers**

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<b>Loans to individuals:</b>	<b>1,712,854</b>	<b>709,728</b>	<b>339,385</b>
Credit card loans	1,674,651	696,897	332,599
Installments	29,349	12,831	6,786
POS loans	8,854	—	—
<b>Corporate loans, broken down by borrower's activity classes:</b>	<b>—</b>	<b>—</b>	<b>2,238</b>
Development	—	—	1,659
Finance	—	—	579
<b>Total loans and advances to customers before impairment</b>	<b>1,712,854</b>	<b>709,728</b>	<b>341,623</b>
Less: Provision for loan impairment	(139,588)	(46,315)	(25,205)
<b>Total loans and advances to customers</b>	<b>1,573,266</b>	<b>663,413</b>	<b>316,418</b>

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

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

POS 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 each reporting year:

<i>In units</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<b>Credit card limits</b>			
Up to 10 RR thousand	260,840	122,112	59,638
10-20 RR thousand	196,312	170,326	134,849
20-30 RR thousand	254,379	225,191	129,147
30-40 RR thousand	209,698	145,453	72,396
40-50 RR thousand	186,634	105,793	37,034
50-60 RR thousand	143,124	70,901	34,119
60-80 RR thousand	210,745	70,435	21,921
80-100 RR thousand	159,806	57,847	11,823
More than 100 RR thousand	64,926	836	850
<b>Total cards</b>	<b>1,686,464</b>	<b>968,894</b>	<b>501,777</b>

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

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

Movements in the provision for loan impairment for the year ended 31 December 2011 are as follows:

<i>In thousands of USD</i>	<i>As at 31 December 2010</i>	<i>Effect of translation</i>	<i>Write-off of bad debts</i>	<i>Sales of bad debts</i>	<i>Provision for impairment during the period</i>	<i>As at 31 December 2011</i>
<b>Loans to individuals:</b>						
Credit card loans	22,515	(2,891)	—	(16,180)	39,242	42,686
Installments	1,934	(631)	—	—	2,326	3,629
<b>Corporate loans, broken down by borrowers' activity classes:</b>						
Development	599	169	(356)	(768)	356	—
Finance	157	6	—	(163)	—	—
<b>Total provision for loan impairment</b>	<b>25,205</b>	<b>(3,347)</b>	<b>(356)</b>	<b>(17,111)</b>	<b>41,924</b>	<b>46,315</b>



**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**7 Loans and Advances to Customers (Continued)**

Movements in the provision for loan impairment for the year ended 31 December 2010 are as follows:

<i>In thousands of USD</i>	<i>As at 31 December 2009</i>	<i>Effect of translation</i>	<i>Write-off of bad debts</i>	<i>Sales of bad debts</i>	<i>Provision for/(Recovery of) impairment during the period</i>	<i>As at 31 December 2010</i>
<b>Loans to individuals:</b>						
<i>Credit card loans</i> .....	16,343	(220)	—	(19,667)	26,059	22,515
<i>Installments</i> .....	—	—	—	—	1,934	1,934
<i>Other loans to individuals</i> .....	238	(27)	(211)	—	—	—
<b>Corporate loans, broken down by borrowers' activity classes:</b>						
<i>Development</i> .....	599	—	—	—	—	599
<i>Finance</i> .....	157	—	—	—	—	157
<i>Trading</i> .....	1,223	(5)	(1,218)	—	—	—
<i>Leasehold operations</i> .....	30	(2)	—	—	(28)	—
<b>Total provision for loan impairment</b> ....	<b>18,590</b>	<b>(254)</b>	<b>(1,429)</b>	<b>(19,667)</b>	<b>27,965</b>	<b>25,205</b>

In 2012 the Group sold bad debts to third parties (external debt collection agencies) with gross amount of USD 35,982 thousand (2011: USD 17,111 thousand, 2010: USD 19,667 thousand), and provision for impairment of USD 35,982 thousand (2011: USD 17,111 thousand, 2010: USD 19,667 thousand). The difference between the carrying amount of these loans and the consideration received was recognised in profit or loss as gain from the sale of bad debts in the amount of USD 5,103 thousand (2011: USD 2,651 thousand; 2010: USD 2,268 thousand). The criteria for bad debts qualifying for the sale to external debt collection agencies are disclosed in Note 25.

Information on collateral held in respect of corporate loans at 31 December 2010:

<i>In thousands of USD</i>	<i>Development</i>	<i>Finance</i>	<i>Total</i>
Loans collateralised by land plots .....	1,659	579	2,238
<b>Total corporate loans</b> .....	<b>1,659</b>	<b>579</b>	<b>2,238</b>

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

<i>In thousands of USD</i>	<i>31 December 2012</i>			<i>31 December 2011</i>		<i>31 December 2010</i>	
	<i>Credit card loans</i>	<i>Installments</i>	<i>POS loans</i>	<i>Credit card loans</i>	<i>Installments</i>	<i>Credit card loans</i>	<i>Installments</i>
Neither past due nor impaired:							
—new .....	88,321	—	3,964	36,250	—	18,780	—
Loans collectively assessed for impairment (gross):							
—non-overdue .....	1,393,421	21,477	3,790	606,357	8,706	278,278	5,310
Individually impaired loans:							
—less than 30 days overdue .....	70,655	2,827	495	17,954	680	17,101	797
—30 to 90 days overdue .....	45,587	1,892	295	13,039	722	7,366	401
—90 to 180 days overdue .....	41,784	2,018	234	11,857	665	5,153	278
—180 to 360 days overdue .....	10,450	201	76	1,439	1,353	5,362	—
—over 360 days overdue .....	190	934	—	2,021	705	559	—
—loans in courts .....	24,243	—	—	7,980	—	—	—
Less: Provision for loan impairment .....	(132,758)	(5,881)	(949)	(42,686)	(3,629)	(22,515)	(1,934)
<b>Total loans to individuals</b> .....	<b>1,541,893</b>	<b>23,468</b>	<b>7,905</b>	<b>654,211</b>	<b>9,202</b>	<b>310,084</b>	<b>4,852</b>

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

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

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

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**7 Loans and Advances to Customers (Continued)**

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

Analysis by credit quality of corporate loans outstanding at 31 December 2010 is as follows:

<i>In thousands of USD</i>	<i>Development</i>	<i>Finance</i>	<i>Total</i>
Loans individually determined to be impaired (gross):			
—over 360 days overdue .....	1,659	579	2,238
Less: Provision for loan impairment .....	(599)	(157)	(756)
<b>Total corporate loans .....</b>	<b>1,060</b>	<b>422</b>	<b>1,482</b>

The primary factors that the Group considers in assessing whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an analysis by age of loans that are individually and collectively determined to be impaired.

The fair value of collateral in respect of corporate loans at 31 December 2010 was as follows:

<i>In thousands of USD</i>	<i>Development</i>	<i>Finance</i>	<i>Total</i>
Fair value of collateral (land plots)—individually impaired loans: .....	1,060	422	1,482
<b>Total .....</b>	<b>1,060</b>	<b>422</b>	<b>1,482</b>

**8 Guarantee Deposits with Payment Systems**

Guarantee deposits with payment systems represent funds put aside by the Group in the HSBC Bank Plc and Barclays Bank Plc London as a guarantee deposit in favor of Master Card and Visa, respectively. The amount of deposit is calculated as a percentage of monthly credit cards transactions turnovers. The carrying value of the Guarantee deposits with payment systems at 31 December 2012 was USD 33,592 thousand (2011: USD 24,030 thousand; 2010: USD 12,555 thousand).

**9 Tangible Fixed Assets and Intangible Assets**

<i>In thousands of USD</i>	<i>Equipment</i>	<i>Leasehold improvements</i>	<i>Vehicles</i>	<i>Total tangible fixed assets</i>	<i>Intangible assets</i>
<b>Cost</b>					
<b>At 31 December 2009 .....</b>	<b>4,612</b>	<b>1,021</b>	<b>109</b>	<b>5,742</b>	<b>6,160</b>
Additions .....	1,281	1,982	125	3,388	1,928
Write-off (Note 22) .....	—	(1,343)	—	(1,343)	—
Translation reserve .....	(35)	(8)	(1)	(44)	(46)
<b>At 31 December 2010 .....</b>	<b>5,858</b>	<b>1,652</b>	<b>233</b>	<b>7,743</b>	<b>8,042</b>
Additions .....	2,019	229	610	2,858	5,744
Transfers .....	(1,346)	1,346	—	—	—
Translation reserve .....	(314)	(95)	(12)	(421)	(745)
<b>At 31 December 2011 .....</b>	<b>6,217</b>	<b>3,132</b>	<b>831</b>	<b>10,180</b>	<b>13,041</b>
Additions .....	10,125	7,735	112	17,972	8,506
Transfers .....	—	—	(30)	(30)	—
Translation reserve .....	473	223	59	755	829
<b>At 31 December 2012 .....</b>	<b>16,815</b>	<b>11,090</b>	<b>972</b>	<b>28,877</b>	<b>22,376</b>
<b>Depreciation and amortisation</b>					
<b>At 31 December 2009 .....</b>	<b>(1,229)</b>	<b>(600)</b>	<b>(49)</b>	<b>(1,878)</b>	<b>(2,133)</b>
Charge for the year (Note 22) .....	(989)	(421)	(43)	(1,453)	(1,278)
Translation reserve .....	9	5	1	15	15
<b>At 31 December 2010 .....</b>	<b>(2,209)</b>	<b>(1,016)</b>	<b>(91)</b>	<b>(3,316)</b>	<b>(3,396)</b>
Charge for the year (Note 22) .....	(1,494)	(907)	(130)	(2,531)	(2,131)
Translation reserve .....	118	55	5	178	181
<b>At 31 December 2011 .....</b>	<b>(3,585)</b>	<b>(1,868)</b>	<b>(216)</b>	<b>(5,669)</b>	<b>(5,346)</b>
Charge for the year (Note 22) .....	(2,724)	(2,149)	(167)	(5,040)	(3,365)
Transfers .....	—	—	30	30	—
Translation reserve .....	(154)	(82)	(10)	(246)	(205)
<b>At 31 December 2012 .....</b>	<b>(6,463)</b>	<b>(4,099)</b>	<b>(363)</b>	<b>(10,925)</b>	<b>(8,916)</b>

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

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**9 Tangible Fixed Assets and Intangible Assets (Continued)**

<i>In thousands of USD</i>	<i>Equipment</i>	<i>Leasehold improvements</i>	<i>Vehicles</i>	<i>Total tangible fixed assets</i>	<i>Intangible assets</i>
<b>Net book value</b>					
At 31 December 2010 .....	<u>3,649</u>	<u>636</u>	<u>142</u>	<u>4,427</u>	<u>4,646</u>
At 31 December 2011 .....	<u>2,632</u>	<u>1,264</u>	<u>615</u>	<u>4,511</u>	<u>7,695</u>
At 31 December 2012 .....	<u>10,352</u>	<u>6,991</u>	<u>609</u>	<u>17,952</u>	<u>13,460</u>

Leasehold improvements are capital expenditures on rented offices and are depreciated over the term of lease, which is 5 years. Intangible assets acquired during the years ended 31 December 2012, 2011 and 2010 mainly represent accounting software, retail banking software, licenses and development of software. Increase in balance of tangible fixed assets and intangible assets in 2012 was due to acquisition of equipment and software for the newly rented office.

**10 Other Financial and Non-financial Assets**

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<b>Other Financial Assets</b>			
Settlement of operations with plastic cards .....	37,984	21,651	9,988
Trade and other receivables .....	575	273	278
Other .....	436	39	235
<b>Total Other Financial Assets</b> .....	<u>38,995</u>	<u>21,963</u>	<u>10,501</u>
<b>Other Non-Financial Assets</b>			
Prepaid expenses .....	3,984	3,959	785
Other .....	84	523	1,511
<b>Total Other Non-Financial Assets</b> .....	<u>4,068</u>	<u>4,482</u>	<u>2,296</u>

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

Prepaid expenses consist of prepaid expenses for minor office repairs, postal services and software.

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

Maturity and geographical risk concentration analysis of amounts of other financial assets are disclosed in Note 25.

**11 Customer Accounts**

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<b>Legal entities</b>			
—Current/settlement accounts of corporate entities .....	189	358	299
—Term deposits of corporate entities .....	35,144	6,528	4,324
<b>Individuals</b>			
—Current/settlement accounts of individuals .....	79,360	19,439	11,430
—Term deposits of individuals .....	763,453	335,339	158,096
<b>Total Customer Accounts</b> .....	<u>878,146</u>	<u>361,664</u>	<u>174,149</u>

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

**12 Debt Securities in Issue**

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
USD denominated bonds issued in September 2012 .....	252,627	—	—
USD denominated bonds issued in April 2011 .....	176,341	166,087	—
SEK denominated bonds issued in December 2011 .....	81,168	73,693	—
RR denominated bonds issued in July 2012 .....	69,440	—	—
RR denominated bonds issued in April 2012 .....	50,283	—	—

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### Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010

#### 12 Debt Securities in Issue (Continued)

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
RR denominated bonds issued in July 2010 .....	49,550	42,950	44,868
RR denominated bonds issued in November 2010 .....	40,747	29,563	49,524
RR denominated bonds issued in February 2011 .....	22,548	49,021	—
RR denominated bonds issued in September 2010 .....	19,710	48,177	49,199
RR denominated promissory notes issued .....	—	3,384	—
<b>Total Debt Securities in Issue .....</b>	<b><u>762,414</u></b>	<b><u>412,875</u></b>	<b><u>143,591</u></b>

On 18<sup>th</sup> of September 2012 the Group issued USD denominated bonds with a nominal value of USD 250 mln at 10.75% coupon rate maturing on 18 September 2015. On the 4<sup>th</sup> of December 2012 the Group repurchased some of these bonds with nominal amount of USD 999 thousand and a discount of 0.15%.

On 22<sup>nd</sup> of April 2011 the Group issued USD denominated bonds with a nominal value of USD 175 mln at 11.5% coupon rate maturing on 22 April 2014. During 2012 the Group conducted several transactions of sale and purchase of these bonds which resulted in overall increase of the amount of bonds in the market of 8,500 bonds.

On 29<sup>th</sup> of December 2011 the Group issued SEK denominated bonds with a nominal value of SEK 550 mln (equivalent of USD 79.5 mln) at 12.75% coupon rate and 5.0% discount maturing on 29 December 2013.

On 16<sup>th</sup> July 2012 the Group issued RR denominated bonds with a nominal value of RR 2,000 mln (equivalent of USD 61.2 mln) at 13.9% coupon rate maturing on 14 February 2015. The holders of these bonds have the right to require the Group to purchase these bonds at their nominal amount on 16 July 2013.

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

On 26<sup>th</sup> of July 2010 the Group issued RR denominated bonds with nominal value of RR 1,400 mln (equivalent of USD 46.1 mln) at 20% coupon rate maturing on 28 July 2013. During 2012 the Group conducted several transactions of sale of these bonds with the total positive effect on the amount of bonds in the market of 94,500 bonds.

On 30<sup>th</sup> of November 2010 the Group issued RR denominated bonds with a nominal value of RR 1,500 mln (equivalent of USD 47.9 mln) at 16.5% coupon rate maturing on 26 November 2013. As a result of offer event as at 26 November 2011 732,134 securities were repurchased by the Group at nominal value. The amount of transaction comprised USD 23,338 thousand. In November 2011 the Group has set the coupon rate at 16.5% of RR denominated bonds till maturity date on 26 November 2013. During 2012 the Group conducted several transactions of sale of these bonds with the total positive effect on the amount of bonds in the market of 300,000 bonds.

On 22<sup>nd</sup> February 2011 the Group issued RR denominated bonds with a nominal value of RR 1,500 mln (equivalent of USD 51.4 mln) at 14.0% coupon rate maturing on 18 February 2014. On 22<sup>nd</sup> of August 2012 the Group redeemed part of these bonds in according with the public offer at nominal value of RR 855 mln (equivalent of USD 26.8 mln).

On 20<sup>th</sup> of September 2010 the Group issued RR denominated bonds with nominal value of RR 1,600 mln (equivalent of USD 51.5 mln) at 14.22% coupon rate maturing on 20 September 2013. On 5<sup>th</sup> of October 2012 the Group redeemed part of these bonds in according with the public offer at nominal value of RR 1,006 mln (equivalent of USD 32.3 mln).

All bonds issued by the Group are traded on stock exchanges.

#### 13 Syndicated Loan

In December 2007 the Group obtained a RR denominated syndicated loan facility from several large international institutions with a total limit of USD 61,109 thousand (equivalent of RR 1,500,000 thousand). In accordance with the initial terms of the agreement, the facility was to mature on 24 June 2011 and had interest rate of 26.5% from January 2010.

On 19 March 2008 the Group issued warrants to the lenders of the RR denominated syndicated loan facility representing 6% of the authorised share capital of the Group (Refer to Note 17). These warrants were exercised on 6 December 2010.

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

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**13 Syndicated Loan (Continued)**

The terms of the syndicated loan agreement were revised in August 2010. In accordance with the revised terms the facility matured on 24 June 2011, and the interest rate was changed to 18.5% until maturity. The Group made a lump sum repayment in the amount of USD 23,255 thousand in September 2010 and agreed on further monthly scheduled repayment of the debt.

The carrying value of the syndicated loan at 31 December 2010 was USD 31,378 thousand. On 31 March 2011 the Group fully repaid the RR denominated syndicated loan facility.

**14 Subordinated Debt**

In December 2012 the Group issued USD denominated subordinated bonds with a nominal value of USD 125 mln at 14.0% coupon rate maturing on 6th of June 2018. The claims of the lenders against the Group in respect of the principal and interest on the notes and subordinated loans are subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation. As at 31 December 2012 the carrying value of the subordinated debt was USD 123,897 thousand.

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

**15 Provisions for Liabilities and Charges**

As at 31 December 2010 the Group had recorded provisions of USD 4,747 thousand in respect of uncertain taxes, related penalties and interest, mostly in relation to administrative expenses, that were fully released by 31 December 2011.

<i>In thousands of USD</i>	<i>Provision for tax risks</i>
<b>Carrying amount at 31 December 2009</b> .....	<b>6,850</b>
Provision charged to profit or loss .....	861
Release of provision .....	(2,647)
Currency translation differences .....	(317)
<b>Carrying amount at 31 December 2010</b> .....	<b>4,747</b>
Release of provision .....	(4,923)
Currency translation differences .....	176
<b>Carrying amount at 31 December 2011</b> .....	<b>—</b>

**16 Other Financial and Non-financial Liabilities**

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<b>Other Financial Liabilities</b>			
Settlement of operations with plastic cards .....	60,524	10,250	4,772
Other .....	10,046	3,437	1,652
<b>Total Other Financial Liabilities</b> .....	<b>70,570</b>	<b>13,687</b>	<b>6,424</b>
<b>Other Non-financial Liabilities</b>			
Liability under LTIP (2011: ESOP and LTIP) (Note 31) .....	1,931	3,433	—
Other .....	6,610	1,424	982
<b>Total Other Non-financial Liabilities</b> .....	<b>8,541</b>	<b>4,857</b>	<b>982</b>

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

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



**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**17 Share Capital**

<i>In thousands of USD except for number of shares</i>	<i>Number of authorised shares</i>	<i>Number of outstanding shares</i>	<i>Ordinary shares</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Total</i>
<b>At 31 December 2009</b>	<b>7,619,180</b>	<b>5,906,225</b>	<b>5,905</b>	<b>65,148</b>	<b>—</b>	<b>71,053</b>
Shares issued	—	376,993	378	1,493	—	1,871
<b>At 31 December 2010</b>	<b>7,619,180</b>	<b>6,283,218</b>	<b>6,283</b>	<b>66,641</b>	<b>—</b>	<b>72,924</b>
Shares issued	—	87,318	87	14,990	(77)	15,000
<b>At 31 December 2011</b>	<b>7,619,180</b>	<b>6,370,536</b>	<b>6,370</b>	<b>81,631</b>	<b>(77)</b>	<b>87,924</b>
Shares issued	—	406,637	407	37,093	—	37,500
<b>At 31 December 2012</b>	<b>7,619,180</b>	<b>6,777,173</b>	<b>6,777</b>	<b>118,724</b>	<b>(77)</b>	<b>125,424</b>

The total authorised number of ordinary shares is 7,619,180 shares (2011: 7,619,180 shares; 2010: 7,619,180 shares) with a par value of USD 1 per share (2011: USD 1 per share; 2010: USD 1 per share). All issued ordinary shares are fully paid.

In 2008 the Company issued warrants, which gave the lenders of the syndicated loan (Note 13) an opportunity to buy 6% of the Company's shares. The warrants were exercisable at any time till maturity of the syndicated loan. The lenders of the syndicated loan exercised their rights under the warrants and bought the Company's 376,993 ordinary shares issued in December 2010.

The Company's obligation under warrants in the amount of USD 1,871 thousand was reclassified to the share capital and share premium in the amount of USD 378 thousand and USD 1,493 thousand at the exercise date of warrants, accordingly.

In February 2011 the Company issued 9,999 ordinary shares with a par value of USD 1 per share and a premium of USD 1,499.15 per share. This share issue was performed pro rata to the existing shareholders and did not lead to any changes in the shareholders structure.

In May 2011 the Company issued 77,319 ordinary shares with a par value of USD 1 per share to a trustee. Refer to Note 31.

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

Treasury shares represent shares issued by the Group under the Employee share option plan ("ESOP") and all owned by a trustee Altruco Holdings Limited. Refer to Note 1 and 31.

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

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

Earnings per share are calculated as follows:

<i>In thousands of USD except for number of shares</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Profit for the year attributable to ordinary shareholders	121,914	68,394	9,125
Weighted average number of ordinary shares in issue used for basic earnings per ordinary share calculation (thousands)	6,546	6,292	5,932
Weighted average number of ordinary shares in issue used for diluted earnings per ordinary share calculation (thousands)	6,656	6,352	5,932
<b>Basic earnings per ordinary share (expressed in USD per share)</b>	<b>18.63</b>	<b>10.87</b>	<b>1.54</b>
<b>Diluted earnings per ordinary share (expressed in USD per share)</b>	<b>18.32</b>	<b>10.77</b>	<b>1.54</b>

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**18 Interest Income and Expense**

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<b>Interest income</b>			
Loans and advances to customers, including:			
<i>Credit card loans</i> . . . . .	654,682	330,221	138,094
<i>Installments</i> . . . . .	495	352	12
<i>POS loans</i> . . . . .	938	—	—
<i>Corporate loans</i> . . . . .	—	—	122
Placements with other banks . . . . .	1,721	1,362	465
<b>Total Interest Income</b> . . . . .	<b>657,836</b>	<b>331,935</b>	<b>138,693</b>
<b>Interest expense</b>			
Customer accounts . . . . .	74,050	29,202	11,490
USD and SEK denominated bonds . . . . .	42,439	14,875	—
RR denominated bonds . . . . .	39,171	32,557	7,269
Subordinated debt . . . . .	1,165	—	—
Due to banks . . . . .	776	234	873
Syndicated loan . . . . .	—	1,378	13,766
EUR denominated bonds . . . . .	—	—	9,712
<b>Total Interest Expense</b> . . . . .	<b>157,601</b>	<b>78,246</b>	<b>43,110</b>
<b>Net Interest Income</b> . . . . .	<b>500,235</b>	<b>253,689</b>	<b>95,583</b>

**19 Fee and Commission Expense**

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Service fees . . . . .	7,051	5,116	2,116
Banking and other fees . . . . .	366	1,212	610
<b>Total fee and commission expense</b> . . . . .	<b>7,417</b>	<b>6,328</b>	<b>2,726</b>

**20 Customer Acquisition Expenses**

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Marketing and advertising . . . . .	41,378	15,366	2,846
Staff costs directly related to acquisition . . . . .	18,665	9,642	4,121
Personalisation, printing and distribution . . . . .	16,657	20,524	10,070
Acquisition and partnerships . . . . .	3,567	5,777	3,320
Credit bureaux . . . . .	3,759	2,303	885
Telecom acquisition . . . . .	1,232	904	749
<b>Total customer acquisition expenses</b> . . . . .	<b>85,258</b>	<b>54,516</b>	<b>21,991</b>

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

Included in staff costs are social contributions to pension fund in the amount of USD 4,058 thousand (2011: USD 2,355 thousand; 2010: USD 838 thousand).

**21 (Losses Less Gains)/gains less losses from Operations with Foreign Currencies**

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Foreign exchange translation gains less losses/(losses less gains) . . . . .	9,106	(18,969)	7,993
(Losses less gains)/gains less losses from derivative revaluation . . . . .	(17,024)	16,731	(1,849)
(Losses less gains)/gains less losses from trading in foreign currencies . . . . .	(403)	2,047	96
<b>(Losses less gains)/gains less losses from operations with foreign currencies</b> . . . . .	<b>(8,321)</b>	<b>(191)</b>	<b>6,240</b>

**22 Administrative and Other Operating Expenses**

<i>In thousands of USD</i>	<i>Note</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Staff costs . . . . .		68,554	38,514	22,019
Taxes other than income tax . . . . .		19,493	11,558	6,086
Communication services . . . . .		10,485	4,298	2,045
Depreciation of tangible fixed assets . . . . .	9	5,040	2,531	1,453
Rental expenses . . . . .		4,263	2,098	1,372

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**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**22 Administrative and Other Operating Expenses (Continued)**

<i>In thousands of USD</i>	<i>Note</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Amortization of intangible assets	9	3,365	2,131	1,278
Information services		2,547	1,952	1,115
Expenses on deposits insurance		2,375	779	159
Professional services		1,934	1,557	1,578
Stationary and office expenses		1,372	774	778
Transportation		359	263	127
Tangible fixed assets write-off	9	—	—	1,343
Other administrative expenses		2,740	3,199	731
<b>Total administrative and other operating expenses</b>		<b>122,527</b>	<b>69,654</b>	<b>40,084</b>

Included in staff costs are social contributions to pension fund in the amount of USD 4,850 thousand (2011: USD 2,189 thousand; 2010: USD 1,105 thousand).

Included in staff costs is the amount of USD 9,068 thousand (2011: USD 3,761; 2010: none), which represents share-based remuneration (Note 31).

**23 Income Taxes**

Income tax expense comprises the following:

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Current tax	(45,964)	(20,966)	(4,623)
Deferred tax	9,800	644	809
<b>Income tax expense for the year</b>	<b>(36,164)</b>	<b>(20,322)</b>	<b>(3,814)</b>

The income tax rate applicable to the majority of the Group's income is 20% (2011: 20%; 2010: 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 10%.

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

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
<b>Profit before tax</b>	<b>158,078</b>	<b>88,716</b>	<b>12,939</b>
Theoretical tax expense at statutory rate of 20%	(31,615)	(17,743)	(2,588)
Tax effect of items, which are not deductible or assessable for taxation purposes:			
—Non-deductible expenses	(4,909)	(2,004)	(615)
—Other	(86)	(75)	—
Effects of different tax rates in other countries			
—Financial result of parent entity at 10%	70	(315)	(398)
—Recovery/(accrual) of unrecognised tax loss carry forward at 10%	376	(185)	(213)
<b>Income tax expenses for the year</b>	<b>(36,164)</b>	<b>(20,322)</b>	<b>(3,814)</b>

As at 31 December 2012 the Group does not have unrecognised tax loss carried forward of the Company (tax loss carry forward 2011: USD 30,648 thousand; 2010: USD 28,750 thousand). The tax losses can be carried forward for a period of 5 years since their generation in accordance with Cyprus tax legislation.

Differences between IFRS and taxation regulations in Russia and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. As all of the Group's temporary differences arise in Russia, the tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2011: 20%; 2010: 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.

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**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**23 Income Taxes (Continued)**

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

<i>In thousands of USD</i>	<i>31 December 2010</i>	<i>(Charged)/ credited to profit or loss</i>	<i>Effect of translation</i>	<i>31 December 2011</i>
<b>Tax effect of deductible and taxable temporary differences and tax loss carry forwards</b>				
Loans and advances to customers	833	2,623	15	3,471
Premises and equipment	(440)	333	25	(82)
Intangible assets	(918)	(703)	82	(1,539)
Syndicated loan	34	(52)	18	—
Accrued expenses	1,249	(338)	30	941
Debt securities in issue	(24)	(899)	1	(922)
Customer accounts	(205)	(320)	12	(513)
<b>Net deferred tax assets</b>	<b>529</b>	<b>644</b>	<b>183</b>	<b>1,356</b>

<i>In thousands of USD</i>	<i>31 December 2009</i>	<i>(Charged)/ credited to profit or loss</i>	<i>Effect of translation</i>	<i>31 December 2010</i>
<b>Tax effect of deductible and taxable temporary differences and tax loss carry forwards</b>				
Loans and advances to customers	(693)	1,528	(2)	833
Premises and equipment	98	(534)	(4)	(440)
Intangible assets	(805)	(116)	3	(918)
Syndicated loan	(68)	106	(4)	34
Accrued expenses	1,067	193	(11)	1,249
Debt securities in issue	—	(22)	(2)	(24)
Customer accounts	—	(203)	(2)	(205)
Prepaid expenses	144	(143)	(1)	—
<b>Net deferred tax (liability)/assets</b>	<b>(257)</b>	<b>809</b>	<b>(23)</b>	<b>529</b>

**24 Segment Analysis**

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

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

***Measurement of operating segment profit or loss, assets and liabilities***

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

The CODM evaluates the performance of the business based on total revenue and profit before tax as reported in the IFRS consolidated financial statements. Total consolidated revenues of USD 663,580 thousands

## TCS Group Holding PLC (formerly named Egidaco Investments PLC)

### Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010

#### 24 Segment Analysis (Continued)

(2011: USD 334,834 thousands; 2010: USD 141,148 thousands) comprise interest income, gain from sales of bad debts, income from sale of third parties insurance policies and other operating income. The profit before tax analysed by CODM is USD 158,078 thousands (2011: USD 88,716 thousands; 2010: USD 12,939 thousands).

#### 25 Financial Risk Management

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

**Credit risk.** The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets. The Group uses a migration matrix approach for calculation of the credit risk.

The Group grants credit card loans to customers across all regions of Russia, therefore its credit risk is broadly diversified.

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

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

- Citizenship of Russian Federation;
- Age 21 to 70 inclusive;
- Monthly income above RR 5 thousand;
- Availability of cell-phone, and;
- Permanent employment.

The decision to provide a credit card loan to a potential customer is made either automatically (for ordinary credit card customers) or by the collective decision of the Credit Committee (VIP customers).

1. Ordinary customers. The decision is made in four steps.
  - a) The first step includes validation of the application data. Credit officers check the documents and validate contact information (addresses and telephones).
  - b) The second step includes phone verification of the application information about the potential customer, his/her employment, social and property status, etc.
  - c) The third step includes request of the previous credit history of the applicant from the three largest in Russia credit bureaux—Equifax, Experian and NBCH (National Bureau of Credit Histories).
  - d) Finally, 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 card and respective credit limit is calculated depending on the score of the customer. As an additional loss preventing instrument, the credit limit on a credit card loan is blocked when delinquency reaches 7 days.
2. VIP customers. A limit below RR 300 thousand can be approved by two members of the Credit Committee. In rare cases the limit may exceed RR 300 thousand and in such cases should be approved by the Credit Committee.



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**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**25 Financial Risk Management (Continued)**

- When loans become unrecoverable or not economically viable to pursue further collection efforts, the Collection Department decides to sell these loans to a debt collection agency. The Collection Department considers the following criteria for bad debts qualifying for the sale to external debt collection agencies:
  - a) loans remain unpaid after all collection procedures were performed (no payment during last 6 months);
  - b) The debtor cannot be either reached or found during the last 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.

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

- a) If the credit card loan is overdue for more than 7 days, its account will be blocked till repayment;
- b) If the borrower had lost his/her source of income, then borrower account will be blocked till verification of his/her new employment;
- c) If borrower's income is substantially less than at the time of loan origination then the borrower's limit for credit might be reduced accordingly.

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

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

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

<i>In thousands of USD</i>	<i>At 31 December 2012</i>				<i>At 31 December 2011</i>				<i>At 31 December 2010</i>			
	<i>Monetary financial assets</i>	<i>Monetary financial liabilities</i>	<i>Derivatives</i>	<i>Net position</i>	<i>Monetary financial assets</i>	<i>Monetary financial liabilities</i>	<i>Derivatives</i>	<i>Net position</i>	<i>Monetary financial assets</i>	<i>Monetary financial liabilities</i>	<i>Derivatives</i>	<i>Net position</i>
Russian												
Roubles . .	1,713,902	(1,058,138)	(408,802)	246,962	734,897	(509,945)	(113,141)	111,811	377,967	(360,121)	(7,000)	10,846
US												
Dollars . . .	378,346	(677,106)	308,952	10,192	58,764	(191,159)	128,412	(3,983)	20,775	(89)	7,000	27,686
Euro . . . . .	33,376	(35,545)	—	(2,169)	14,311	(13,429)	—	882	1,087	(2,332)	—	(1,245)
SEK . . . . .	171	(81,168)	88,749	7,752	73,836	(73,693)	—	143	—	—	—	—
<b>Total . . . . .</b>	<b>2,125,795</b>	<b>(1,851,957)</b>	<b>(11,101)</b>	<b>262,737</b>	<b>881,808</b>	<b>(788,226)</b>	<b>15,271</b>	<b>108,853</b>	<b>399,829</b>	<b>(362,542)</b>	<b>—</b>	<b>37,287</b>

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:

<i>In thousands of USD</i>	<i>At 31 December 2012</i>		<i>At 31 December 2011</i>		<i>At 31 December 2010</i>	
	<i>Impact on profit or loss (pre-tax)</i>	<i>Impact on equity</i>	<i>Impact on profit or loss (pre-tax)</i>	<i>Impact on equity</i>	<i>Impact on profit or loss (pre-tax)</i>	<i>Impact on equity</i>
US Dollar strengthening by 15% (2011: by 15%; 2010: by 15%) . . . . .	1,521	1,521	(597)	(597)	4,153	4,153
US Dollar weakening by 15% (2011: by 15%; 2010: by 15%) . . . .	(1,521)	(1,521)	597	597	(4,153)	(4,153)
Euro strengthening by 15% (2011: by 15%; 2010: by 15%) . . . . .	(323)	(323)	133	133	(187)	(187)
Euro weakening by 15% (2011: by 15%; 2010: by 15%) . . . . .	323	323	(133)	(133)	187	187
SEK strengthening by 15% (2011: by 15%; 2010: n/a) . . . . .	1,163	1,163	21	21	—	—
SEK weakening by 15% (2011: by 15%; 2010: n/a) . . . . .	(1,163)	(1,163)	(21)	(21)	—	—

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**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**25 Financial Risk Management (Continued)**

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

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

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

<i>In thousands of USD</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 6 months</i>	<i>From 6 to 12 months</i>	<i>From 1 to 3 years</i>	<i>More than 3 years</i>	<i>Total</i>
<b>31 December 2012</b>						
Total financial assets	684,460	655,528	786,633	—	—	2,126,621
Total financial liabilities	(276,709)	(507,167)	(357,766)	(599,512)	(122,730)	(1,863,884)
<b>Net interest sensitivity gap at 31 December 2012</b>	<b>407,751</b>	<b>148,361</b>	<b>428,867</b>	<b>(599,512)</b>	<b>(122,730)</b>	<b>262,737</b>
<b>31 December 2011</b>						
Total financial assets	286,714	278,658	331,707	—	—	897,079
Total financial liabilities	(37,650)	(146,699)	(169,063)	(434,814)	—	(788,226)
<b>Net interest sensitivity gap at 31 December 2011</b>	<b>249,064</b>	<b>131,959</b>	<b>162,644</b>	<b>(434,814)</b>	<b>—</b>	<b>108,853</b>
<b>31 December 2010</b>						
Total financial assets	71,599	163,021	158,209	—	—	392,829
Total financial liabilities	(36,918)	(116,927)	(51,549)	(150,148)	—	(355,542)
<b>Net interest sensitivity gap at 31 December 2010</b>	<b>34,681</b>	<b>46,094</b>	<b>106,660</b>	<b>(150,148)</b>	<b>—</b>	<b>37,287</b>

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

At 31 December 2012, if interest rates at that date had been 200 basis points lower (2011: 200 points lower; 2010: 200 points lower), with all other variables held constant, profit would have been USD 5,255 thousand (2011: USD 2,177 thousand; 2010: USD 746 thousand) lower.

If interest rates had been 200 basis points higher (2011: 200 points higher; 2010: 200 points higher), with all other variables held constant, profit would have been USD 5,255 thousand (2011: USD 2,177 thousand; 2010: USD 746 thousand) higher.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates for the years 2012, 2011 and 2010 based on reports reviewed by key management personnel.

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

<i>In % p.a.</i>	<i>2012</i>				<i>2011</i>				<i>2010</i>			
	<i>RR</i>	<i>USD</i>	<i>EURO</i>	<i>SEK</i>	<i>RR</i>	<i>USD</i>	<i>EURO</i>	<i>SEK</i>	<i>RR</i>	<i>USD</i>	<i>EURO</i>	<i>SEK</i>
<b>Assets</b>												
Cash and cash equivalents	0.5	0.4	—	0.8	1.0	0.4	1.3	0.7	3.1	—	—	—
Due from banks	—	—	—	—	6.5	—	—	—	—	—	—	—
Loans to customers	60.0	—	—	—	65.2	—	—	—	60.8	—	—	—
<b>Liabilities</b>												
Due to banks	8.0	—	—	—	—	—	—	—	—	—	—	—
Customer accounts	10.4	6.0	6.2	—	11.1	6.4	6.6	—	12.4	15.0	13.1	—
Debt securities in issue	17.2	12.7	—	18.1	18.7	13.1	—	18.1	20.1	—	—	—
Subordinated debt	—	15.0	—	—	—	—	—	—	—	—	—	—
Syndicated loan	—	—	—	—	—	—	—	—	16.9	—	—	—

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

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**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**25 Financial Risk Management (Continued)**

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 (2011 and 2010: no material impact).

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

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

The geographical concentration of the Group's financial assets and liabilities at 31 December 2011 is set out below:

<i>In thousands of USD</i>	<i>Russia</i>	<i>OECD</i>	<i>Other Non-OECD</i>	<i>Total</i>
<b>Financial assets</b>				
Cash and cash equivalents	50,065	113,126	—	163,191
Mandatory cash balances with the CBRF	6,975	—	—	6,975
Due from banks	2,236	—	—	2,236
Loans and advances to customers	663,413	—	—	663,413
Financial derivatives	15,271	—	—	15,271
Guarantee deposits with payment systems	—	24,030	—	24,030
Other financial assets	21,963	—	—	21,963
<b>Total financial assets</b>	<b>759,923</b>	<b>137,156</b>	<b>—</b>	<b>897,079</b>
<b>Financial liabilities</b>				
Customer accounts	355,136	—	6,528	361,664
Debt securities in issue	173,095	239,780	—	412,875
Other financial liabilities	13,687	—	—	13,687
<b>Total financial liabilities</b>	<b>541,918</b>	<b>239,780</b>	<b>6,528</b>	<b>788,226</b>
<b>Unused limits on credit cards loans (Note 27)</b>	<b>417,003</b>	<b>—</b>	<b>—</b>	<b>417,003</b>

The geographical concentration of the Group's financial assets and liabilities at 31 December 2010 is set out below:

<i>In thousands of USD</i>	<i>Russia</i>	<i>OECD</i>	<i>Other Non-OECD</i>	<i>Total</i>
<b>Financial assets</b>				
Cash and cash equivalents	50,758	134	—	50,892
Mandatory cash balances with the CBRF	2,463	—	—	2,463
Loans and advances to customers	316,418	—	—	316,418
Mastercard guarantee deposit	—	12,555	—	12,555
Other financial assets	10,501	—	—	10,501
<b>Total financial assets</b>	<b>380,140</b>	<b>12,689</b>	<b>—</b>	<b>392,829</b>

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**25 Financial Risk Management (Continued)**

<i>In thousands of USD</i>	<i>Russia</i>	<i>OECD</i>	<i>Other Non-OECD</i>	<i>Total</i>
<b>Financial liabilities</b>				
Customer accounts .....	169,923	—	4,226	174,149
Debt securities in issue .....	143,591	—	—	143,591
Syndicated loan .....	8,445	22,933	—	31,378
Other financial liabilities .....	6,424	—	—	6,424
<b>Total financial liabilities</b> .....	<b>328,383</b>	<b>22,933</b>	<b>4,226</b>	<b>355,542</b>
<b>Unused limits on credit cards loans (Note 18)</b> .....	<b>191,487</b>	<b>—</b>	<b>—</b>	<b>191,487</b>

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

**Other risk concentrations.** Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group did not have any such significant risk concentrations at 31 December 2012, 2011 and 2010.

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

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

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

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. The Bank has complied with these ratios throughout 2012, 2011 and 2010.

The CFO receives information about the liquidity profile of the financial assets and liabilities. This includes daily, weekly, monthly and quarterly updates on the level of credit card transactions and repayments, statistics on credit card issuance and credit card limit utilisation, inflow and outflow of retail deposits, level of expected outflows such as operating costs and financing activities. The CFO then ensures the availability of an adequate portfolio of short-term liquid assets, made up of an amount on the correspondent account with CBRF and overnight deposits with banks, to ensure that sufficient liquidity is maintained within the Group as a whole. Major assumptions used in liquidity analysis are based on long-standing statistics that shows that on average, about 71-75% of issued credit cards are activated, about 83-90% of activated credit cards are actually used, limit utilisation level on credit cards is stable at 96-98%. The level of quarterly transactions is generally within 28-32% of the gross credit card portfolio while the level of quarterly repayments is generally 36-39% of the gross credit card portfolio.

Regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions and credit card portfolio behavior is reviewed by the CFO.

The tables below show liabilities at 31 December 2012, 31 December 2011 and 31 December 2010 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

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**25 Financial Risk Management (Continued)**

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.

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

The maturity analysis of financial liabilities at 31 December 2011 is as follows:

<i>In thousands of USD</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 to 12 months</i>	<i>More than 1 year</i>	<i>Total</i>
<b>Liabilities</b>						
Customer accounts	20,398	43,697	99,458	122,719	82,220	368,492
Debt securities in issue	4,079	6,452	6,641	63,602	428,378	509,152
Other financial liabilities	13,687	—	—	—	—	13,687
Unused limits on credit card loans (Note 27)	417,003	—	—	—	—	417,003
Due to Intermediary Entities (Note 4)	—	29,507	—	—	—	29,507
<b>Total potential future payments for financial obligations</b>	<b>455,167</b>	<b>79,656</b>	<b>106,099</b>	<b>186,321</b>	<b>510,598</b>	<b>1,337,841</b>

The maturity analysis of financial liabilities at 31 December 2010 is as follows:

<i>In thousands of USD</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 to 12 months</i>	<i>From 1 to 3 years</i>	<i>Total</i>
<b>Liabilities</b>						
Customer accounts	16,206	35,049	48,115	41,997	41,941	183,308
Debt securities in issue	4,096	3,695	4,049	61,341	143,519	216,700
Syndicated loan	4,193	8,605	20,624	—	—	33,422
Other financial liabilities	6,424	—	—	—	—	6,424
Undrawn credit lines (Note 27)	191,487	—	—	—	—	191,487
Due to Intermediary Entities (Note 4)	9,893	—	—	36,324	—	46,217
<b>Total potential future payments for financial obligations</b>	<b>232,299</b>	<b>47,349</b>	<b>72,788</b>	<b>139,662</b>	<b>185,460</b>	<b>677,558</b>

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 expected maturity analysis of financial instruments at carrying amounts as monitored by management at 31 December 2012 is as follows:

<i>In thousands of USD</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Total</i>
<b>Assets</b>						
Cash and cash equivalents	457,382	—	—	—	—	457,382
Mandatory cash balances with the CBRF	22,560	—	—	—	—	22,560
Loans and advances to customers	131,105	262,211	393,317	786,633	—	1,573,266
Financial derivatives	826	—	—	—	—	826
Guarantee deposits with payment systems	33,592	—	—	—	—	33,592
Other financial assets	38,995	—	—	—	—	38,995
<b>Total financial assets</b>	<b>684,460</b>	<b>262,211</b>	<b>393,317</b>	<b>786,633</b>	<b>—</b>	<b>2,126,621</b>



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**25 Financial Risk Management (Continued)**

<i>In thousands of USD</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Total</i>
<b>Liabilities</b>						
Due to banks	—	—	—	16,930	—	16,930
Customer accounts	178,432	267,124	198,249	162,471	71,870	878,146
Debt securities in issue	8,497	6,651	14,467	186,488	546,311	762,414
Financial derivatives	11,927	—	—	—	—	11,927
Other financial liabilities	70,570	—	—	—	—	70,570
Subordinated debt	—	—	1,167	—	122,730	123,897
<b>Total financial liabilities</b>	<b>269,426</b>	<b>273,775</b>	<b>213,883</b>	<b>365,889</b>	<b>740,911</b>	<b>1,863,884</b>
<b>Net liquidity gap at 31 December 2012</b>	<b>415,034</b>	<b>(11,564)</b>	<b>179,434</b>	<b>420,744</b>	<b>(740,911)</b>	<b>262,737</b>
<b>Cumulative liquidity gap at 31 December 2012</b>	<b>415,034</b>	<b>403,470</b>	<b>582,904</b>	<b>1,003,648</b>	<b>262,737</b>	<b>—</b>

The expected maturity analysis of financial instruments at 31 December 2011 is as follows:

<i>In thousands of USD</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 to 12 months</i>	<i>From 1 to 3 years</i>	<i>Total</i>
<b>Assets</b>						
Cash and cash equivalents	163,191	—	—	—	—	163,191
Mandatory cash balances with the CBRF	6,975	—	—	—	—	6,975
Due from banks	—	—	2,236	—	—	2,236
Loans and advances to customers	55,284	110,569	165,854	331,706	—	663,413
Guarantee deposits with payment systems	24,030	—	—	—	—	24,030
Financial derivatives	15,271	—	—	—	—	15,271
Other financial assets	21,963	—	—	—	—	21,963
<b>Total financial assets</b>	<b>286,714</b>	<b>110,569</b>	<b>168,090</b>	<b>331,706</b>	<b>—</b>	<b>897,079</b>
<b>Liabilities</b>						
Customer accounts	20,297	42,637	97,885	122,415	78,430	361,664
Debt securities in issue	3,666	6,177	—	46,648	356,384	412,875
Other financial liabilities	13,687	—	—	—	—	13,687
<b>Total financial liabilities</b>	<b>37,650</b>	<b>48,814</b>	<b>97,885</b>	<b>169,063</b>	<b>434,814</b>	<b>788,226</b>
<b>Net liquidity gap at 31 December 2011</b>	<b>249,064</b>	<b>61,755</b>	<b>70,205</b>	<b>162,643</b>	<b>(434,814)</b>	<b>108,853</b>
<b>Cumulative liquidity gap at 31 December 2011</b>	<b>249,064</b>	<b>310,819</b>	<b>381,024</b>	<b>543,667</b>	<b>108,853</b>	<b>—</b>

The expected maturity analysis of financial instruments at 31 December 2010 is as follows:

<i>In thousands of USD</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 to 6 months</i>	<i>From 6 to 12 months</i>	<i>From 1 to 3 years</i>	<i>Total</i>
<b>Assets</b>						
Cash and cash equivalents	19,711	31,181	—	—	—	50,892
Mandatory cash balances with the CBRF	2,463	—	—	—	—	2,463
Loans and advances to customers	26,369	52,735	79,105	158,209	—	316,418
MasterCard guarantee deposit	12,555	—	—	—	—	12,555
Other financial assets	10,501	—	—	—	—	10,501
<b>Total financial assets</b>	<b>71,599</b>	<b>83,916</b>	<b>79,105</b>	<b>158,209</b>	<b>—</b>	<b>392,829</b>
<b>Liabilities</b>						
Customer accounts	22,225	33,825	48,172	39,447	30,480	174,149
Debt securities in issue	4,076	3,695	4,050	12,102	119,668	143,591
Syndicated loan	4,193	8,605	18,580	—	—	31,378
Other financial liabilities	6,424	—	—	—	—	6,424
<b>Total financial liabilities</b>	<b>36,918</b>	<b>46,125</b>	<b>70,802</b>	<b>51,549</b>	<b>150,148</b>	<b>355,542</b>
<b>Net liquidity gap at 31 December 2010</b>	<b>34,681</b>	<b>37,791</b>	<b>8,303</b>	<b>106,660</b>	<b>(150,148)</b>	<b>37,287</b>
<b>Cumulative liquidity gap at 31 December 2010</b>	<b>34,681</b>	<b>72,472</b>	<b>80,775</b>	<b>187,435</b>	<b>37,287</b>	<b>—</b>

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### **Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

#### **25 Financial Risk Management (Continued)**

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

#### **26 Management of Capital**

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

The Group considers total capital under management to be equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2012 was USD 298,267 thousand (2011: USD 117,090 thousand; 2010: USD 43,865 thousand). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored daily and submitted to the Central Bank of the Russian Federation monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. Other objectives of capital management are evaluated annually.

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

Under the current capital requirements set by financial covenants on USD and SEK denominated securities issued, the Group has to maintain Russian statutory capital adequacy ratio (N1) above a prescribed minimum level of 13%.

The Group and the Bank have complied with all externally imposed capital requirements throughout 2012, 2011 and 2010.

#### **27 Contingencies and Commitments**

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

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

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

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**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**27 Contingencies and Commitments (Continued)**

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

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

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

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

The management estimates that as at 31 December 2011 total amount of the Group's possible obligations from exposure to other than remote tax risks comprised EUR 1,500 thousand and USD 595 thousand (2010: USD 3 375 thousand). As at 31 December 2012 no such tax risks were identified.

As at 31 December 2010 the Group recorded provisions in respect of uncertain tax positions in the amount of USD 4,747 thousand. Refer to Note 15.

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

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Not later than 1 year .....	6,462	2,426	1,656
<b>Total operating lease commitments .....</b>	<b>6,462</b>	<b>2,426</b>	<b>1,656</b>

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its debt securities in issue and subordinated debt. Non-compliance with such covenants may result in negative consequences for the Group. Management believes that the Group was in compliance with covenants as at 31 December 2012, 2011 and 2010.

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

Outstanding credit related commitments are as follows:

<i>In thousands of USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
Unused limits on credit cards loans .....	833,026	417,003	191,487
<b>Total unused limits on credit cards loans .....</b>	<b>833,026</b>	<b>417,003</b>	<b>191,487</b>

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**27 Contingencies and Commitments (Continued)**

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

**28 Financial Derivatives**

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

	2012		2011		2010	
	<i>Contracts with positive fair value</i>	<i>Contracts with negative fair value</i>	<i>Contracts with positive fair value</i>	<i>Contracts with negative fair value</i>	<i>Contracts with positive fair value</i>	<i>Contracts with negative fair value</i>
<i>In thousands of USD</i>						
<b>Foreign exchange forwards and swaps: fair values, at the end of the reporting period, of</b>						
—USD receivable on settlement (+) .....	—	308,953	128,412	—	—	7,000
—RR payable on settlement (-) .....	(87,923)	(320,880)	(113,141)	—	—	(7,000)
—SEK receivable on settlement (+) .....	88,749	—	—	—	—	—
<b>Net fair value of foreign exchange forwards and swaps .....</b>	<b>826</b>	<b>(11,927)</b>	<b>15,271</b>	<b>—</b>	<b>—</b>	<b>—</b>

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

**29 Fair Value of Financial Instruments**

The fair value of financial instruments carried at amortised cost is as follows:

	2012		2011		2010	
	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>
<i>In thousands of USD</i>						
<b>FINANCIAL ASSETS CARRIED AT AMORTISED COST</b>						
<b>Cash and cash equivalents</b>						
—Cash on hand .....	308	308	367	367	452	452
—Cash balances with the CBRF (other than mandatory reserve deposits) .....	39,366	39,366	22,024	22,024	8,066	8,066
—Placements with other banks with original maturities of less than three months .....	417,708	417,708	140,800	140,800	42,374	42,374
<b>Mandatory cash balances with the CBRF .....</b>	<b>22,560</b>	<b>22,560</b>	<b>6,975</b>	<b>6,975</b>	<b>2,463</b>	<b>2,463</b>
<b>Due from Banks .....</b>	<b>—</b>	<b>—</b>	<b>2,236</b>	<b>2,236</b>	<b>—</b>	<b>—</b>
<b>Loans and advances to customers</b>						
<b>Credit card loans .....</b>	<b>1,541,893</b>	<b>1,541,893</b>	<b>655,599</b>	<b>654,211</b>	<b>310,084</b>	<b>310,084</b>
<b>Installments .....</b>	<b>23,468</b>	<b>23,468</b>	<b>9,202</b>	<b>9,202</b>	<b>4,852</b>	<b>4,852</b>
<b>POS loans .....</b>	<b>7,905</b>	<b>7,905</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Corporate loans .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,482</b>	<b>1,482</b>
<b>Guarantee deposits with payment systems .....</b>	<b>33,592</b>	<b>33,592</b>	<b>24,030</b>	<b>24,030</b>	<b>12,555</b>	<b>12,555</b>
<b>Other financial assets</b>						
—Settlement of operations with plastic cards receivable .....	37,984	37,984	21,651	21,651	9,988	9,988
—Other financial assets .....	1,011	1,011	312	312	513	513
<b>TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST .....</b>	<b>2,125,795</b>	<b>2,125,795</b>	<b>883,196</b>	<b>881,808</b>	<b>392,829</b>	<b>392,829</b>

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**29 Fair Value of Financial Instruments (Continued)**

<i>In thousands of USD</i>	<i>31 December 2012</i>		<i>31 December 2011</i>		<i>31 December 2010</i>	
	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>	<i>Fair value</i>	<i>Carrying value</i>
<b>FINANCIAL LIABILITIES CARRIED AT AMORTISED COST</b>						
<i>Due to banks</i> .....	16,930	16,930	—	—	—	—
<i>Customer accounts</i>						
Legal entities						
—Current/settlement accounts of corporate entities .....	189	189	358	358	299	299
—Term deposits of corporate entities .....	37,888	35,144	6,528	6,528	4,441	4,324
Individuals						
—Current/settlement accounts of individuals .....	79,360	79,360	19,439	19,439	11,430	11,430
—Term deposits of individuals .....	773,772	763,453	333,934	335,339	162,365	158,096
<i>Debt securities in issue</i>						
USD denominated bonds .....	437,932	428,968	161,543	166,087	—	—
SEK denominated bonds .....	87,537	81,168	75,702	73,693	—	—
RR Bonds issued on domestic market .....	260,945	252,278	199,323	169,711	153,541	143,591
Promissory notes .....	—	—	3,384	3,384	—	—
<i>Subordinated debt</i> .....	128,422	123,897	—	—	—	—
<i>Syndicated loan</i> .....	—	—	—	—	32,916	31,378
<i>Other financial liabilities</i>						
Settlement of operations with plastic cards .....	60,524	60,524	10,250	10,250	4,772	4,772
Other .....	10,046	10,046	3,437	3,437	1,652	1,652
<b>Total Financial Liabilities Carried at Amortised Cost</b> .....	<b>1,893,545</b>	<b>1,851,957</b>	<b>813,898</b>	<b>788,226</b>	<b>371,416</b>	<b>355,542</b>

**(b) Analysis by fair value hierarchy of financial instruments carried at fair value.**

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

<i>In thousands USD</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>Valuation technique with inputs observable in markets (Level 2)</i>	<i>Valuation technique with inputs observable in markets (Level 2)</i>	<i>Valuation technique with inputs observable in markets (Level 2)</i>
<b>FINANCIAL ASSETS</b>			
Financial derivatives .....	826	15,271	—
<b>Total Financial Assets Carried at Fair Value</b> .....	<b>826</b>	<b>15,271</b>	<b>—</b>
<b>FINANCIAL LIABILITIES</b>			
Financial derivatives .....	11,927	—	—
<b>Total Financial Liabilities Carried at Fair Value</b> .....	<b>11,927</b>	<b>—</b>	<b>—</b>

*Methods and assumptions applied in determining fair values*

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

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

Level 2 trading and hedging derivatives comprise forward foreign exchange contracts and interest rate swaps. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in



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**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**29 Fair Value of Financial Instruments (Continued)**

an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

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

<i>In % p.a.</i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>			
Cash and cash equivalents	0.4	0.8	3.1
Due from banks	—	6.5	—
Loans and advances to customers	60.0	65.2	60.8
<b>Liabilities</b>			
Due to banks	8.0	—	—
Customer accounts	9.6	11.1	9.8
Debt securities in issue	11.3	16.6	17.2
Subordinated debt	13.4	—	—
Syndicated loan	—	—	12.0

**30 Presentation of Financial Instruments by Measurement Category**

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

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

<i>In thousands of USD</i>	<i>Loans and receivables</i>	<i>FVTPL (held for trading)</i>	<i>Total</i>
<b>Cash and cash equivalents</b>			
—Cash on hand	308	—	308
—Cash balances with the CBRF (other than mandatory reserve deposits)	39,366	—	39,366
—Placements with other banks with original maturities of less than three months	417,708	—	417,708
<b>Mandatory cash balances with the CBRF</b>	22,560	—	22,560
<b>Loans and advances to customers</b>			
—Credit card loans	1,541,893	—	1,541,893
—Installments	23,468	—	23,468
—POS loans	7,905	—	7,905
<b>Financial derivatives</b>	—	826	826
<b>Guarantee deposits with payment systems</b>	33,592	—	33,592
<b>Other financial assets</b>			
—Settlement of operations with plastic cards receivable	37,984	—	37,984
—Other financial assets	1,011	—	1,011
<b>TOTAL FINANCIAL ASSETS</b>	<b>2,125,795</b>	<b>826</b>	<b>2,126,621</b>

**TCS Group Holding PLC (formerly named Egidaco Investments PLC)**

**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**30 Presentation of Financial Instruments by Measurement Category (Continued)**

The following table provides a reconciliation of classes of financial assets with the measurement categories as of 31 December 2011:

<i>In thousands of USD</i>	<i>Loans and receivables</i>	<i>FVTPL (held for trading)</i>	<i>Total</i>
<b>Cash and cash equivalents</b>			
—Cash on hand	367	—	367
—Cash balances with the CBRF (other than mandatory reserve deposits)	22,024	—	22,024
—Placements with other banks with original maturities of less than three months	140,800	—	140,800
<b>Mandatory cash balances with the CBRF</b>	6,975	—	6,975
<b>Due from banks</b>	2,236	—	2,236
<b>Loans and advances to customers</b>			
—Credit card loans	654,211	—	654,211
—Installments	9,202	—	9,202
<b>Financial derivatives</b>	—	15,271	15,271
<b>Guarantee deposits with payment systems</b>	24,030	—	24,030
<b>Other financial assets</b>			
—Settlement of operations with plastic cards receivable	21,651	—	21,651
—Other financial assets	312	—	312
<b>TOTAL FINANCIAL ASSETS</b>	<b>881,808</b>	<b>15,271</b>	<b>897,079</b>

The following table provides a reconciliation of classes of financial assets with the measurement categories as of 31 December 2010:

<i>In thousands of USD</i>	<i>Loans and receivables</i>	<i>Total</i>
<b>Cash and cash equivalents</b>		
—Cash on hand	452	452
—Cash balances with the CBRF (other than mandatory reserve deposits)	8,066	8,066
—Placements with other banks with original maturities of less than three months	42,374	42,374
<b>Mandatory cash balances with the CBRF</b>	2,463	2,463
<b>Loans and advances to customers</b>		
—Loans to individuals:		
Credit card loans	310,084	310,084
Installments	4,852	4,852
—Corporate loans:		
Development	1,060	1,060
Finance	422	422
<b>MasterCard guarantee deposit</b>	12,555	12,555
<b>Other financial assets</b>		
—Settlement of operations with plastic cards receivable	9,988	9,988
—Other financial assets	513	513
<b>TOTAL FINANCIAL ASSETS</b>	<b>392,829</b>	<b>392,829</b>

As of 31 December 2012, 2011 and 2010 all of the Group's financial liabilities except derivatives which were classified at fair value through profit or loss, were carried at amortised cost.

**31 Related Party Transactions**

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

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**Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

**31 Related Party Transactions (Continued)**

The outstanding balances with related parties were as follows:

<i>In thousands of USD</i>	2012		2011		2010	
	Key management personnel	Other related parties	Key management personnel	Other related parties	Key management personnel	Other related parties
<b>ASSETS</b>						
Gross amounts of loans and advances to customers (contractual interest rate: 20% (2011: 20%; 2010: 20%))	55	—	56	—	43	—
<b>LIABILITIES</b>						
Customer accounts (contractual interest rate: 11%-15% p.a. (2011, 2010: 11%-15% p.a.))	2,079	34,632	1,992	6,528	1,235	2,766
Syndicated loan (contractual interest rate: 20.5% p.a.)	—	—	—	—	—	8,445
Securities issued (coupon rate: 20.5% p.a.(2011, 2010: 15% p.a.))	66	—	52	—	—	—

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

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

<i>In thousands of USD</i>	2012		2011		2010	
	Key management personnel	Other related parties	Key management personnel	Other related parties	Key management personnel	Other related parties
Interest income	9	—	7	—	37	—
Interest expense	(448)	(4,972)	(106)	(1,225)	(21)	(1,596)
(Losses less gains)/gains less losses from operations in foreign currencies	—	(1,204)	—	84	—	3,226

Key management compensation is presented below:

<i>In thousands of USD</i>	2012			2011		2010	
	Expense	Share based payment equity reserve	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
<b>Short-term benefits:</b>							
—Salaries	5,982	—	—	4,657	—	4,951	—
—Short-term bonuses	5,708	—	—	3,609	—	2,787	—
<b>Long-term benefits:</b>							
—Share-based payment	7,408	10,990	—	3,521	3,214	—	—
—Long term incentive plan	1,660	—	1,931	240	219	—	—
<b>Total</b>	<b>20,758</b>	<b>10,990</b>	<b>1,931</b>	<b>12,027</b>	<b>3,433</b>	<b>7,738</b>	<b>—</b>

In 2011 the Group introduced a share-based payment plan as a long-term incentive and retention tool for the key management of the Group. As at 31 December 2012 total amount of shares issued for the share-based payment purposes comprised 77 thousand (2011: same). The maximum total number of share capital attributable to the plan is 2.98% of issued share capital at the date of 20 May 2011 (i.e. 2.98% of issued share capital at 31 December 2012, 2.98% of issued share capital at the date of 31 December 2011).

The shares vest gradually in three tranches and expenses are recognised in accordance with the graded vesting schedule. 40% vested on 30 June 2012; 30% vests on 30 June 2013 and 30% vests on 30 June 2014. In case the change of control occurs before the last vesting date the remaining part of the plan vests upon the change of control. The shares do not give the employees any voting power. The employees cannot own or exercise their shareholder rights or benefit in other ways from the shares, except for the dividends, if any. Based on terms in place prior to September 2012, the employees were entitled to cash payment equal to disposal proceeds of the shares at defined "liquidity events".

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

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### **Notes to the Consolidated Financial Statements—31 December 2012, 2011 and 2010**

#### **31 Related Party Transactions (Continued)**

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

The amount of share-based payment that is planned to be vested in June 2013 equals to USD 1,836 thousand. The carrying value of share-based payment reserve at the reporting date is USD 10,990 thousand and this amount is recognised as part of equity in the statement of financial position. As at 31 December 2011 the fair value of liabilities was USD 3,214 thousand and this amount was recognized as part of other non-financial liabilities in the statement of financial position. The fair value of the plan as at modification date was USD 21,168 thousand (2011: as at grant date was USD 12,391 thousand).

In 2011 the Group also introduced a long term incentive plan (“LTIP”) for the management of the Bank. The key and middle management is entitled to a cash payment equal to individual packages defined as a percentage of shares in 2011. The liquidity event is the earliest of the IPO or change of control. The fair value of liabilities under LTIP at 31 December 2012 is USD 1,931 thousand (2011: USD 219 thousand) and this amount is recognised as part of other non-financial liabilities in the consolidated statement of financial position.

In February 2011 the Group purchased 100% ownership of previously controlled and consolidated subsidiary LLC “TCS”. The purchase consideration paid was insignificant for the Group.

In June 2011 the Group purchased 100% ownership of previously controlled and consolidated subsidiary Goward Ltd. The purchase consideration paid was insignificant for the Group.

#### **32 Subsequent Events**

On 18th February 2013 the Group has placed USD 75 mln principal amount of additional subordinated bonds with interest rate of 14% per annum and a premium of 7% in addition to USD 125 mln of subordinated bonds placed on December 2012 that carry interest rate of 14% per annum.

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

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

In June 2013 the Group issued 57,990 ordinary shares with a par value of USD 1 per share to Altruco Holdings Limited under the Employee share option plan (“ESOP”).

On 10th of July 2013 the Group issued USD denominated Euro-Commercial Papers (ECP) with a nominal value of USD 20,000 thousand with a discount of 5.25% maturing on 9 July 2014.

On 10th of July 2013 the Group issued USD denominated Euro-Commercial Papers (ECP) with a nominal value of USD 75,000 thousand with a discount of 4.5% maturing on 10 January 2014.

On 18th of July 2013 the Group redeemed part of RR denominated bonds issued in July 2012 in accordance with the public offer at nominal value of RR 1,142 mln (equivalent of USD 35.2 mln).

On 28th of July 2013 the Group fully redeemed RR 1,400 thousand bonds issued in July 2010 in accordance with contractual conditions.

On 7th of August 2013 the Group acquired 100% share in an insurance company—JSC “SK” Moskva”. Subsequently to the purchase the name of the subsidiary was changed to LLC “Tinkoff Online-Insurance”. The purchase consideration amounted to USD 12,076 thousand.

The subsidiary shall provide insurance services to the clients of the Group. The carrying value of total assets and net assets as at the date of purchase determined in accordance with Russian accounting standards amounted to USD 10,900 thousand and USD 10,600 thousand, respectively. The insurance company was dormant and no material revenue, profit or loss was earned in 2013.

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## **DEPOSITARY**

**JPMorgan Chase Bank, N.A.**  
1111 Polaris Parkway  
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## **CUSTODIAN**

**HSBC Bank plc**  
*acting by way of its Athens branch,*  
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*via its department,*  
**HSBC Securities Services, Greece**  
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