CFA Institute Research Challenge

hosted by
CFA Association Russia

Team F

Date: 31/12/2014 This report is published for educational purposes only by students competing in the CFA Institute Research Challenge.	**Current price (USD):** 3.19 **Target price (USD):** 5.4 upside: 70.2% **Recommendation:** BUY	**TCS Group Holding PLC** **Ticker:** TCSq.L on London Stock Exchange **Industry:** Banking **Sector:** Financials **Credit rating:** Fitch B+ (negative), Moody's B2 (stable)

We give TCS Group Holding PLC (LI:TCS) a BUY recommendation with the 12m target price of USD 5.4 which is 70.2% upside potential as of 31/12/2014.

Company snapshot

Tinkoff Credit Systems Bank is the number one online retail financial services provider in Russia. Tinkoff Credit Systems Group Holding PLC runs all operations by means of this bank (hereinafter, "TCS" will denote the business of the Group). TCS occupies a particular niche, it specializes in credit card loans and has a branchless model, focused on Internet. TCS has a market share of 7.7% on the Russian credit card market and is the third key player.

Growth drivers of the fastest growing segment of the retail loan market, credit cards

Despite challenging macroeconomic conditions, we believe that TCS growth drivers emerge both from external and internal factors. TCS operates through a high-tech platform. Thus, increase in Internet and smartphones penetration and E-commerce market development create more incentives to use credit cards and attract new customers. Moreover, the retail banking industry in Russia has high growth potential, and credit card lending, as a percentage of total retail lending is growing at a higher rate than other segments, due to an increasing trend of substitution of cash by cashless payments.

TCS has strong financial standing

TCS has strong performance compared to peers. It is highly profitable with ROE that exceeds these of peers by about 20%. Its capital adequacy ratio is the highest among the competitors with a difference of 5%. Due to effective risk management, loan quality is high. Besides, TCS cost structure is unique, consisting of a smaller fixed costs share, as the bank has no branches. TCS cost management is more flexible compared to its peers. Given a high growth pattern and effective risk management TCS has high profitability and will suffer less in the recession than competitors.

TCS stock price has significant growth potential

TCS IPO was on 22 October 2013 with a price of USD 17.5 per share, which was a higher value than banks generally have. This was supported by TCS being positioned as a bank with distinct features of an Internet company. The company showed substantial growth, but the stock price fell to USD 3.19 because of poor macroeconomic conditions and adverse regulation amendments. Investors overreacted, and the company is currently undervalued.

Business risks exist but can be mitigated

The most serious risks are connected with the credit risk, regulation and the macroeconomic environment that is unfavourable and that has a negative influence on the banking industry by reducing number of loans and their quality, thus, decreasing profitability. Still, the company has high-quality risk management which will help to mitigate most of risks.

Table 1. Market profile

52-week share price range (USD)	2.25 – 17.02
Market capitalization (USD mln)	582.6
Average daily trading volume	136,681
Shares outstanding (mln)	182.6

Sources: Bloomberg as of 31.12.2014

Table 2. Financial performance (USD th)

	2012	2013	2014E	2015F
Interest Income	657,836	1,100,150	1,118,721	681,742
Interest Expense	(157,601)	(256,755)	(250,513)	(278,647)
Net Interest Income	500,235	843,395	868,208	403,095

Sources: Company data, Team estimates

Table 3. Financial ratios (%)

	2012	2013	2014E	2015F
Net Interest Margin	76.0	76.7	77.6	59.1
ROAA	8.3	7.1	4.0	4.7
ROAE	59.7	44.8	18.0	18.0
Tier 1	8.5	12.9	8.7	10.6

Sources: Company data, Team estimates

Table 4. Valuation multiples (x)

	2014E	2015F
P/E	13.1	7.2
P/BV	1.4	1.2

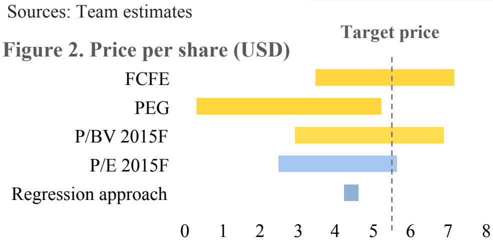
Sources: Team estimates

Table 5. Valuation summary

Valuation Method	Share price (USD)	Upside
Free cash flow to equity approach (FCFE)	5.4	70.2%
Market approach (Trading multiples)	4.9	53.6%
Market approach (P/E – ROE regression)	4.5	41.7%

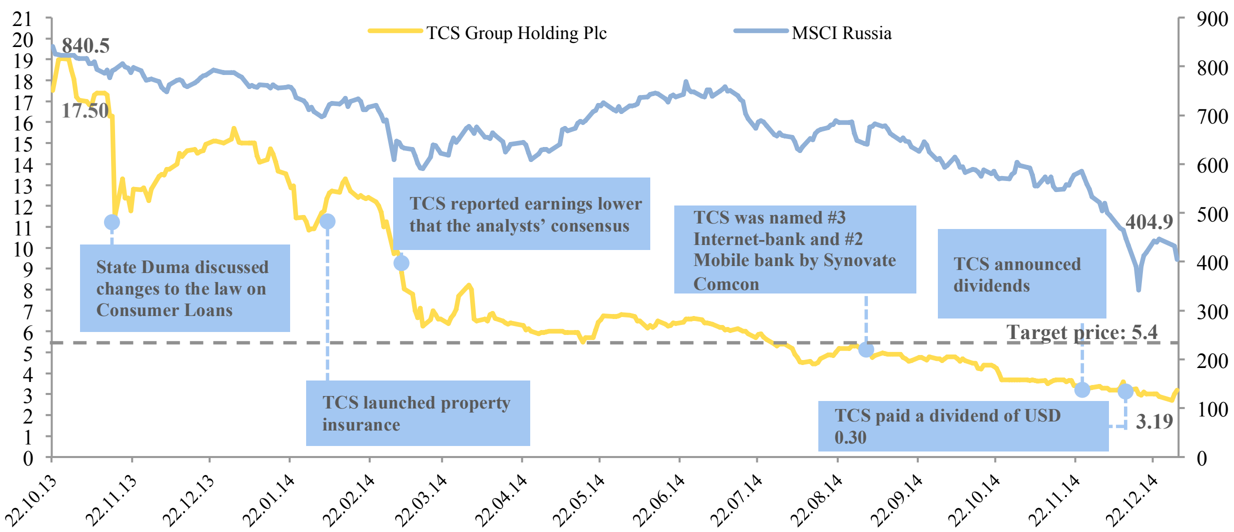
Sources: Team estimates

Figure 2. Price per share (USD)



Sources: Team estimates

Figure 1. TCS Group Holding PLC stock price performance (USD)



Sources: Bloomberg, MSCI

Business description

The start of a successful story

Tinkoff Credit Systems Bank is an online retail financial services provider in the Russian Federation based in Moscow. It is a member of the Deposit Insurance System, operating with CBRF license #2673. Oleg Tinkov founded the bank by acquiring Khimmashbank in 2006. Mr Tinkov is a well-known Russian entrepreneur who previously managed to build up 5 successful businesses. Currently, TCS is his main business. TCS started the issuance of credit and debit cards in 2007 and 2009 respectively.

Growing faster than the market

TCS is #1 online (management estimates, 2013) and #3 credit-card lender in Russia with a market share of 7.7% (CBRF, 2013) and 4.8 million issued credit cards (as of November 2014). For 2007 – 1H'2014, CAGR of TCS share on the Russian credit card market was 106%, compared to CAGR of the whole Russian credit card market of 32%.

Smart business model

Unique asset-light structure and high-tech platform

TCS is the first monoliner in Russia concentrating on a particular segment, credit cards, and imitating the business concept of American bank, Capital One Financial Corp. that pioneered direct-mail credit-card distribution and concentrated on under-utilized client groups. TCS is the only bank in Russia that has no branches. This gives flexibility in managing fixed operating costs compared to other banks (Figure 65, Appendix 6). The bank operates through a high-tech online platform. This makes it similar to Internet companies, ensures that customers can contact the bank via phone (call centre) or Internet (online bank) 24/7 and enables the bank to shorten the time of approval as well.

Nationwide coverage

Initially, TCS was present only in Moscow and the Moscow region. In 2009, it launched its business in four other regions and by 2010 it was represented in all regions in Russia (Figure 3). Now 50% of TCS customers live in cities with population of less than 200,000 people (Figure 4). TCS portfolio distribution by credit balances in federal regions resembles the Russian population breakdown by federal regions.

Focused on retail banking

TCS focuses on services for individuals rather than for corporate institutions: they account for 99% of all term deposits and 98% of all current accounts (as of September 2014). For 3 quarters of 2014, 95.5% of TCS revenue comes from interest income from retail banking (Figure 5). The first segment, retail banking, includes:

(i) Consumer lending products:

- *Credit cards.* Tinkoff Platinum offers low initial limits, All Airlines offers unique bonuses in the form of miles, Kanobu, Afimall Citi, eBay and OneTwoTrip are co-branded cards that provide discounts for purchases and cashback.
- *E-commerce lending.* Customers (both existing and new) can take Point-of-Sale (POS), unsecured loans for purchasing a particular good online. TCS has agreements with more than 300 online retailers.
- *Cash loans.* Existing customers can take unsecured cash loans (up to RUB 200,000) for a period from 3 to 36 months.

(ii) Savings products:

- *Debit cards.* Tinkoff Black is not linked to a term deposit and offers cashback.
- *Retail deposits.* Customers can switch between monthly interest capitalisation (compound interest) and interest deposit, with a free option to convert funds into dollars, or euros, without the loss of accrued interest.
- *E-wallets.* Customers can transfer money, or pay, with Tinkoff Mobile Wallet.

The second segment is insurance products (property, accident and travel insurance) that were introduced in 2013. Detailed description of all products is presented in Appendix 1.

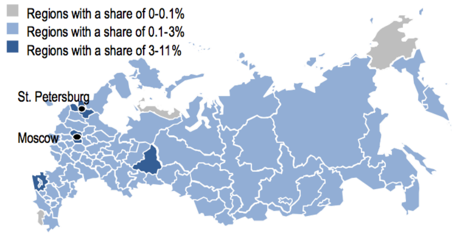
Focused on online distribution and acquisition channels

Although TCS started with direct mail distribution through offline channels (Appendix 2), now it has largely switched to distribution channels (e.g. Internet). From 2010 to 2013, the number of customers coming from online channels increased by 45% (Figure 7). In order to make distribution more efficient, TCS employs c.1000 "smart couriers" in c.600 cities to service its customers and to deliver cards (Figure 57, Appendix 5).

Focused on underserved mass market segment using Internet

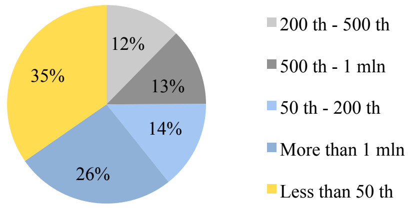
Every TCS customer should be a Russian citizen with a valid passport, aged from 18 to 70 inclusive, permanently employed and earning a monthly salary of at least 5 thousand rubles, having no currently delinquent loans with TCS and possessing a mobile phone. This implies that TCS targets at mass market, underserved and underbanked younger population that uses Internet or/and can be reached by mail in all parts of Russia and that cares a lot about saving time. So the opportunity to do all operations via Internet is crucial. Still, customers coming from various channels differ (Table 6), but they value TCS: in 2014 it was the most popular bank according to respondents' view (banki.ru).

Figure 3. Customer distribution by region in 2013 (% of customer base)



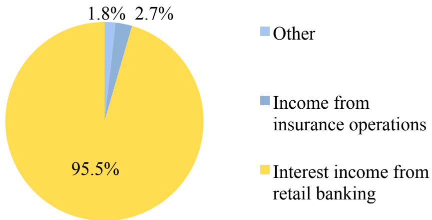
Sources: Company data

Figure 4. Customer distribution by city population in July 2014 (%)



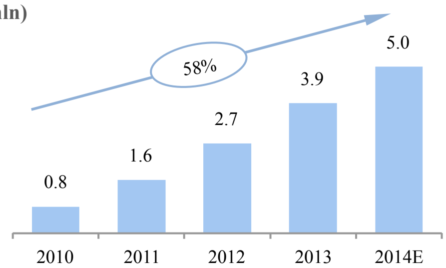
Sources: Company data

Figure 5. Revenue breakdown for 9M'2014 (%)



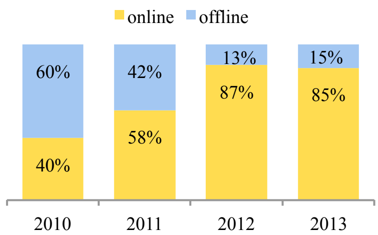
Sources: Company data

Figure 6. Number of cards issued in 2010 – 2014E (mln)



Sources: Company data

Figure 7. Applications received by channel in 2010 – 2013 (%)



Sources: Company data

Table 6. Customers' features by distribution channel in 2013

Characteristic	Online channel	Offline channel
Average age	38	44
Sex	Male	Female
Usage of POS	More often	Less often
Usage of E-commerce	More often	Less often
Type of area	Urban	Regional

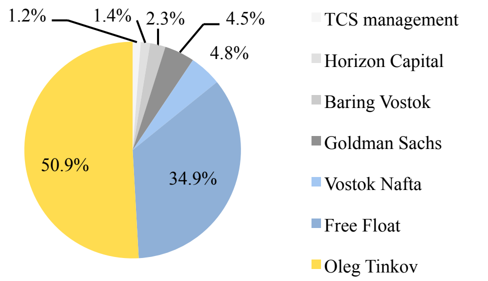
Sources: Company data

Ownership, corporate governance and management

Organizational structure

TCS Bank is a closed-joint stock company and a subsidiary of TCS Group Holding PLC, which is based in Cyprus. The Group runs its business via the bank, while other companies perform supportive functions: Tinkoff Online-Insurance provides insurance services, Feniks – collection services, TCS – customer acquisition, T-Finance – hardware, Finance – debt issuance, Tinkoff Digital – IT projects. TCS Group owns 100% of these companies except Finance that is a special purpose entity and Tinkoff Digital that is partly owned by the Group (Figure 39, Appendix 3).

Figure 8. Shareholder structure as of 31 December 2013 (%)



Sources: Company data

Ownership structure and IPO

There are two types of ordinary shares A and B, each of which with a nominal value of USD 0.04 per share. While class A shares bear 1 vote per share, class B shares bear 10 votes per share, and they belong to Mr Tinkov exclusively.

On 22 October 2013, the bank went public via an IPO of class A shares in the form of Global Depository Receipts (GDRs) on the London Stock Exchange PLC. The pricing range was USD 14 – 17.5 per GDR. That was 3.9x – 4.8x times the equity of the bank. It was the biggest IPO in London from a Russian company since MegaFon in 2012. The final price was equal to the upper bound of the range, USD 17.5. Market capitalisation reached USD 3.2 bln. TCS managed to raise USD 1.09 bln. The post-IPO authorized capital comprised 62,111,802 shares (as of October 2013): 16% accounted for the primary component (USD 175 mln), and 84% accounted for the secondary component (USD 912 mln). Since the IPO, the ownership has changed: Mr Tinkov is still the controlling stakeholder with 50.9% (91.2% of the votes due to class B shares). 34.9% are in free float (as of December 2013, Figure 8).

Rights of minority shareholders

There is a shareholders' agreement that states that important decisions require approval of minority shareholders with at least 10% of shares. They include such issues as corporate restructuring, merger, acquisition, sale, transfer and disposal of assets that are valued greater than 20% of the market capitalisation of the bank, delisting, or unfavourable changes of articles of association.

Corporate governance and social corporate responsibility

TCS does not follow Cypriot corporate governance practices, as it runs the business in Russia. The Board of Directors consists of seven members: four Executive Directors including the Chairman (Mr Tinkov) and three Non-Executive Directors, including two independent ones (Appendix 4). Directors are experts in the sphere of audit (e.g. Ernst & Young, Deloitte), ex-top managers with international experience (e.g. Societe Generale, Troika Dialog) and former or current members of the Boards of Directors of international companies (e.g. Orangefield Fidelico Ltd).

There are two Board committees: the Audit Committee and the Remuneration Committee. Each of them comprises three members: one Non-Executive Director and two independent Non-Executive Directors, one of whom is committee chairman. Committees are required to meet at least twice a year.

To add, TCS employees help people that are in need, provide both monetary and hands-on assistance such as food, medicine and equipment. In 2013, the bank helped two orphanages and three care homes in Karelia, Saratov, Tula and Kaluga regions.

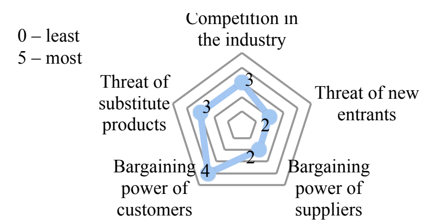
Management team and management incentive programs

TCS senior management team is skillful, having work experience in commercial departments of J.P. Morgan, Morgan Stanley, Citigroup, Raiffeisenbank and Renaissance Capital and commercial banks Russian Standard Bank and Soyuz (Appendix 4). To retain its major employees, in 2011 TCS launched two incentive programs for managers: Employee Stock Option Plan for 7 senior managers and an Equity Long-Term Incentive Program for 29 key and middle managers. Shares issued under these programs are treasury shares and are owned by a trustee, Altruco Trustees Limited (Appendix 4).

Industry overview and competitive positioning

TCS operates in the Russian retail banking segment, which is still not mature. The industry is dominated by five players: Sberbank, VTB24, TCS, Alfa-Bank and Russian Standard Bank. TCS largest competitors are diversified players while TCS occupies a particular niche and has features of an Internet company: it concentrates on credit cards, and has a branchless model, focused on Internet.

Figure 9. Porter's five forces



Sources: Team analysis

Current macroeconomic conditions are challenging

During the last four years, GDP growth in Russia has been steadily slowing down by 3% from 2010 to 2013. CBRF forecasts -0.8% GDP growth in 2014E and -4% in 2015F (Figure 10). Sanctions, the Ukranian crisis, capital outflow and falling oil prices decrease business confidence. The ruble devaluation causes an increase in inflation to 10.1% in 2014E (Figure 40, 41, Appendix 5). These factors decrease the potential client base and their quality. Less people are able to redeem their debts and less are willing to take loans because of lower income and higher interest rates, thus, increasing non-performing loans share. Besides, less people are willing to have a deposit due to need of money, and the panic of depositors, wishing their money back, already lead to bankruptcies, which are also caused by less access to CBRF funds and interbank loans and their higher price. All these factors decrease profitability.

Retail banking industry in Russia is on the growth stage

Russian banking industry has high CAGR (2011 – 2013) of 17%, which is less than some emerging countries, but more than developed (Figure 11). Retail loans CAGR is 22.6% (2010 – 2013) and deposits CAGR is 7% (Figure 43, Appendix 5). However, retail banking in Russia is underdeveloped compared to other countries, the ratio of retail loans as percentage of GDP was 15% in 2013 and the ratio of external debt of private sector to GDP was 35% (Figure 12, 42, Appendix 5). In addition, in 2015 due to banking crisis, retail banking in Russia is not expected to grow, but it will start recovering after 2015. Despite challenges, this suggests that there are opportunities for the development of financial services.

Credit card segment grows faster than other types of loans

Credit card lending as a percentage of total retail lending is increasing at a higher rate than other segments, being 6% in 2010 and is expected to be 10% in 2014E, due to an increasing trend of substitution of cash by cashless payments (Figure 13). Clearings per person in different regions grew from 2012 to 2013 to 40% (Figure 55, Appendix 5). In 2013, the second biggest share (10%) of online payments in Russia was made via credit cards (Figure 52, Appendix 5). However, the share of non-performing loans in Russia in credit cards is the highest among different types of loans, 18%, which causes additional risk (Figure 45, Appendix 5). Due to unfavourable conditions, in 2015 the credit card segment will not grow, but improvements will appear after 2015. Thus, this segment requires a proper risk-management program, but has growth potential.

Regulation in the banking segment is becoming stricter

In current conditions, new laws, that can adversely affect the banking segment, are introduced. These are higher provisioning requirements, increased risk weightings for domestic capital adequacy ratios, increased deposit insurance fees, interest rate caps and personal bankruptcy. However, the last one will not affect TCS, as it concerns loans of more than 500,000 rubles, but TCS credit cards maximum limit 300,000 rubles. Besides, CBRF helps banks and eases some requirements. Due to exchange rate fluctuations in the Q4'2014, CBRF enabled banks to calculate reserves applying the exchange rate of the Q3'2014. Retail banks are also enabled to set deposit interest rates higher than CBRF rate not by 2 ppt, but by 3.5 ppt. In addition, an increase of the income tax-free part of deposits and an increase in the insurance amount covering deposits make deposits more popular, attracting customers. So regulation affects TCS, decreasing or increasing its profitability.

Insurance market is underdeveloped, but promising

Russian insurance market is underdeveloped, insurance premiums as a percentage of GDP in 2013 were about 2% (Figure 14). Insurance premiums per capita in Russia are low, especially life insurance premiums: 80 – 90% of CGAP respondents in 2014 did not use insurance services (Figure 48, 50, Appendix 5). Nevertheless, the growth of the market is expected to be 14% (CAGR) up to the end of 2013 with rising insurance premiums, which could increase company's revenue (Figure 49, Appendix 5).

Competitive positioning

TCS market share is expected to be stable with an increase once macroeconomic conditions improve

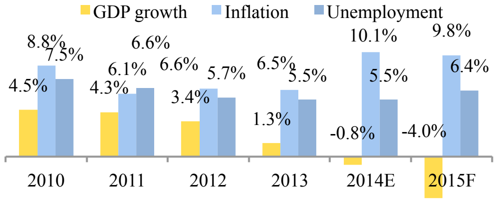
TCS share in the market of credit cards has been steadily increasing from 4% in 2010 up to 7.7% in 2013, becoming the third among key players (Figure 15). However, in 2014 its share is expected to decrease slightly due to uncertainty in the market. Now the main aim of the bank is to ensure its share to be stable, and to increase it when macroeconomic conditions improve.

Industry concentration and competition are high

Concentration on the credit-card market is high, the market share of five main players is increasing, representing 63% in 2014E (Figure 15). This is due to barriers to entry caused by high regulation of CBRF. In addition, banks have to possess expertise of credit card segment and relevant risk management system. TCS main competitors are big banks, as they are stable and provide the same services offering deposits and loans, but have different loans split (Figure 16):

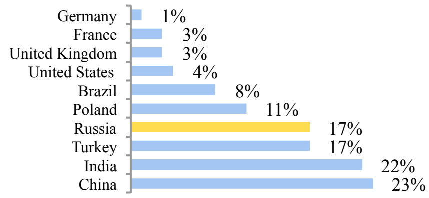
- TCS loan portfolio consisted of 98% of credit cards in 2013. This is its unique feature, but it is the risk due to non-diversification.
- Sberbank and VTB24 are well positioned with a market share of 30% and access to cheap money and other privileges. In current conditions, they are gaining popularity

Figure 10. Macroeconomic indicators in Russia 2010 – 2015F (%)



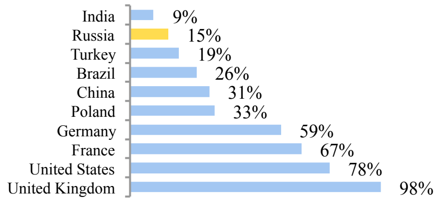
Sources: CBRF

Figure 11. Growth of banks' assets (%)



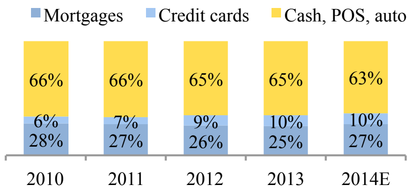
Sources: EIU, Eurostat, OECD

Figure 12. Retail loans as % of GDP in 2013



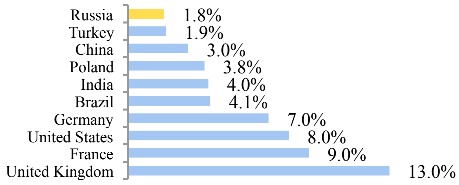
Sources: Haver Analytics, CBRF, National Statistical Agencies

Figure 13. Retail loans split by category (%)



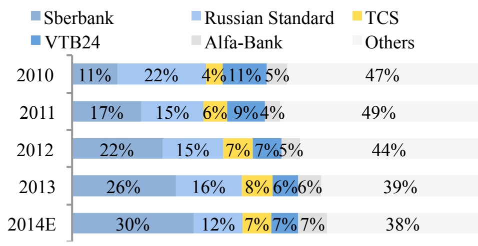
Sources: CBRF

Figure 14. Insurance premiums as % of GDP in 2013



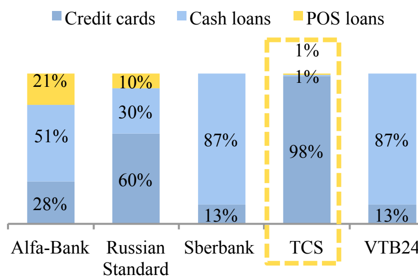
Sources: Swiss Re Economic Research & Consulting

Figure 15. Market share of companies in the credit card segment in 2010 – 2014E (%)



Sources: Companies data, CBRF, Team estimates

Figure 16. Unsecured consumer loans split in 2013 (%)



Sources: Companies data, CBRF

because of government aid. Cash loans represented 87% of all loans in 2013, while credit cards loans represented 13% in their portfolio.

- Alfa-Bank has a 7% market share. It provides more cash loans than credit cards, 51% against 28% in 2013, and has the highest percentage of POS loans among the competitors, 21%.
- Russian Standard Bank ranks second after Sberbank with a 16% market share in 2013. Its structure of loans is closer to TCS, as in 2013, 60% of loans of were credit cards loans and 30% of cash loans.

Thus, Russian retail banking is concentrated, and competition is high.

TCS competitive strengths

- TCS concentrates uniquely on credit cards and the mass market. This focus enables TCS to devote all resources to development of credit card related technology, services quality and risk management. Thus, its credit card portfolio CAGR was 49% for the previous four years.
- Smart-courier service makes TCS attractive to a wide range of customers in all parts of Russia, making possible over 6,000 meetings per day (Figure 57, Appendix 5), in 95% of which contracts are signed.
- Using smart data-driven approach and risk management (Table 19, Figure 58, Appendix 5), TCS scores customers' creditability by applying various sources, imposes strict rules for approval: before 20 – 30% of applications were approved, now 15%, decreasing the probability of customers' bankruptcy.
- TCS business activities are based on latest technological advances. In 2012, TCS was named the Best Internet Bank 2012 by Global Finance. In 2014, TCS was the first bank which introduced real-time authentication system in the call centre, which enabled it to verify incoming calls from clients much quicker.
- TCS has higher margins than peers allowing to remain competitive in crisis which is important in current conditions (Figure 30).

TCS weaknesses are related with high funding costs, relatively small size as well as lack of government support.

TCS opportunities are connected to Internet expansion and E-commerce development which can increase the customer base, and introduction of new cross-selling products can drive revenue.

TCS threats come from the macroeconomic uncertainty, changes in regulations and laws, increase in competition that can make business unprofitable and increase the number of non-performing loans.

TCS is a bank of choice for consumers

According to Synovate Comcon's respondents, the key criteria for choosing a bank are bank's popularity (48% of respondents), bank's reputation (46%) as well as clear terms of products (30%) and state support (27%) (Figure 17). According to these criteria, in 2014, TCS is the first in the Top-20 most popular banks by banki.ru, it is well known, as customers' awareness was 34% in 2013. This is less than competitors due to short period of existence (Figure 18). As for terms, TCS products and services are competitive:

- In 2014, TCS deposit interest rates (for 12 months) for different currencies are higher than competitors, the differences ranging from 10% to 1% (Figure 19).
- TCS has a higher maximum credit limit, on average lower interest rates, the lowest cash withdrawal commission and annual service fees (Table 7, 20, Appendix 5). There is no need for financial guarantees, and the card can be used in other countries. Besides, there is an option to redeem the debt in other banks.
- TCS has the main types of insurance such as property, life and health, trip, loans and accidents insurance with total premiums less than peers (Table 21, Appendix 5).

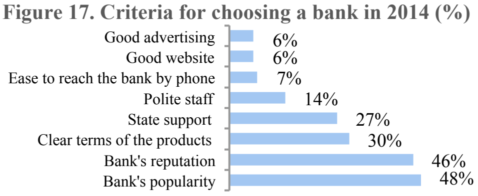
Thus, TCS is attractive for customers.

TCS benefits from Internet, mobile and E-commerce development

Internet penetration in Russia is 60% in 2014E, but it is about 15 – 20% less than in the developed countries (Figure 20). As for federal regions, the Internet penetration rate is more than 40% in all of them, and is expected to be 60 – 70% in 2014E. (Figure 46, Appendix 5). Mobile Internet is becoming more popular, which is caused by smartphone penetration growth, which is 45% (Figure 20). Furthermore, Russian E-commerce market is growing at 21%, in 2014E it will represent 4% of retail sales (Figure 51, Appendix 5). The shift of online shopping will create more incentives to use credit cards and Internet banking, attracting more clients to TCS online services.

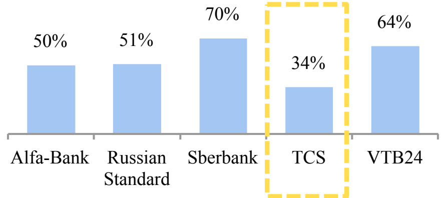
Moreover, according to Synovate Comcon, 50% of respondents believe that easy access is important for an Internet-bank, 42 – 43% of them name easy system of operation verifications and convenient monitoring of operations performed, 39% mention security and quick reports of performed operations (Figure 21). TCS has a much more user-friendly platform than others: it provides reliable, convenient on-line services and always has discounts and bonuses. Besides, TCS mobile banking has substantially more payment partners, more than 3,000, and the approval of application is very quick (Figure 22, Table 22, Appendix 5). This well positions TCS and enables to charge higher interest rates.

Figure 17. Criteria for choosing a bank in 2014 (%)



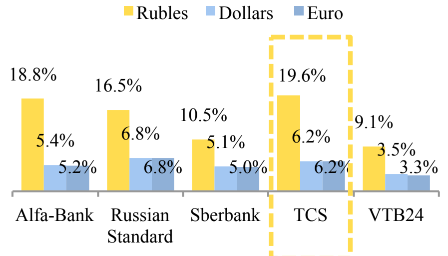
Sources: Synovate Comcon "Criteria for choosing a bank"

Figure 18. Customer's awareness of banks in 2013 (%)



Sources: Synovate comcon "Russian Index of Target Groups"

Figure 19. Deposits interest rates as of 31 December 2014 (% for 12 months)



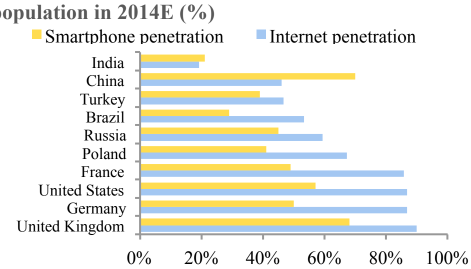
Sources: Companies data

Table 7. Interest rates on credit cards as of 31 December 2014 (%)

Bank	Interest on purchases	Interest on cash
Alfa-Bank	19 – 32%	19 – 32%
Russian Standard	36%	36%
Sberbank	19 – 24%	19 – 24%
TCS	24.9 – 45.9%	32.9 – 45.9%
VTB24	19%	19%

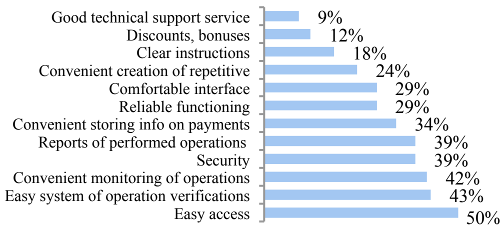
Sources: Companies data

Figure 20. Internet and smartphone penetration in population in 2014E (%)



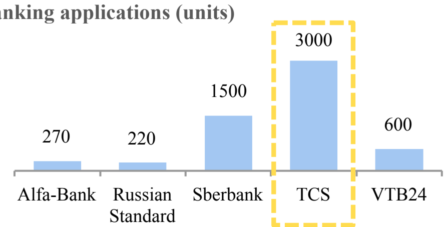
Sources: Consumer Barometer, Internet live stats

Figure 21. Criteria for the Internet-bank in 2014 (%)



Sources: Synovate Comcon "Ideal Internet-bank"

Figure 22. Number of payment partners of mobile banking applications (units)



Sources: Companies data, Team analysis

Investment Summary

We give TCS a BUY recommendation with the target price of USD 5.4, which is 70.2% upgrade from the current price

We suppose that TCS price has high growth potential because investors overvalue its risks and undervalue fundamental factors (Table 8). We believe that it will improve its cost of risk and cost efficiency after the banking crisis and mitigate external and internal risks because of high quality risk management (Figure 24). Thus, TCS business model along with the expansion of its loan portfolio will enable TCS to maintain profitability (Table 9).

Exposure to the fastest growing segment of the retail loan market, credit cards

Credit card segment has superior profitability due to high interest rates and accelerated growth rate compared to other segments of total lending (Table 9). These trends combined with TCS effective risk management enable TCS to be profitable with growing market share. In addition, TCS occupies a niche that is largely dependent on the Internet, smartphone penetration and E-commerce that all have high growth potential. This provides more opportunities for the development of online financial services, creating more incentives to use credit cards and Internet banking; thus, attracting more clients to TCS online services.

Competitive interest rates on deposits and non-aggressive interest rates on loans are expected to attract customers despite the current banking crisis in Russia

We expect interest rates received on loans to decrease from 57.4% in 2014E to 52.0% in 2018F due to the decreasing demand for credits (Figure 23). At the same time, CBRF raised the key interest rate from 10.5% to 17.0% in December 2014. Therefore, we assume that TCS average interest rate on deposits will increase from 11.7% in 2014E up to 19.6% in 2015, but to decrease moderately to 10.0% in 2018F, as soon as the macroeconomic situation stabilizes (Figure 23).

Strong market position

TCS has been growing faster than the market by 70% since foundation. We believe it will maintain its market share of 7% in 2014E – 2016F without aggressive growth and to concentrate on the clients' quality because of the current banking crisis in Russia, the drop of disposable income and decrease in population solvency. Along with improvements in the macroeconomic conditions, it will continue expanding its market share in 2017F – 2018F.

High service quality on the back of an advanced technological platform

High growing Internet penetration enables to provide clients with high quality services that are quickly performed online with no need for physical attendance. TCS mobile banking is based on a user-friendly platform and has substantially more payment partners than competitors with quick approval of application, attracting more clients effectively.

High quality of the credit portfolio and strong financial standing

TCS applies effective risk management, strictly scoring customers' creditability and imposing strict rules for approval: before 20 – 30% of applications were approved, now 15%, this decreases the cost of risk. However, due to unfavorable macroeconomic conditions we expect that the cost of risk will increase in 2015 with a consequent decrease, but it will always be lower than competitors' level. Moreover, TCS liquidity cushion of 25% from customer deposits will generate additional funds, which will allow the company to maintain net interest income at the same level with a slight increase of 0.5% CAGR in 2014E – 2018F.

Asset-light model with a flexible cost base

Due to smart business model, TCS cost management is more flexible compared to its peers which enables the company to expand operations more quickly and to contract them without decrease in effectiveness of the business (Figure 24, 25). In addition, branchless structure enables to maintain low fixed costs.

Valuation methods

We have derived the target price using Free Cash Flow to Equity, as TCS is regulated by CBRF in accordance with Basel III Tier I capital requirements. Due to the fact that there are no identical peer companies, we used multiples valuation as a cross-check to FCFE.

Risks, common for the whole banking sector in Russia

Most serious risks are connected with the credit risk and the macroeconomic environment that is unfavourable and that has a negative influence on the banking industry by reducing the number of loans and their quality, thus, decreasing profitability. Besides, regulation risk is the key one, again due to the specificity of the industry. Competitive risk exists, but it is not the crucial one. Mr. Tinkov's high stake can also be a challenge and lead to the conflict of interests. However, the company has high quality risk management, which will help to mitigate most of risks.

Table 8. Valuation summary

Target price (USD)	5.4
Current price (USD)	3.2
Upside	70.2%
P/E	13.1
P/BV	1.2

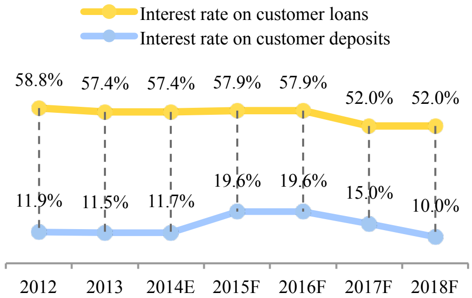
Sources: Team estimates

Table 9. Applied market and company characteristics

	2014E	2015F	2016F	2017F	2018F
Credit card market growth	13%	0%	3%	6%	6%
Average loan per card (USD)	990	770	770	830	920
Average deposit per card (USD)	580	510	510	580	650
ROAE	30%	7%	8%	9%	10%
Net Income Margin	17%	6%	7%	8%	9%

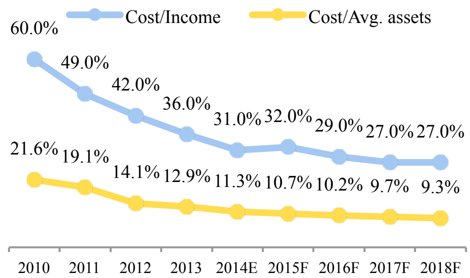
Sources: Team estimates, Company data

Figure 23. TCS interest rates dynamics in 2012 – 2018F (%)



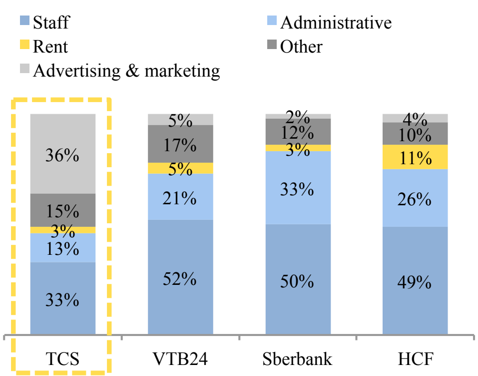
Sources: Company data, Team estimates

Figure 24. Cost efficiency in 2010 – 2018F (%)



Sources: Company data, Team estimates

Figure 25. Operational costs breakdown in 2013 (%)



Sources: Company data

Balance sheet

TCS assets mostly consist of net customer loans and interest earning assets, which are approximately 40% each. We expect that this trend will continue with slight improvements, due to the fact that banking industry is concentrated, and TCS share is stable and is expected to increase after two years. TCS has 92% percent of credit card loans in its loan portfolio as of Q3'2014. Such a structure was different in 2012 and 2013 as TCS launched cash-lending and started offering installment products, which represent 1.9% and 5.8% respectively (Figure 66, Appendix 6).

Unlike most of the segment players, TCS carries no interbank funds and has no significant position in securities. This reduces earnings vulnerability to the securities market conditions seen across traded peers (Figure 59, Appendix 6).

Funding of TCS has a simple and balanced structure with 43% and 26% of money coming from customer deposits and debt securities respectively (Figure 60, Appendix 6). We believe that the company will pay off its bonds in 2015; therefore, the percent of debt securities in funding will decrease. Due to the fact that TCS has higher effective deposits rate than its peers and an attractive marketing campaign, we expect that customer deposits will increase by 6% from 2013 to 2018F. Moreover, capital levels are sufficient for the bank to initiate a dividend policy, in our view. Therefore, we expect that the company will hold less cash and cash equivalents each year up to 2016 (Figure 59, Appendix 6).

Loan quality and capital adequacy ratios are high

The cost of risk increased from 14.3% in 2012 to 15.5% in 2013. The increase is explained by larger disbursements via online acquisition channels (Internet and mobile), which are inherently riskier than offline ones, and by an overall growth of credit risks in the Russian retail segment. We expect a continuous increase in the cost of risk in 2014E – 2018F, with further declines possible in the longer term because currently TCS is tightening its underwriting policy and decreasing approval rates (Figure 26).

Moreover, the ratio of provisions to gross loans increased in the last two years by 2%, and we expect that this trend will continue. According to our funding breakdown forecast, the weight of loans will remain approximately the same up to 2018F (Figure 60, Appendix 6).

TCS has higher capital adequacy ratio (CBRF N1.0 ratio) than comparable banks, and this correspondence is expected to continue. It is 16.81%, while other competitors have the ratio of 11% – 12% (Figure 61, 62, Appendix 6). Tier 1 and Tier 2 ratios satisfy the CBRF requirements (more than 5% and 6% in 2014E), but they are predicted to decline up to 2015.

Debt securities in issue

TCS takes a conservative approach to managing currency risk. Specifically, it lends in its national currency only. The exposure to FX (USD, EUR) mostly stems from fund raising via Eurobonds and retail deposits. According to management, foreign currency is converted into RUB for lending purposes, when necessary, while the rest of the funds is usually placed in on-demand deposits. Each position is hedged with a short-term cross-currency swap, typically, with one-month maturity.

TCS redeemed 19% of bonds denominated in rubles in 2014E, and it should redeem 37% and 44% of them in 2015F and 2016F respectively. Moreover, 41% of bonds denominated in dollars will be redeemed in 2018F and 33% in 2015F (Figure 63, Appendix 6).

Earnings will be stable after 2014, and they will be higher than those of peers

With TCS having reached a significant scale of operations, we expect growth and profits to come down to sustainably strong levels. Return on average assets (ROAA) reached a peak in 2011 and declined after that. Despite of the fact that in 2015F net interest income will decline two times, we believe that after 2016 it will increase, with assumptions that customer deposits and creditworthiness will improve. Return on average equity (ROAE) reached a high level in 2011 and then decreased because share of equity in capital structure increased (Figure 27).

TCS ROE is much higher than peers' ROE. Analysing the dynamics of return on equity from 2010 to 2014E, TCS performed well especially in 2012 when it achieved 60%. However, due to unfavourable macroeconomic conditions it declined in 2013 to 45%, which is still one of the highest values among peers (Figure 28).

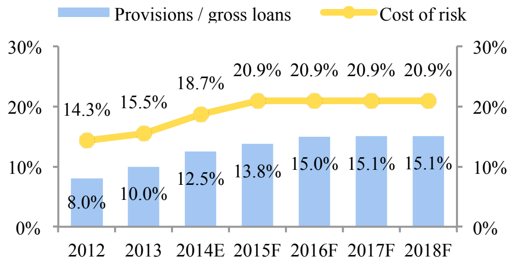
TCS demonstrated strong results in core revenue yield (CRY) and core revenue margin (CRM) (Figure 29). CRY includes both gross interest income and gross fee income, which are divided by total assets. Similarly, CRM includes net interest income and net fee income, which are divided by total assets. However, due to regulatory, competitive and product – mix pressures we believe that CRY will decline by 10% from 2013 to 2018F.

Table 10. Financial performance (USD mln)

	2012	2013	2014E	2015F	2016F	2017F	2018F
Loans to Customers	1,573	2,259	2,471	1,923	1,923	2,188	2,570
Total Assets	2,173	3,024	3,020	2,583	2,540	2,851	3,089
Customer Deposits	878	1,320	1,443	1,268	1,258	1,520	1,808
Total Liabilities	1,875	2,396	2,199	1,694	1,590	1,839	1,990
Total Equity	298	627	820	889	950	1,012	1,099
Interest income	657	1,100	1,118	682	744	827	918
Interest expense	(158)	(257)	(251)	(279)	(234)	(224)	(253)
Net Interest Income	500	843	868	403	511	603	665
Net Interest Margin (%)	76.0	76.7	77.6	59.1	68.6	72.9	72.4
ROAA (%)	8.3	7.1	4.0	4.7	6.5	6.9	6.8
ROAE (%)	59.7	44.8	18.0	18.0	24	25	25
Tier 1 (%)	8.5	12.9	8.7	7.0	6.1	5.5	5.7

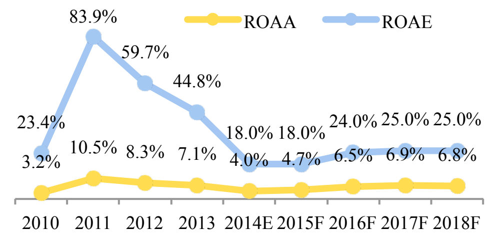
Sources: Company data, Team estimates

Figure 26. Loan quality in 2012 – 2018F (%)



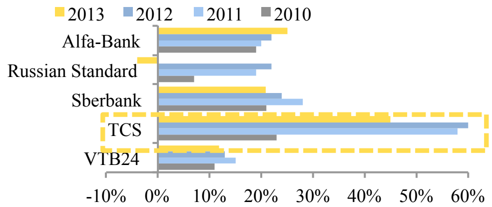
Sources: Company data, Team estimates

Figure 27. Annual profitability in 2010 – 2018F (%)



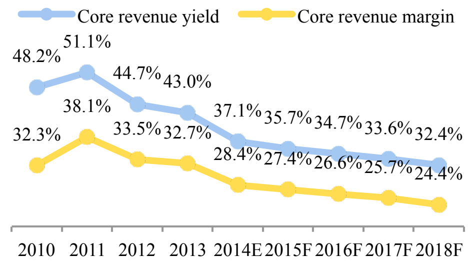
Sources: Company data, Team estimates

Figure 28. ROE of TCS and its peers 2010 – 2013 (%)



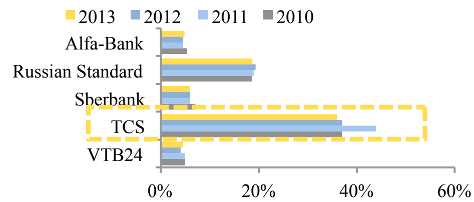
Sources: Company data, Team estimates

Figure 29. Core revenue ratios in 2010 – 2018F (%)



Sources: Company data, Team estimates

Figure 30. Net interest margin in 2010 – 2013 (%)



Sources: Company data, Team estimates

Net interest margin (NIM) dynamics (36% in 2013 vs 37% in 2012) reflect the trend of portfolio aging and decrease in average cost of credit (PSK) of the portfolio, but it is higher than peers have (Figure 30).

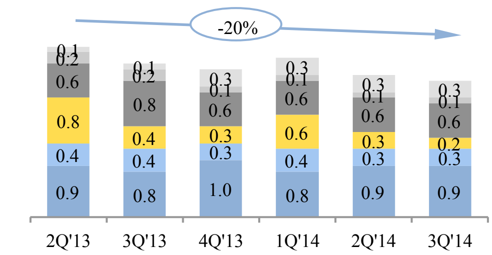
We believe that this decline is due to unfavourable macroeconomic conditions, which led to the decrease in the number and the quality of loans. Furthermore, according to our forecast of assets breakdown interest earning assets will increase each year up to 47% in 2018, which also causes NIM to decrease by 4.6% from 2012 to 2018F (Figure 59, 64, Appendix 6).

Cost efficiency is expected to increase together with a decrease in operating expenses
Since 2013, TCS operating expenses have been reducing by 20% from 3 billion rubles to 2.4 billion rubles in the 3[d] quarter of 2014. Meanwhile administrative staff expenses remained stable (about 26.7%) and advertising costs decreased except for the 1[st] quarter of 2014 (Figure 31). We believe that released costs from advertising can create opportunities for company growth and lead to an increase in cost efficiency.

We expect further improvement of cost efficiency, due to economies of scale, strict control over costs and limited growth of customer acquisition costs, together with slower loan growth. We believe that cost to income will decline by 4% and cost to average assets will decrease by 2% from 2014E to 2018F (Figure 32). This is a positive signal, together with the increasing scale of the bank.

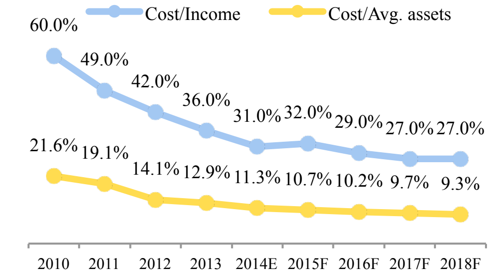
In contrast to its peers, in 2013, most part of TCS operational costs were those connected with advertising and marketing (36%) and with staff (33%). However, the percentage of staff costs is much lower in contrast to VTB24, Sberbank and Russian Standard with 50 – 60%, which is an advantage of TCS (Figure 65, Appendix 5).

Figure 31. Operating expenses (RUB bln)



Sources: Company data

Figure 32. Cost efficiency in 2010 – 2018F (%)



Sources: Company data, Team estimates

Valuation

Our target share price is USD 5.4 based on Free Cash Flow to Equity model
From our point of view, FCFE is the most appropriate method to value TCS as the company has to satisfy CBRF capital requirements. The relative valuation approach is used as a cross-check, as there are no peer companies with an identical business model.

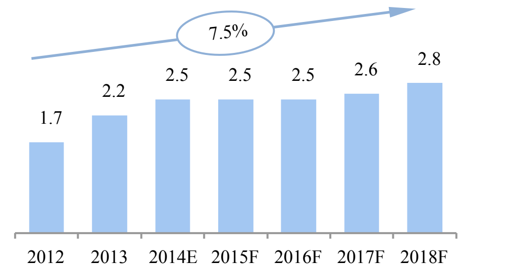
Free Cash Flow to Equity
We applied FCFE because TCS decided to pay dividends in December 2014, and the company does not have stable payout ratio. TCS has to function according to the CBRF requirements. Thus, Basel III standards are implemented in the Russian Federation, which require Tier 1 capital ratio to be maintained at the level of 5%. We assume that all the remaining capital is a discounted cash flow to shareholders (Table 32, Appendix 11).

Balance Sheet and Income Statement projections
In current unstable macroeconomic conditions, we believe that TCS maintains its market share and focuses on the improvement of the customers' quality. We assume that overall the credit cards market growth will drive TCS value of loans and deposits on the Balance Sheet (Table 23, Appendix 7). Average loan per card and average deposit per card are assumed to grow with CPI adjusted for the USD/RUB exchange rate (Figure 34, Table 38, Appendix 13). In the Income Statement, interest income and expense are predicted in accordance with interest rates dynamics (Table 24, Appendix 7, Table 29, Appendix 9, Table 38, Appendix 13).

We expect credit card market growth to decelerate due to the population disposable income drop
The demand for credit cards is primarily influenced by two factors: the ability of population to deposit the money and to repay the credit debt. We assume that these two factors are driven by macroeconomic indicators, such as the unemployment and the real disposable income growth rates. Thus, we took 13.9% of the credit cards growth for 2014E, and for 2015E – 2018E, the increase was calculated as sum of the unemployment and the real disposable income growth rates, and set to zero if it was negative (Figure 33, Table 38, Appendix 13).

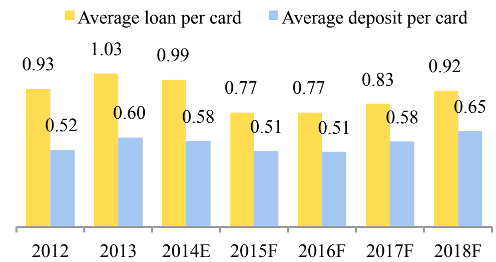
Interest rates dynamics depend on CBRF key rate and on TCS focus on the market share targeting
Customer loans are likely to decrease in volume because of the disposable income growth slowdown. Hence, we assume that interest rates on customer loans will decrease from 57% in 2014E to 52% in 2018F, calculated as the average of the existing interest rates range (Figure 35). However, peer banks are likely to increase interest rates on customer deposits more than in previous years in order to attract more customers and because of the increase in the key interest rate by the CBRF to 17% in December. Thus, so as not to lose existing customers and not to decrease market share, TCS average interest rate on deposits will grow from 12.0% in 2014E up to 19.6% in 2015F and then will decrease moderately to 10.0% in 2018E (Figure 35).

Figure 33. TCS active credit cards dynamics in 2012 – 2018F (mln)



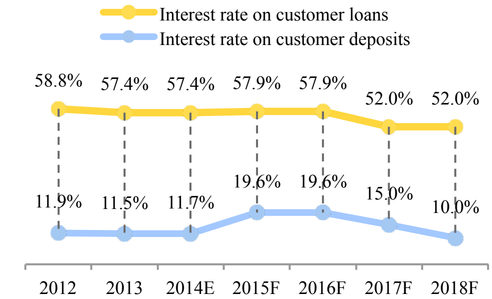
Sources: Team estimates, Company data

Figure 34. TCS average loan and deposit dynamics in 2012 – 2018F (USD th)



Sources: Team estimates, Company data

Figure 35. TCS interest rates dynamics in 2012 – 2018F (%)



Sources: Team estimates, Company data

Provision for loan impairment and sale of bad debts are likely to be highly regulated by risk management requirements

TCS is going to focus on tightening the customers' quality in order to maintain strong capital positions. We though expect the cost of risk to decline gradually from 18.7% in 2014E to 15.7% in 2018F. The bank also sells part of bad debts to collection agencies. We expect this rate to remain at a stable level of 0.4% of loans to customers, as TCS possesses its own collector agency, Feniks.

Cost of equity in USD

We derived the cost of equity using US 10-year Treasury bonds as a risk-free rate, beta calculated with the peer companies, and market risk premium calculated as a difference between the average yearly S&P 500 return for 10 years and the risk-free rate (Table 34 – 37, Appendix 12). We further added a country risk premium, assuming it to be the difference between Russia-2023 Eurobond and US 10-year Treasury returns. Thus, our cost of equity for TCS is set to be 19.5% (Table 12, Table 33, Appendix 11).

Free Cash Flow to Equity and Terminal Value calculation

Required Tier I capital constitutes 5.0% of Risk Weighted Assets (RWA) in accordance with Basel III (Table 26 – 28, Appendix 8). We assume that all the equity capital remaining after satisfying the required Tier I capital ratio is paid in the form of dividends to common shareholders. We calculate the cash flows until 2018. We calculate Terminal Value using Gordon Growth formula based on the assumption of 7.9% perpetual growth rate from 2018, as a sum of forecasted real GDP growth rate and CPI. We assume that TCS effective tax rate will stabilize at 23% based on historical tax payoff and Russian legislation.

Using FCFE approach, equity value of TCS equals USD 922 mln. We estimate the target price based on FCFE method as USD 5.4 with 70.2% upside to the share price on the valuation date (Table 11, Table 33, Appendix 11).

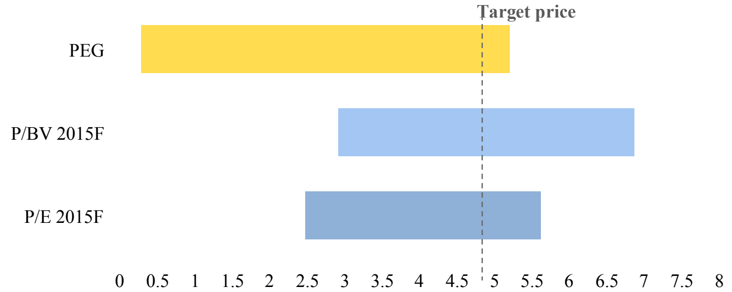
Risks to the target price

Our model includes some future assumptions about credit card market growth rate, interest rates on deposits and loans, macroeconomic indicators which are difficult to estimate with certainty. Thus, these assumptions and current macroeconomic situation with the increased regulation of CBRF lead to the higher sensitivity (and uncertainty) of the target share price to the growth rate both for 2018F – 2023F, and perpetuity period (Table 13, 14). We performed a sensitivity analysis for required Tier I capital ratio and for the terminal growth rate. The obtained results demonstrate that the share price is highly sensitive to changes in CBRF requirements.

Multiples valuation

There were two principal factors for selection of peer companies: the same industry and geographical position. We divided the peer group into four categories by product mix. We assumed that in Russia the peer group is Bank Otkritie, Bank ST Peterburg, Bank Vozrozhdenie. We also looked at a range of high-growth companies such as QIWI and Yandex, as TCS is characterized as a hybrid of a bank and a high-tech company. As there are no peer companies with an identical business model, we used multiples valuation as a cross-check for FCFE model. For peer group valuation we calculated three multiples – P/E, P/BV and PEG, which represent growth potential of the company. All multiples were measured as peer group percentiles, median and mean. The table demonstrates P/E and P/BV multiples supplemented by ROE (Table 39 – 41, Appendix 14).

Figure 36. Multiples valuation of target price (USD)



Sources: Team estimates

Using multiples approach, the equity value of TCS equals USD 894 mln. We estimate its target price based on trading multiples calculation method as USD 4.9 with 53.6% upside to the share price on the valuation date (Figure 36, Table 15).

Regression analysis

We also applied regression analysis using our peer group (Table 39, 40, Appendix 14, Table 41 – 44, Appendix 15) where dependent variable was P/E and independent variable was ROE. So, P/E of TCS equals 13.08 and the target share price using this method is USD 4.5, with 41.7% upside (Figure 37, Table 16).

Table 11. FCFE price per share

PV of 5Y Dividends (USD mln)	612
PV of Terminal Value (USD mln)	251
TV (% of total)	35.1%
Equity Value before Excess Capital adj. (USD mln)	716
Excess Capital (USD mln)	275
Equity Value (USD mln)	992
Shares outstanding (mln)	183
Target price per share (USD)	**5.4**
Current price per share (USD)	**3.2**
Upside (%)	**70.2%**

Sources: Team estimates

Table 12. Cost of equity

US 10-year T-Bond (%)	2.7
Beta (x)	1.3
MRP (%)	7.5
Cost of Equity (USD, %)	12.5
Country Risk Premium (RF, %)	7.0
Cost of Equity (%)	19.5

Sources: Team estimates

Table 13. Price per Share sensitivity analysis (USD): Cost of Equity vs. Target Tier 1 Ratio

		Cost of Equity				
		17.5%	**18.5%**	**19.5%**	**20.5%**	**21.5%**
Target Tier 1 Ratio	**3.0%**	7.8	7.4	7.1	6.9	6.7
	4.0%	6.9	6.6	6.3	6.1	5.9
	5.0%	5.9	5.7	5.4	5.2	5.1
	6.0%	5.0	4.8	4.6	4.4	4.3
	7.0%	4.1	3.9	3.7	3.6	3.5

Sources: Team estimates

Table 14. Price per Share sensitivity analysis (USD): Cost of Equity vs. Terminal Growth Rate

		Cost of Equity				
		17.5%	**18.5%**	**19.5%**	**20.5%**	**21.5%**
Terminal Growth Rate	**5.9%**	5.6	5.3	5.2	5.0	4.9
	6.9%	5.7	5.5	5.3	5.1	4.9
	7.9%	5.9	5.7	5.4	5.2	5.1
	8.9%	6.2	5.8	5.6	5.3	5.2
	9.9%	6.5	6.1	5.8	5.5	5.3

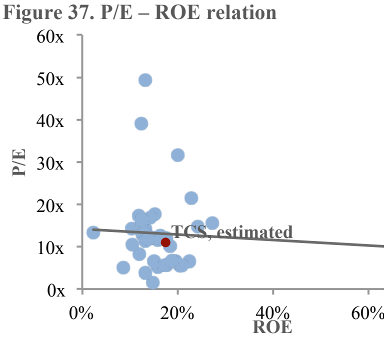
Sources: Team estimates

Table 15. Trading multiples valuation price per share

PEG (x)	2.4
P/BV (x)	1.4
P/E (x)	13.1
Equity Value (USD mln)	894
Shares outstanding (mln)	182
Target price per share (USD)	**4.9**
Current price per share (USD)	**3.2**
Upside (%)	**53.6**

Sources: Team estimates

Figure 37. P/E – ROE relation



Sources: Team estimates

Table 16. Price per share from regression analysis

ROE (%)	17.40
EPS (USD per share)	0.38
P/E (x)	13.08
Target price per share (USD)	**4.52**
Current price per share (USD)	**3.2**
Upside (%)	**41.7**

Sources: Team estimates

Investment risks and their mitigants

Current economic environment has a negative effect on the retail banking sector decreasing the number of customers and increasing NPL ratios (1)

Recession, sanctions, falling oil prices, currency devaluation cause the decrease in the potential client base and their quality. Less people are able to redeem their debts and less are willing to take loans and put the deposits due to lower income and higher interest rates, thus, increasing non-performing loans share. Besides, the panic of depositors wishing their money back already lead to bankruptcies, which are also caused by less access to CBRF funds and interbank loans and their higher price. TCS could face problems with the quality of loans, growth and profitability.

Exchange rate risk could lead to currency mismatch (2)

In the current situation the volatility of the foreign exchange market is high, which could pressure on the TCS profitability, as it has foreign currency deposits and foreign currency bonds which it should redeem, but it does not have foreign currency loans. Thus, this could lead to the currency mismatch. However, a high liquidity cushion and diversified currency of the bonds mitigate these risks.

Increase in interest rates adversely affects TCS (3)

Due to the increase in the key rate, the deposits have become attractive to the customers, but costly for the bank, while high loan interest rates make customers to postpone lending. This could negatively affect the profitability, but with the improvement of macroconditions the key rate will be decreased, so more people will wish to take a loan.

More customers could be unable to pay back their loans (4)

Now credit risk is high. TCS loan approval criteria are strict. Before approval, customers' identity, credit score are checked and evaluated so that to reduce anticipated losses. Before 20 – 30% of applications were approved, now this rate was decreased 15%, which reduces the probability of default. Moreover, TCS has a specific loan collection process that includes a range of collection tools, depending on the client. The provisioning policy is constantly reviewed to decrease the difference between estimated and actual losses. In addition, TCS writes off its loans when trying to collect the loan and/or interest is not economically viable. Loans are also written off when they are sold to collection agencies.

TCS could unexpectedly need liquidity: this puts pressure on cash (5)

TCS is also exposed to liquidity risk, due to the fact that there is pressure from unused limits on provided products. This risk is mitigated via keeping cash in diversified liquid portfolios, so that to be able to fund the unexpected cash requirements. What is more, testing various scenarios of liquidity states is done regularly.

The introduction of new products could be unsuccessful, and technical difficulties could cause losses (6)

TCS is offering new types of loan and non-banking products, this requires additional investment and may be unsuccessful. Success of some types of insurance products is questionable, as Russian people are not used to insurance services, except car and medical insurance. Still, these products constitute about 5% of TCS revenue, so they do not have a significant impact on the whole business. Losses are also possible from technical difficulties and natural disasters. This is mitigated by monitoring and internal control systems developed to satisfy Basel and CBRF requirements.

High competition could decrease TCS asset growth rates and profitability (7)

Even though TCS's position in small cities, with not many banking activities, is strong and safe, its competition with big banks such as VTB24, Sberbank, Alfa-Bank and Russian Standard is strong. In addition, high profitability of such business could make entering the market attractive for imitators. However, at the moment, TCS has a strong competitive position due to attractive products on offer.

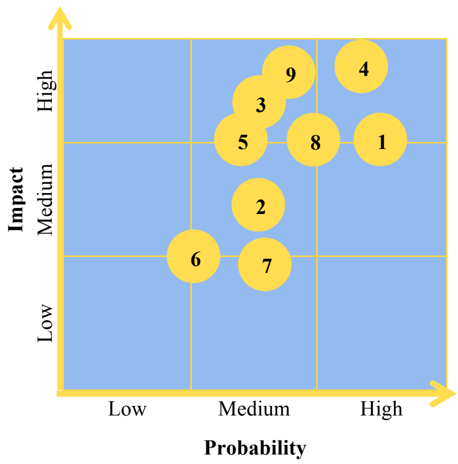
TCS is a high growth company, but this does not guarantee the future growth. In addition, it has a main shareholder: this could lead to conflicts of interests (8)

TCS has successfully operated from 2006, depicting high growth, and having an IPO in 2013, which turned out to be not very successful, due to low demand for shares; thus, this limited time period does not enable us to confidently predict strong company growth in the future. Moreover, the key role of the founder and main shareholder, Oleg Tinkov, causes threats, because his interests can differ from interests of other shareholders.

Regulation imposes requirements that could decrease TCS profitability (9)

Regulatory measures, such as higher provisioning requirements, increased risk weightings for domestic capital adequacy ratios, increased deposit insurance fees and interest rate caps could adversely affect TCS by decreasing profitability. Introduction of new laws about retail loans, collectors and requiring a certain physical location to issue credit cards is possible. TCS stock price experienced a 26% decrease in November 2013, because of ambiguous changes in this law announced by State Duma. Thus, regulation affects profitability.

Figure 38. Risk matrix



Sources: Team estimates

Appendix 1. Product description

Table 17. TCS credit cards and their characteristics

	Tinkoff Platinum	All Airlines	Kanobu	Afimall Citi	eBay	OneTwoTrip
Grace period (days)	55					
Credit limit (RUB)	300,000	700,000				
Interest on purchases (%)	24.9—45.9	23.9—39.9				
Interest on cash (%)	32.9—45.9	29.9—39.9				
Minimum repayment	6% of debt (minimum RUB 600)					
Commission on cash withdrawal	2.9% plus RUB 290					
SMS-bank (RUB per month)	59					
Annual fee (RUB)	590	1890	990			1890
Bonus equality	1 point = 1 RUB	1 mile = 1 RUB	1 point = 1 RUB	1 point = 1 RUB (if the sum of purchase is greater than 2,000 RUB)	1 point = 1 RUB (if the sum of purchase is greater than 1,000 RUB)	1 point = 1 RUB
Bonus points	• 1% for all purchases • Up to 30% for special offers	• 10% for booking hotels (booking.com) and cars (rentalcars.com) • 5% for purchase of airline tickets (via travel.tcsbank.ru) • 3% for purchase of airline tickets from other companies • 2% for any other purchases • 1% for purchases via Internet bank and Mobile bank • 1,000 miles bonus when the card is activated	• 10% for purchases on EPIC.Kanobu for gamers • 10% for purchases of games on Games.Kanobu for gamers' mothers • 1.5% for any other purchases • RUB 500 for purchses in M-Video • 10% for purchases in Buka	• 5% for purchases in Afimall Citi • 1% for any purchases • Up to 30% for purchases from partners	• 5% for purchases on eBay • 1% for any other purchases • 1,000 bonus points for the first purchase	• 5% for purchases of airline tickets on OneTwoTrip.com • 2% for any other purchase • 1,000 bonus points for registration on OneTwoTrip.com and 1,000 RUB discount
Other features	• More than 300,000 top up locations • 0% commission on transfer of loan from other banks • 90-day grace period for loans transferred from other banks	Travel insurance covered by TCS	–	–	–	Travel insurance covered by TCS

Sources: Company data

Table 18. Retail deposit policy description

	RUB account	USD account	EUR account
Minimum deposit	RUB 50,000	USD 1,000	EUR 1,000
Maximum deposit	RUB 30,000,000	USD 1,000,000	EUR 1,000,000
Maximum number of accounts in each currency	6 accounts opened via Internet		
Commission when opening the account in the office	RUB 1,000	USD 35	EUR 35
Maximum sum of all deposits	RUB 100,000,000	USD 3,000,000	EUR 3,000,000
Withdrawal date	60 days after the opening of the account		
Minimum sum of withdrawal	RUB 15,000	USD 500	EUR 500
Rates including capitalisation	13 – 24 months 17.23% 6 – 12 months 19.56% 3 – 5 months 17.23%	12 – 24 months 6.168% 6 – 11 months 4.074% 3 – 5 months 2.529%	

Sources: Company data

Debit card Tinkoff Black possesses the following features:

- Stand-alone debit card that is not linked to a term deposit
- Accrued interest on the account balance (annually):
  - 14% if the account balance is less than RUB 500,000 and there were purchases with the card
  - 4% if the account balance is greater than RUB 500,000 or there were no purchases with the card
  - 4% if the account balance is less than USD/EUR 10,000 and there were purchases with the card
  - 0% if the account balance is greater than USD/EUR 10,000 or there were purchases with the card

- SMS-bank fee: RUB 39 per month
- Service fee: free if the customer has a deposit or a loan account or if the balance of the debit card account is greater than RUB 30,000; RUB 99 per month otherwise
- If the total sum of withdrawals within a month is less than RUB 150,000, 0% commission on withdrawals of sums greater than RUB 3,000, RUB 90 otherwise
- If the total sum of withdrawals within a month is greater than RUB 150,000, 2% commission (minimum RUB 90)
- 1.5% commission (minimum RUB 30) on transfer of money
- 1% cashback for purchases with the card
- 5% cashback for purchases from a category either art, cinema, books, beauty and flowers
- From 3% up to 30% for special offers from partners

Tinkoff Mobile Wallet enables to:

- manage money without having an account in the bank;
- transfer money to somebody;
- transfer money from the banking card or via 3,000 top up locations without commission;
- check balance;
- check payments;
- store history of payments;
- confirm payments by a different code each time.

Appendix 2. Distribution channels

Distribution channels

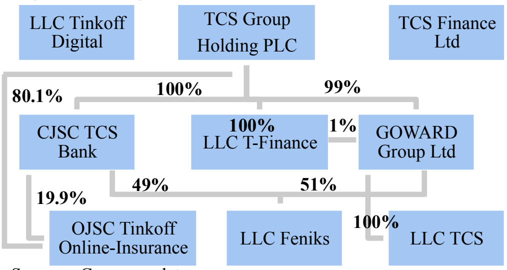
As mentioned earlier TCS uses a great variety of product distribution channels that enable the bank to attract more customers. Describing each of them in more detail:

- **Offline**
  - *Bring a friend.* The policy that encourages current customers to recommend TCS to their friends and relatives.
  - *Direct mail.* Traditional way of attracting consumers via mail. Potential customers are chosen with the help of information from telecommunication companies, retailers, credit bureaus and others. It also comprises TCS partner and loyalty programs. Previously, it was one of the main channels.
  - *Direct sales.* TCS employees visit retail locations and worksites and offer TCS services.
  - *Retail.* This method is the newly-introduced one and is based on cross-selling by partners of the bank.
- **Online**
  - *Internet.* In order to make people aware of services provided by TCS, the bank has advertisements on websites such as banners and search engines with the help of real-time bidding. Now, the Internet is considered the most important channel.
  - *Mobile services and telesales.* These are the applications that are received through two types of TCS Call Centres.

Due to the fact that TCS business is highly dependent on Internet and online distribution method is becoming the key channel, the increase in Internet penetration and use has a positive effect on TCS business expansion.

Appendix 3. Organizational structure

Figure 39. Organizational structure as of 31 December 2014 (% ownership)



Sources: Company data

TCS organizational structure is as follows:

- *TCS Group Holding PLC* is a public limited company that is based in Cyprus and that owns 100% of share capital of CJSC TCS Bank. Its former name was *Egidaco Investments Plc.*
- *CJSC Tinkoff Credit Systems Bank (CJSC TCS Bank)* is a Russian closed joint-stock company, commercial bank, former CJSC Khimmashbank that performs all of bank operations.
- *GOWARD Group Ltd* was established as a special purpose vehicle in British Virgin Islands that enabled Mr Tinkov to control LLC "TCS" and LLC T-Finance. When TCS Bank passed its start-up phase TCS Group Holding PLC took control over GOWARD.
- *LLC TCS* is a Russian limited liability company launched to handle the customer acquisition and partner programs when TCS Bank was only starting its business. GOWARD owns 100% of LLC TCS.
- *LLC T-Finance* is a Russian limited liability company which holds certain hardware applied in the operations of TCS bank and which is entirely owned by TCS Group Holding PLC.
- *OJSC Tinkoff Online-Insurance* is a Russian open joint-stock insurance company: its former name was OJSC SK Moskva. It was acquired in 2013 to launch insurance services for TCS customers. 19.92% belong to TCS Bank.
- *TCS Finance Ltd* is a special purpose entity that enables TCS Group to issue debt securities and that is based in the Ireland. TCS Group is the guarantor of all obligations of this entity. It is not owned by TCS Group.
- *LLC Feniks* is a Russian limited liability company, collection agency established in August 2014 to provide debt collection services. 49% belong to CJSC TCS, and the rest is owned by GOWARD Group Ltd.
- *LLC Tinkoff Digital* is a Russian limited liability company that develops IT projects for the bank. It is owned by Mr Tinkov, Mr Yamanov and Goldman Sachs.

Appendix 4. Board of Directors composition, senior management and incentive programs

Board of directors of TCS Group

Oleg Tinkov (46)
Position: Chairman of the Board of Directors of TCS Bank since the June 2006, Chairman of the Board of Directors of TCS Group Holding PLC since the October 2013
Experience: Owned several retail businesses that he launched by himself: "Petrosib", "Technoshock", "Daria","Tinkoff Beer", "Tinkoff Restaurants"
Education: Leningrad Mining Institute (Russia), Diploma Program in Marketing at University of California (Berkley, USA)
Works at TCS since: June 2006

Martin Cocker (54)
Position: Member of the Board of Directors, Independent Non-Executive Director, Chairman of the Audit Committee, Member of the Remuneration Committee
Experience: Serves as member of the Boards of Etalon Group and Northumberland Tyne and Wear National Health Service Foundation Trust. Worked as a partner with Ernst & Young and with Deloitte & Touche CIS Limited.
Education: Bachelor of Science degree in Mathematics and Economics from the University of Keele (United Kingdom), member of the ICAEW
Works at TCS since: October 2013

Philippe Delpal (40)
Position: Member of the Board of Directors, Non-Executive Director, Member of the Audit Committee, Member of the Remuneration Committee
Experience: Serves a member of the Boards of directors of First Collection Bureau, CB Europlan, Komercijalna Banka, Blackrock Emerging Europe plc, Beta Epsilon SAS, HMS Hydraulic Machines and Systems PLC and Orient Express Bank OJSC. Works as an industry partner for financial services at Baring Vostok Capital Partners
Education: Degree in Information Technology and Economics from the Telecom Paris University (France)
Works at TCS since: October 2013

Jacques Der Megreditchian (53)
Position: Member of the Board of Directors, Independent Non-Executive Director, Chairman of the Remuneration Committee, Member of the Audit Committee
Experience: Serves as a member of the Boards of Directors of the Strategic Planning Committee (Chairman), the Russian National Association of Stock Market Participants and a member of the Remuneration Committee of the Moscow Exchange. Worked as Chief Business Officer in CCF, Societe Generale and Troika Dialog
Education: Degree in business administration from the European Business Institute (France) and in financial analysis from the French Center for Financial Analysis (France)
Works at TCS since: October 2013

Constantinos Economides (38)
Position: Member of the Board of Directors
Experience: Serves as managing director at Orangefield Fidelico Ltd. Worked as an audit manager at Deloitte Ltd and Ernst & Young.
Education: Bachelor of Science degree from Warwick Business School (United Kingdom), member of the ACA and the ICAEW
Works at TCS since: November 2008

Alexios Ioannides (36)
Position: Member of the Board of Directors
Experience: Serves as director of Epsilou Management Services Limited and a director of Axept Ltd
Education: Bachelor of Science degree in Business Administration from University of Alabama (USA), member of the ACA, of the ICAEW and of the Institute of Certified Public Accountants of Cyprus
Works at TCS since: June 2008

Maria Trimithiotou (35)
Position: Member of the Board of Directors
Experience: Serves as a director at Orangefield Fidelico Ltd. Worked as an audit manager at Deloitte Ltd
Education: Fellow Chartered Certified Accountant and a member of the Association of Chartered Certified Accountants
Works at TCS since: May 2012

Management

Oliver Hughes (43)
Position: Chairman of the Management Board of TCS Bank, Chairman of the Credit Committee and Financial Committee, member of the Board of Directors of TCS Bank
Experience: Serves as a non-executive director of Elecsnet. Worked as Head of Representative Office of Visa Int. in Russia
Education: Bachelor of Arts degree in Russian and French from the University of Sussex, Master of Arts degree in International Politics from Leeds University, Science degree in Information Management and Technology from City University
Works at TCS since: 2011

Ilya Pisemsky (38)
Position: Chief Financial Officer, Deputy Chairman of the Management Board of TCS Bank, Deputy Chairman of the Finance Committee of TCS Bank, member of the Credit Committee of TCS Bank
Experience: Worked as Head of Internal Audit and deputy CFO of Bank Soyuz
Education: Degree in finance and credit from the Finance Academy under the Government of the Russian Federation (Russia), MBA from the F.W. Olin Business School at Babson College (USA)
Works at TCS since: 2008

Sergei Pirogov (43)
Position: Head of Corporate Finance, Member of the Board of Directors of TCS Bank
Experience: Worked as Director of Corporate Finance at Citigroup
Education: Moscow State Institute for International Relations (Russia), MBA from Darden Graduate School of Business, University of Virginia (USA)
Works at TCS since: 2010

Evgeny Ivashkevich (43)
Position: Deputy Chairman of the Management Board of TCS Bank, Deputy Chairman of the Credit Committee of TCS Bank, Risk Director of TCS Bank
Experience: Worked as a portfolio manager at Renaissance Capital Bank and Head of product development at Russian Standard Bank
Education: Degree in Physics and Technology from the Moscow Institute of Physics and Technology (Russia), PhD in Theoretical Physics from the Joint Institute for Nuclear Research (Russia)
Works at TCS since: 2007

Stanislav Bliznyuk (33)
Position: Chief Operating Officer, Deputy Chairman of the Management Board of TCS Bank
Experience: Worked as a project manager at Raiffeisen Bank
Education: Degree in Mathematics and Applied Mathematics from the Moscow State University (Russia)
Works at TCS since: 2006

Dmitry Kobzar (34)
Position: Chief Legal Counsel, Deputy Chairman of the Management Board of TCS Bank
Experience: Served as a member and Head of legal in City Mortgage Bank (Morgan Stanley Group) and Head of legal at International Joint-Stock Bank
Education: Degree in Law and PhD degree in Law from the Moscow State University (Russia)
Works at TCS since: 2008

Anatoly Makeshin (41)
Position: Head of Payment Systems, Member of the Management Board of TCS Bank, Payments Systems Director, Vice President of TCS Bank
Experience: Served as Head of Plastic Cards Department at Bank Zenit and MDM Bank
Education: a science degree from the Moscow Power Engineering Institute (Russia), PhD degree in technical science from the Russian Academy of State Service (Russia)
Works at TCS since: 2006

Artem Yamanov (32)
Position: Business Development Director, Senior Vice President, member of the Finance Committee of TCS Bank
Experience: Served as Head of Credit Cards at Reiffeisenbank Austria and Russian Standard Bank
Education: Master's degree in Applied Physics and Mathematics from the Moscow Institute of Physics and Technology (Russia)
Works at TCS since: 2006

Viacheslav Tsyganov (38)
Position: Chief Information Officer
Experience: Served as Head of Systems Analysis at Unimils
Education: Master's degree in Computer Science from Southwest State University (Russia)
Works at TCS since: 2007

Peter Russell (38)
Position: Head of Investor Relations
Experience: Served as Head of Investor Relations Advisory EMEA for the DR Group within the Corporate and Investment Bank at J.P. Morgan
Works at TCS since: 2013

Tatiana Kouznetsova (45)
Position: Head of Human Resources, Vice President
Experience: Served as Head of Human Resources of "MODUL Group" and in the Audit-consulting Group at the Royal Bank of Scotland
Education: Master's Degree in Psychology from the Moscow State University (Russia)
Works at TCS since: 2006

Management incentive programs

Employee share option plan (ESOP)

The maximum share capital attributable to the plan is 2.65% of issued share capital at 30 September 2014. The plan vests in three tranches: 40% in 2012, 30% in 2013 and 30% in 2014. In June 2013 and June 2014 TCS issued 1,449,750 ordinary shares each time with a par value of USD 0.04 per share that were paid to the trustee. These shares give neither voting power, nor direct execution of shareholder rights, except for dividends. Vested shares can be sold in the event that is the earliest of the IPO, change of control, or 1 January 2016.

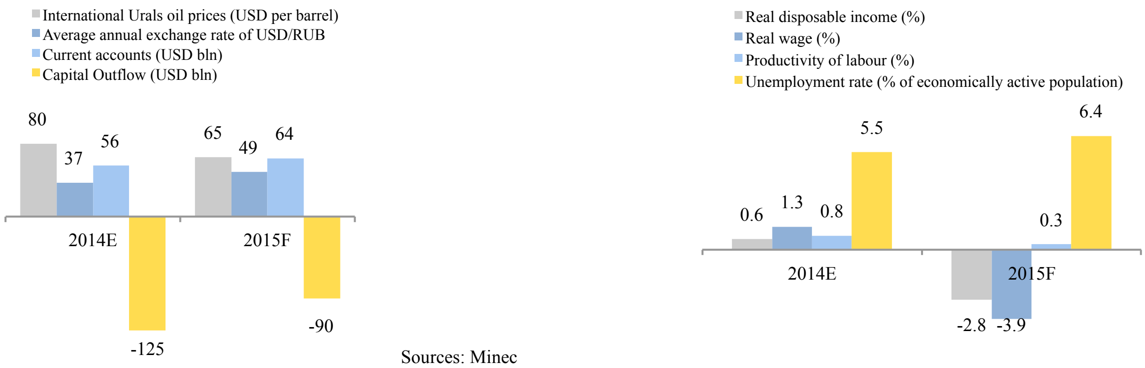
Equity Long-Term Incentive Plan (LTIP)

On a fully diluted basis, this program accounts for maximum of 1% of the total share capital. The senior and middle management is entitled to cash payment, calculated under their individual packages, defined as a percentage of shares. The liquidity event is the earliest of the IPO, or change of control. In October 2013, TCS issued 310,000 ordinary shares with a par value of USD 0.04 per share to the trustee. Maturity of the plan is expected for at least five years starting from July 2013.

Appendix 5. Industry analysis

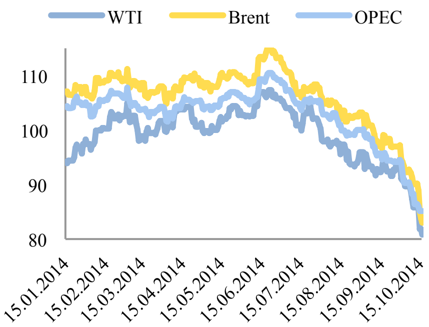
Macroeconomic indicators provide a worrying perspective, oil prices which are the main source of funds in the budget are predicted to be USD 80 in 2014E and USD 65 in 2015F. Oil prices of WTI, Brent, as well as OPEC basket price have been falling during the whole of 2014. Depreciation of the currency is also predicted to continue with 37 USD/RUB in 2014 and 49 USD/RUB in 2015. Meanwhile, current accounts are expected to grow by USD 9 bln, but capital outflow is predicted to decrease. Real disposable income, real wage and productivity of labour are all foreseen to deteriorate, while unemployment is expected to increase by more than 1%. However, in contrast to other countries Russia has a medium ratio of external debt to GDP.

Figure 40. Macroeconomic indicators in 2014 – 2015



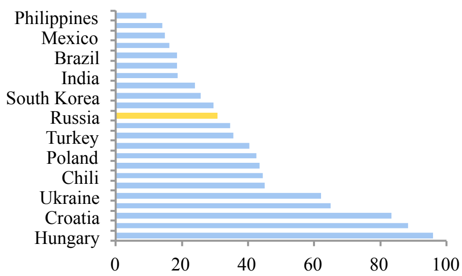
Sources: Minec

Figure 41. Spot prices of oil, OPEC basket price in 2014 (USD)



Sources: CBRF, National Agency of financial research

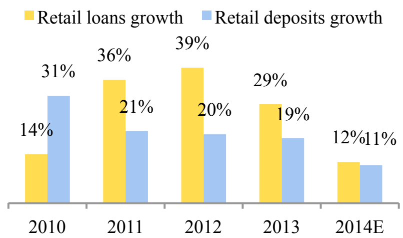
Figure 42. Ratio of external debt of private sector (of banks and non-financial organizations) to GDP as of 01.01.2014 (%)



Sources: World Bank, IMF

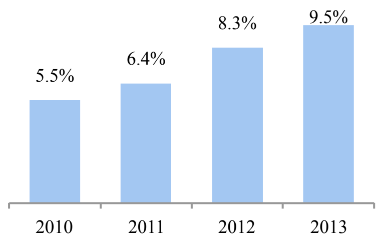
Retail loans and deposits have high growth rates, but they are slowing down. Retail debt services are steadily increasing which causes additional problems. In addition, share of non-performing loans in Russia in the sector of credit cards is the highest, 18%, compared to 5% in mortgage loans. However, credit cards have the highest growth compared to other types of loans. Internet penetration in different federal regions is higher than 55%.

Figure 43. Retail loans and deposits growth in Russia (%)



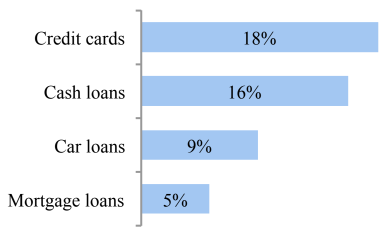
Sources: CBRF, Company data, Team estimates

Figure 44. Retail debt service payments (% of nominal wage)



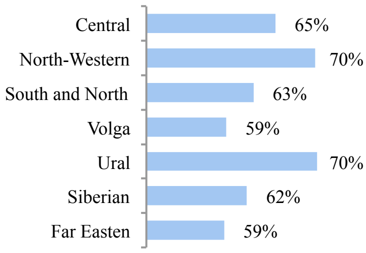
Sources: CBRF

Figure 45. Share of non-performing loans in Russia split by type of loan in 2014 (%)



Sources: CBRF, National Agency of financial research

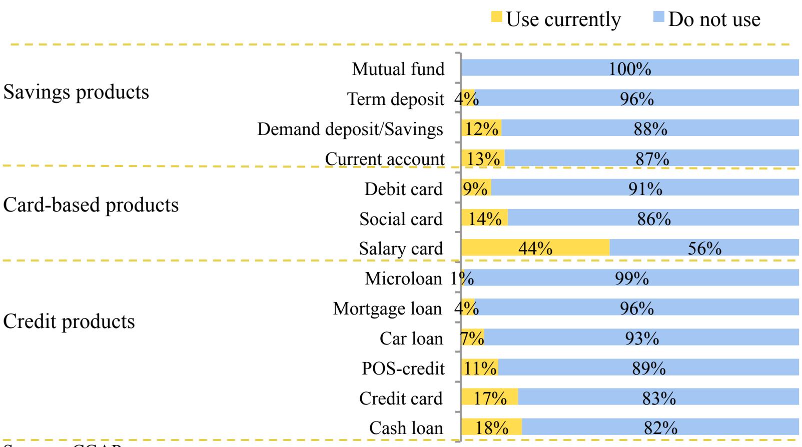
Figure 46. Internet penetration by federal region in Russia in 2014E (%)



Sources: FOM, World Bank

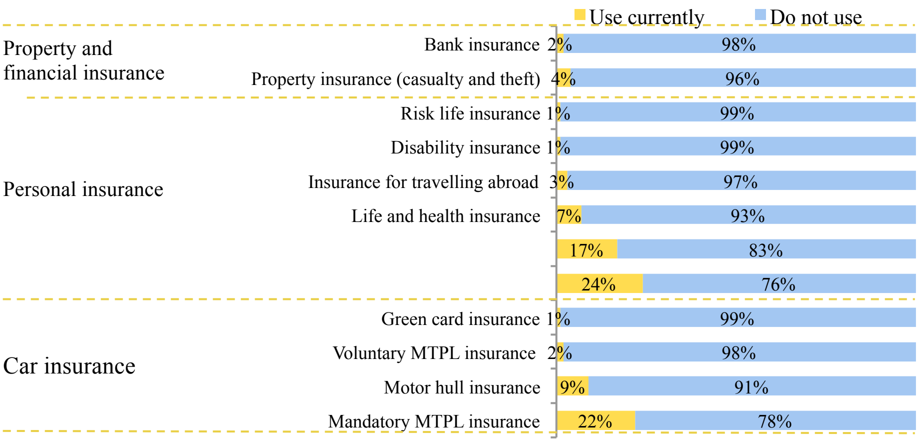
Most of the population of Russia does not use savings, credit and card-based products. According to CGAP, from 80 to 90% of respondents do not use these products, even when they are aware about them. The only exception is salary cards which are used by 44% of respondents. In addition, people do not use insurance services either. Again from 80 to 90% of respondents do not use such services, voluntary health insurance is the most popular one. Besides, since 2010 insurance premiums have been growing and will reach 630 billion rubles. Compared to other countries, insurance premiums per capita are low, especially for life insurance.

Figure 47. Usage of savings, credit and card-based products in Russia in August 2014 (n=2800, %)



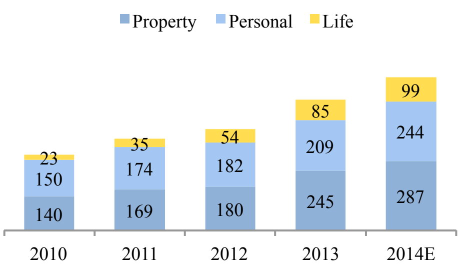
Sources: CGAP

Figure 48. Usage of insurance services in Russia in August 2014 (n=2800, %)



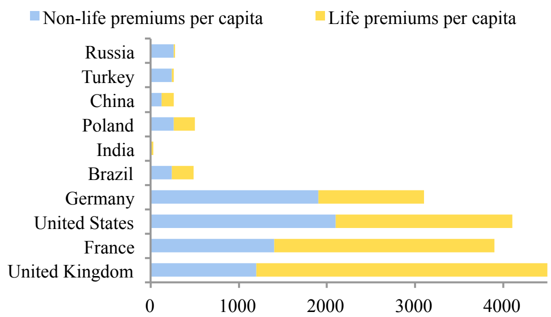
Sources:CGAP

Figure 49. Insurance premiums in Russia in 2010 – 2014E (RUB bln)



Sources: Rosgosstrakh

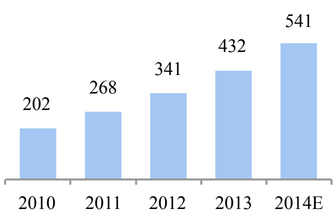
Figure 50. Insurance premiums per capita in 2013 ()



Sources: Swiss Re Economic Research & Consulting

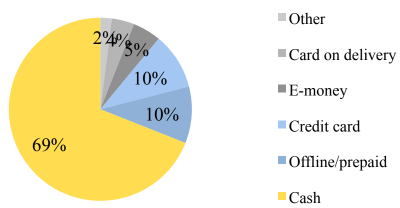
In 2013 10% of population paid for online purchases via credit card, while E-money was used by 5% of customers. In addition, in 2014 17.3% of CBRF respondents admitted that they planned to E-money. 14% of respondents made payments via Internet-bank, while 11% preferred to use banking card. Also, 12% admitted making non-cash payments several times a week in 2014. For the whole population clearings per person in different regions grew from 2012 to 2013 and are high.

Figure 51. E-commerce in Russia in 2010 – 2014E (RUB bln)



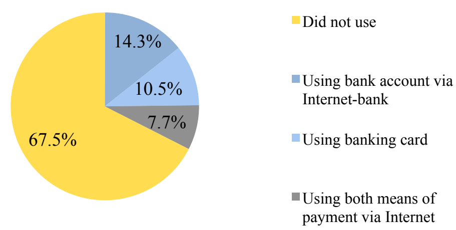
Sources: Euromonitor, J'Son Partners

Figure 52. Online payment preferences in 2013 in Russia (%)



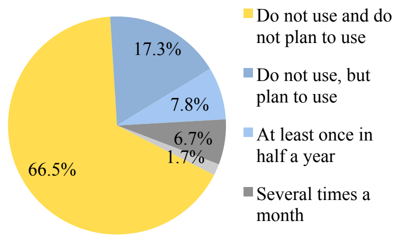
Sources: Payvision

Figure 53. Payments and transfers via Internet by holders of bank cards in 2014 (n=1984, %)



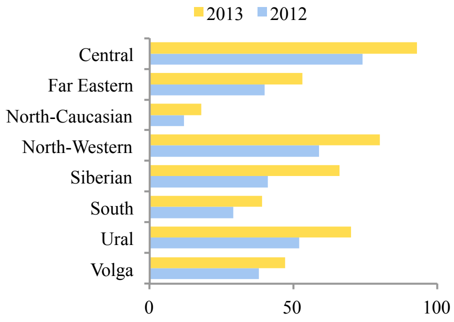
Sources: CBRF

Figure 54. The use of E-money in 2014 (n=3209, %)



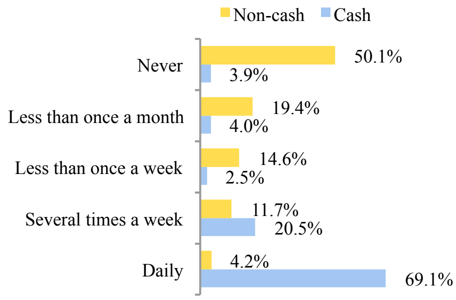
Sources: CBRF

Figure 55. Clearings per person in federal regions in 2012 – 2013 (number of units)



Sources: CBRF

Figure 56. Frequency of cash and non-cash payments and transfers in 2014 (n=3209, %)



Sources: CBRF

Smart-courier Service

Due to the specificity of TCS business, TCS card delivery is a key issue. It consists of just five following steps.

Figure 57. Card delivery scheme

Sources: Company data

TCS smart courier service is successful:

- TCS smart-couriers are not just couriers, but consultants who have knowledge of products and are equipped with smartphones and applications.
- TCS has a special technology to optimize the number of meetings.
- In 80% of cases TCS smart-couriers arrive to clients the next day.
- In 95% of cases the contract is signed.
- About 90% of cards that are issued by TCS are delivered via this service.

Risk management

TCS has very strong risk management using scoring models and NPV models.

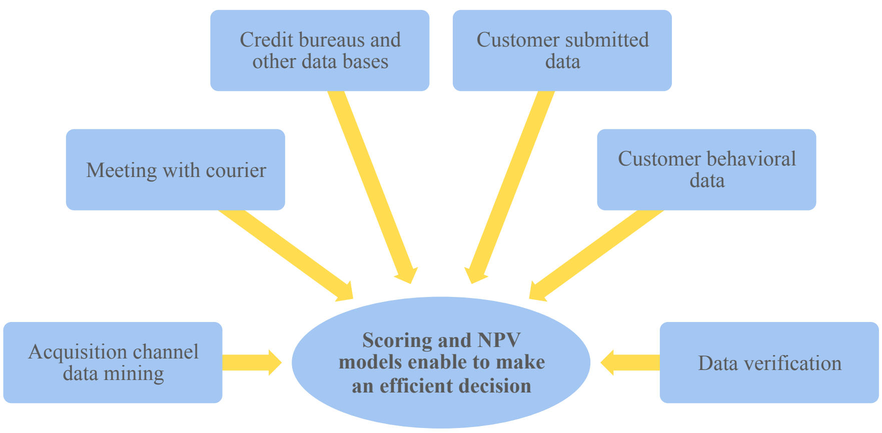
Table 19. TCS risk management

	Marketing Quantity vs Quality	Underwriting Risk vs Approval	Credit Line Increase Volume vs Customer Base	Collections Revenue vs Cost
Scoring Models Data-Driven Approach	– Extensive data mining at marketing stage – Data driven acquisition campaigns	– Data verification – Channel specific scoring – Use of 3rd party data	– Customer monitoring – Cross-sell – Credit line increases	– Active pre- collection – Broad use of social networks – Proactive collection
NPV Model Credit Decision Making	– Managing customer funnel – NPV model factors in acquisition cost	– Risk score and NPV to set initial limit – "Challenger" tests of underwriting criteria	– Focus on retention of good customers – Predictive models over lifecycle	– Installment program – Outsourcing of collections and sale of loans – Legal collections
Highlights	c.500,000 applications per month in 2013	115,000 approved applications per month in 2013	146,000 credit line increases per month in 2013	Efficient in-house collection capabilities

Sources: Company data

TCS has decision making process consists of a number of steps and procedures that lead to an efficient decision.

Figure 58. TCS decision making



Sources: Company data

TCS products are competitive: credit cards features are similar to the peers but with some advantages, insurance has room to grow and mobile banking application provides good services.

Table 20. Credit card features comparison in 2014

	TCS Platinum	Sberbank	VTB24	Alfa-Bank	Russian Standard
Initial credit limit (RUB)	30,000	By case	By case	10,800	100,000
Max credit limit (RUB)	300,000	200,000	300,000	150,000	450,000
Grace period (days)	55	50	50	60	55
Min payment (% of balance)	6, min RUB 600	5	5 plus accrued interest	5	5
Interest on purchases (%)	24.9 – 45.9	19 – 24	19	19 – 32	36
Interest on cash (%)	32.9 – 45.9	19 – 24	19	19 – 32	36
Annual Service (RUB)	590	750, then 450	750	875	600
Cash withdrawal commission (%)	2.9 plus RUB 290	3 – 4	4.9	3.9	4.9
Fees for SMS-services (RUB)	59	Free	200	50	50

Sources: Companies data, banki.ru, Team analysis

Table 21. Insurance services and total premiums in 2013, 2014

	TCS	Sberbank	VTB24	Alfa-Bank	Russian Standard
Property insurance	+	+	+	+	+
Life and health insurance	+	+	+	+	+
Trip insurance	+	+	+	+	+
Loans insurance	+	+	+	+	+
Accidents insurance	+	+	+	+	+
Savings insurance	–	+	+	+	+
Total premiums in 2013 (RUB th)	135,867	9,025,309	11,305,134	53,841,000	6,473,817

Sources: Companies data, Team analysis

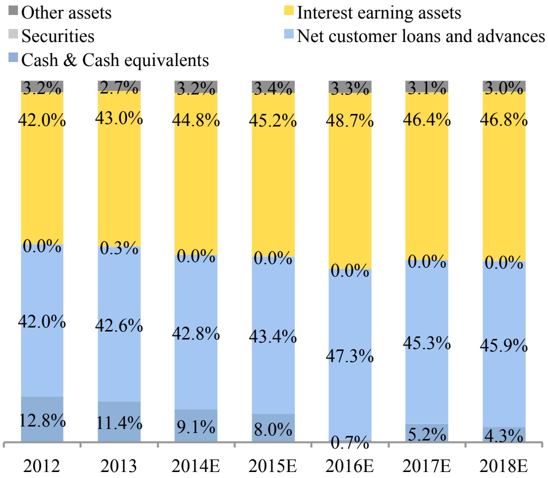
Table 22. Mobile banking application in 2014

	TCS	Sberbank	VTB24	Alfa-Bank	Russian Standard
Account summary	+	+	+	+	+
Transfers to bank customers	+	+	+	+	+
Transfers to other banks	+	-	+	+	+
Transfer options	• Bank card number • Account details • Mobile number	• Bank card number • Account details • Mobile number	• Bank card number • Account details	• Bank card number • Account details • Mobile number • Email	• Bank card number • Account details • Mobile number
Payments	+	+	+	+	+
# of payment partners	> 3,000	> 1,500	> 600	270	220
ATM/branch locator	+	+	+	+	+
Other characteristics	Different approaches to customers by type of service, quick approval (disapproval) of application	Opening of savings (deposit) account	Opening of savings (deposit) account	Mobile banking fee, discounts for Alfa-Bank customers in shops	Opening of savings (deposit) account

Sources: Companies data, Team analysis

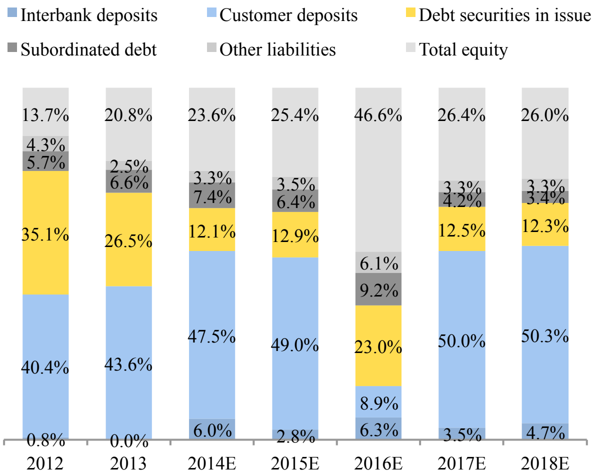
Appendix 6. Financial analysis

Figure 59. Assets breakdown in 2012 – 2018F (%)



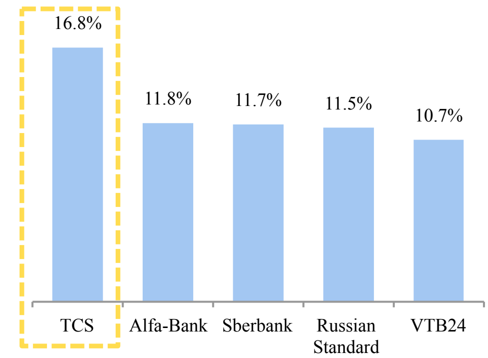
Sources: Company data, Team estimates

Figure 60. Funding breakdown in 2012 – 2018F (%)



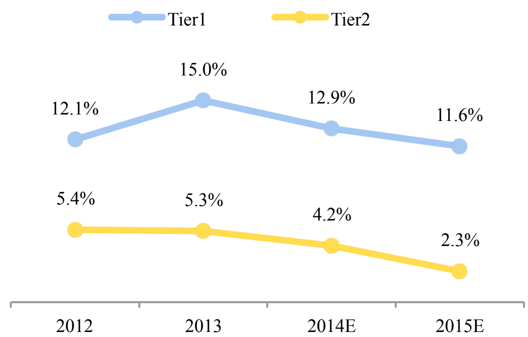
Sources: Company data, Team estimates

Figure 61. Capital adequacy (N1.0) November 2014 (%)



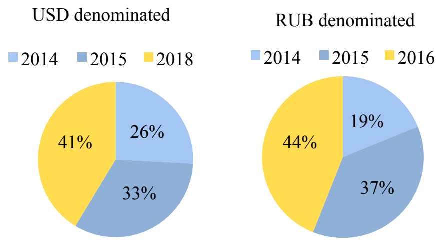
Sources: Company data

Figure 62. Capital adequacy ratios: Tier 1 and 2 in 2012 – 2015F (%)



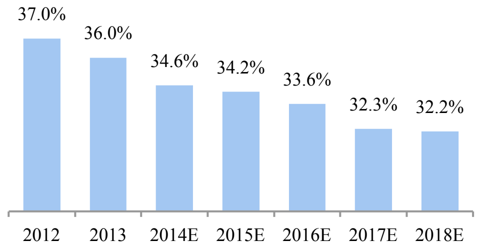
Sources: Company data, Team estimates

Figure 63. Percentage of TCS bonds expiration by year (%)



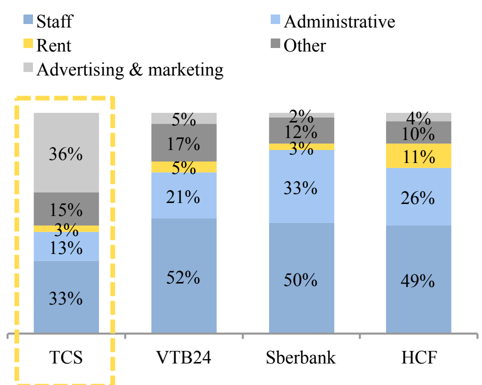
Sources: Company data, Team estimates

Figure 64. Net interest margin forecast (%)



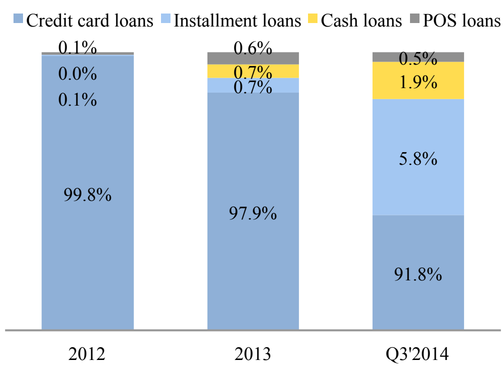
Sources: Company data, Team estimates

Figure 65. Operational costs breakdown in 2013 (%)



Sources: Company data

Figure 66. Loan portfolio split in 2012 – Q3'2014 (%)



Sources: Company data

Appendix 7. Financial statements

Table 23. Balance Sheet

In thousands of USD	Actual			Predicted				
	2011	2012	2013	2014E	2015F	2016F	2017F	2018F
Assets								
Cash and Cash Equivalents	163 191	457 382	575 204	357 478	470 569	426 638	469 609	320 860
Due from Banks	2 236	--	--	--	--	--	--	--
Loans to Customers	663 413	1 573 266	2 259 806	2 470 566	1 923 538	1 923 538	2 187 992	2 570 759
Financial derivatives	15 271	826	17 851	19 516	15 195	15 195	17 284	20 307
PPE	4 511	17 952	18 968	20 042	21 176	22 374	23 640	24 978
Other Assets	66 501	124 045	152 808	152 808	152 808	152 808	152 808	152 808
Total Assets	**915 123**	**2 173 471**	**3 024 637**	**3 020 409**	**2 583 285**	**2 540 553**	**2 851 333**	**3 089 713**
Liabilities and Equity								
Customer Deposits	361 664	878 146	1 320 125	1 443 246	1 268 329	1 258 250	1 520 025	1 808 011
Due to Banks	--	16 930	--	--	--	--	--	--
Debt Securities in Issue	412 875	762 414	800 151	495 923	179 880	99 663	99 663	99 663
Subordinated Debt	--	123 897	199 576	183 862	169 177	155 452	142 624	6 087
Other Liabilities	23 494	93 817	76 874	76 874	76 874	76 874	76 874	76 874
Total Liabilities	**798 033**	**1 875 204**	**2 396 726**	**2 199 906**	**1 694 260**	**1 590 238**	**1 839 186**	**1 990 634**
Equity	117 090	298 267	627 911	820 504	889 025	950 315	1 012 147	1 099 079
Total Equity	117 090	298 267	627 911	820 504	889 025	950 315	1 012 147	1 099 079
Total Liabilities and Equity	**915 123**	**2 173 471**	**3 024 637**	**3 020 409**	**2 583 285**	**2 540 553**	**2 851 333**	**3 089 713**
BS Check	--	--	--	--	--	--	--	--

Sources: Company data, Team estimates

Table 24. Income Statement

In thousands of USD, except per share data	Actual			Predicted				
	2011	2012	2013	2014E	2015F	2016F	2017F	2018F
Interest income	331 935	657 836	1 100 150	1 419 010	1 114 080	1 114 080	1 138 575	1 337 628
Interest expense	(78 246)	(157 601)	(256 755)	(260 885)	(306 939)	(297 854)	(248 846)	(283 190)
Net Interest Income	**253 689**	**500 235**	**843 395**	**1 158 126**	**807 141**	**816 226**	**889 729**	**1 054 439**
Gross margin (%)	76.4%	76.0%	76.7%	81.6%	72.4%	73.3%	78.1%	*78.8%*
Fee and commission income	--	--	2 250	3 090	2 153	2 178	2 374	2 813
Fee and commission expense	(6 328)	(7 417)	(14 823)	(20 355)	(14 186)	(14 345)	(15 637)	(18 532)
Net F&C Income	(6 328)	(7 417)	(12 573)	(17 265)	(12 033)	(12 168)	(13 264)	(15 719)
Other operating income	248	335	11 278	891	700	700	715	840
Total revenues	**247 609**	**493 153**	**842 100**	**1 141 752**	**795 808**	**804 758**	**877 180**	**1 039 560**
SG&A	(80 200)	(122 527)	(186 448)	(245 282)	(189 017)	(188 661)	(192 809)	(226 518)
Customer acquisition expense	(43 970)	(85 258)	(115 649)	(131 724)	(131 724)	(131 724)	(139 628)	(148 005)
Total operating expenses	(124 170)	(207 785)	(302 097)	(377 006)	(320 741)	(320 386)	(332 437)	(374 523)
Operating income	**123 439**	**285 368**	**540 003**	**764 746**	**475 067**	**484 372**	**544 743**	**665 037**
Provision for loan impairment	(41 924)	(124 378)	(307 737)	(461 996)	(402 019)	(402 019)	(457 290)	(537 289)
Losses less gains from operations with foreign currencies	(191)	(8 321)	(11 502)	-	-	-	-	-
Income from insurance operations	--	306	6 061	6 970	8 016	9 218	10 601	12 191
Gain from sale of bad debts	2 651	5 103	9 311	10 179	7 925	7 925	9 015	10 592
Release of provision for liabilities and charges	4 923	--	--	--	--	--	--	--
Gains/(losses) on repurchases of debt securities in issue	(182)	--	--	--	--	--	--	--
Profit before tax	**88 898**	**158 078**	**236 136**	**319 900**	**88 989**	**99 496**	**107 069**	**150 532**
Income tax expense	(20 322)	(36 164)	(55 438)	(73 577)	(20 467)	(22 884)	(24 626)	(34 622)
Profit for the year	**68 576**	**121 914**	**180 698**	**246 323**	**68 522**	**76 612**	**82 443**	**115 909**
Net Income margin (%)	20.7%	18.5%	16.4%	17.4%	6.2%	6.9%	7.2%	*8.7%*
Shares outstanding (th)	6 370	6 777	181 189	182 638	182 638	182 638	182 638	182 638 825
EPS (USD)	10.76	17.99	1.00	1.35	0.38	0.42	0.45	0.63
Dividend Payout Ratio (%)	-	-	-	22.3%	20.0%	20.0%	25.0%	*25.0%*
Dividend Yield (%)	-	-	-	9.4%	0.0%	2.6%	3.5%	*5.0%*

Sources: Company data, Team estimates

Table 25. Cash Flow Statement

In thousands of USD, except per share data	Actual			Predicted				
	2011	2012	2013	2014E	2015F	2016F	2017F	2018F
Cash flow from operating activities								
Net Income	100 455	236 991	517 091	246 323	68 522	76 612	82 443	115 909
Change in operating assets	(434 941)	(932 977)	(1 110 928)	(212 425)	551 349	-	(266 543)	(385 790)
Change in operating liabilities	200 576	549 449	478 744	123 121	(174 917)	(10 079)	261 775	287 986
Cash flow from operating activities	**(133 910)**	**(146 537)**	**(115 093)**	**157 019**	**444 954**	**66 533**	**77 674**	**18 105**
Cash flow from investing activities								
Acquisition of fixed assets	(2 858)	(17 972)	(10 700)	(1 074)	(1 134)	(1 198)	(1 266)	(1 338)
Acquisition of intangible assets	(5 744)	(8 506)	(6 675)	-	-	-	-	-
Other cash flow from investing activities	-	-	(1 343)	-	-	-	-	-
Cash flow from investing activities	**(8 602)**	**(26 478)**	**(18 718)**	**(1 074)**	**(1 134)**	**(1 198)**	**(1 266)**	**(1 338)**
Cash flow from financing activities								
Dividends paid	-	-	-	(55 000)	-	(15 322)	(20 611)	(28 977)
Net proceeds from debt securities in issue	268 102	320 187	48 766	(304 228)	(316 043)	(80 217)	-	-
Repayment of syndicated loan	(33 303)	-	-	-	-	-	-	-
Proceeds from subordinated debt	-	121 656	70 949	(15 714)	(14 686)	(13 725)	(12 827)	(136 538)
Proceeds from equity increase	15 077	37 500	170 828	1 270	-	-	-	-
Cash flow from financing activities	**249 876**	**479 343**	**290 543**	**(373 672)**	**(330 729)**	**(109 265)**	**(33 438)**	**(165 515)**
Effect of exchange rate changes on cash and cash equivalents	4 935	(12 137)	(38 910)	-	-	-	-	-
Change in cash for the year	**112 299**	**294 191**	**117 822**	**(217 726)**	**113 091**	**(43 930)**	**42 970**	**(148 748)**
Cash at the beginning of the year	**50 892**	**163 191**	**457 382**	**575 204**	**357 478**	**470 569**	**426 638**	**469 609**
Cash at the end of the year	**163 191**	**457 382**	**575 204**	**357 478**	**470 569**	**426 638**	**469 609**	**320 860**

Sources: Company data, Team estimates

Appendix 8. Tier 1 Capital, Tier 2 Capital and Risk Weighted Assets calculation

Table 26. Estimated Tier 1, 2 and RWA

In thousands of USD	Actual			Predicted				
	2011	2012	2013	2014E	2015F	2016F	2017F	2018F
Share Capital	6 370	6 777	7 248	7 306	7 306	7 306	7 306	7 306
Share Premium	81 631	118 724	288 271	288 271	288 271	288 271	288 271	288 271
Treasury shares	(77)	(77)	(87)	(145)	(145)	(145)	(145)	(145)
Share-based payment reserve	--	10 990	14 597	15 867	15 867	15 867	15 867	15 867
Retained Earnings	48 014	169 928	355 882	547 205	615 726	677 016	738 848	825 780
Accumulated loss on translation	(18 848)	(8 075)	(38 000)	(38 000)	(38 000)	(38 000)	(38 000)	(38 000)
Total Equity	117 090	298 267	627 911	820 504	889 025	950 315	1 012 147	1 099 079
Subordinated Debt	--	1 165	26 623	26 623	26 623	26 623	26 623	26 623
Tier 1 Capital	117 090	287 277	513 314	804 637	873 158	934 448	996 280	1 083 212
Tier 2 Capital	--	12 155	41 220	42 490	42 490	42 490	42 490	42 490
Total Capital	117 090	299 432	554 534	847 127	915 648	976 938	1 038 770	1 125 702
RWA		**3 399 133**	**4 766 450**	**8 727 534**	**7 200 479**	**7 157 747**	**7 998 271**	**9 003 394**
Tier 1 Capital Ratio (%)		**8.5%**	**10.8%**	**9.2%**	**12.1%**	**13.1%**	**12.5%**	**12.0%**
Total Capital Ratio (%)		**8.8%**	**11.6%**	**9.7%**	**12.7%**	**13.6%**	**13.0%**	**12.5%**

Sources: Company data, Team estimates

- Tier 1 Capital is calculated as sum of share capital share premium, treasury shares, retained earnings and accumulated loss on translation.
- Tier 2 Capital is calculated as sum of share-based payment reserve and subordinated debt the part of equity capital.
- Risk Weighted Assets are calculated in accordance with Central Bank of Russia requirements in compliance with Basel III standards.

Table 27. Risk-Weighting required by Basel III

Full Cost of Credit	Coefficient before January 2014	Coefficient from January 2014
25-35%	1.1x	1.1x
35-45%	1.4x	1.4x
45-60%	1.7x	3.0x
>60%	2.0x	6.0x

Sources: Basel III

Table 28. Risk-Weighting of TCS Assets

Type of Asset	Assigned Full Cost of credit	Coefficient before January 2014	Coefficient from January 2014
Cash and cash equivalents	0%	1.0x	1.0x
Due from banks	25-35%	1.1x	1.1x
Loans to customers	45-60%	1.7x	3.0x
Financial derivatives	35-45%	1.4x	1.4x
PPE	0%	1.0x	1.0x
Other assets	>60%	2.0x	6.0x

Sources: Team analysis

Appendix 9. Interest Income and Interest Expense breakdown

Table 29. Estimated Interest Income and Expense

In thousands of USD	Actual			Predicted				
	2011	2012	2013	2014E	2015F	2016F	2017F	2018F
Interest Income Breakdown								
Loans and advances to customers	330 573	656 115	1 099 320	1 418 180	1 113 271	1 113 271	1 137 756	1 336 795
Placements with other Banks	1 362	1 721	830	830	809	809	819	834
Total Interest Income	**331 935**	**657 836**	**1 100 150**	**1 419 010**	**1 114 080**	**1 114 080**	**1 138 575**	**1 337 628**
Interest Expense Breakdown								
Customer accounts	29 202	74 050	126 311	169 128	248 085	246 114	228 004	271 202
Subordinated debt	--	1 165	26 623	15 714	14 686	13 725	12 827	11 988
Debt Securities in Issue	47 097	81 610	101 519	76 042	44 168	38 016	8 016	--
Due to banks	234	776	2 302	--	--	--	--	--
Other loans	1 713	--	--	--	--	--	--	--
Total Interest Expense	**78 246**	**157 601**	**256 755**	**260 885**	**306 939**	**297 854**	**248 846**	**283 190**
Net Interest Income	**253 689**	**500 235**	**843 395**	**1 158 126**	**807 141**	**816 226**	**889 729**	**1 054 439**

Sources: Company data, Team estimates

Appendix 10. Debt repayment schedule

Table 30. Subordinated debt repayment schedule

In thousands of USD			2012	2013	2014E	2015F	2016F	2017F	2018F	2019F
			1	2	3	4	5	6	7	8
	Coupon Rate	Nominal Value								
Issued 2 December 2012	7.0%	125 000								
Coupon payments			(8 178)	(7 643)	(7 143)	(6 675)	(6 239)	(5 830)	(5 449)	
Principal repayment									77 844	
Issued 18 February 2013	14.0%	75 000								
Yield	7.0%									
Coupon payments				(9 813)	(9 171)	(8 571)	(8 010)	(7 486)	(6 997)	(6 539)
Principal repayment										46 706

Sources: Company data

Table 31. Bonds and Euro-Commercial papers repayment schedule

In thousands of USD	Date of Maturity	Coupon Rate	Interest Rate	Nominal Value	2012	2013	2014E	2015F	2016F
USD denominated bonds issued in 2012	18/09/15	10.8%	7.0%	250 000		(25 117)	(23 474)	(226 012)	
RR denominated bonds issued in 2013	24/05/16	10.3%	7.0%	95 800			(9 177)	(8 577)	(86 217)
RR denominated bonds issued in 2012	14/07/15	13.9%	7.0%	61 200		(7 950)	(7 430)	(56 902)	
RR denominated bonds issued in 2012	16/04/15	13.3%	7.0%	50 600		(6 266)	(5 856)	46 778	
Euro-Commercial paper issued in 2013	09/07/14	6.6%	7.0%	4 000			(3 986)		
Euro-Commercial paper issued in 2014	26/02/15	6.6%	7.0%	20 000				(19 928)	
Euro-Commercial paper issued in 2013	10/01/14	6.6%	7.0%	75 000			(74 742)		
Euro-Commercial paper issued in 2013	26/03/14	6.6%	7.0%	50 000			(49 796)		
RR denominated bonds issued in 2011	18/02/14	14.0%	7.0%	50 000	(6 542)	(6 114)	(46 529)		
USD denominated bonds issued in 2011	21/04/14	11.5%	7.0%	175 000	(18 808)	(17 578)	(159 280)		

Sources: Company data

Appendix 11. Valuation

Table 32. Dividend Discount Model

	2014E	2015F	2016F	2017F	2018F
RWA	**8 727 534**	**7 200 479**	**7 157 747**	**7 998 271**	**9 003 394**
Starting Tier 1 Capital (Equity)	613 314	513 314	436 377	360 024	357 887
Net Income	246 323	68 522	76 612	82 443	115 909
Pre-Dividend Equity	814 617	759 637	504 898	436 636	440 330
Required Tier 1 Capital (Equity)	434 126	436 377	360 024	357 887	399 914
Dividends	(323 260)	(144 874)	(78 749)	(40 417)	(65 653)
Ending Tier 1 Capital (Equity)	434 126	436 377	360 024	357 887	399 914
Pre-Dividend Tier 1 Capital Ratio	9.4%	8.7%	7.0%	6.1%	5.5%
Post-Dividend Tier 1 Capital Ratio	5.0%	5.0%	5.0%	5.0%	5.0%
Dividends	323 260	144 874	78 749	40 417	65 653
Discount Factor	83.7%	70.1%	58.6%	49.1%	41.1%
Present Value of Dividends	**318 483**	**270 579**	**101 502**	**46 181**	**19 839**

Sources: Team estimates

Table 33. Output of the model

Cost of Equity	**19.5%**
Perpetual Growth Rate	7.9%
Terminal Value	251 564
PV of Dividends	465 076
PV of Terminal Value	251 564
TV as % of Equity Value before Excess Capital adj.	*35.1%*
Excess Capital	274 992
Implied Equity Value	991 632
Implied Price per Share (USD)	**5.4**
Current Price per Share (USD)	**3.2**
Upside	**70.2%**

Sources: Team estimates

Perpetual growth rate. We assume perpetual growth rate to be in line with Russian ruble inflation corrected on USD/RUB exchange rate.
Excess capital calculation. Excess capital is the difference between current Tier I capital weighted by required Tier I capital ratio and risk-weighted assets. In other words, it represents the amount of cash that is left after the company meets the Tier I capital ration requirements.

Appendix 12. Dividend Discount Model assumptions

- **Cost of Equity**

We calculated the cost of equity using basic CAMP model and added the country risk premium for Russia.

Table 34. Capital Asset Pricing Model

US 10-year T-Bond (%)	2.72
Beta (x)	1.3
MRP (%)	7.5
Cost of Equity (%)	19.5

Sources: Team estimates

Risk-free rate. US 10-year T-bond yield (Source: US Department of the Treasury)
Beta. Peer average calculated by Sberbank, Otkritie, Vozrozhdenie, Bank St Petersburg and MBank. Beta was calculated for each company, covering a 5-year period from 01/01/2010 to 31/12/2014
MRP. Average yearly S&P 500 return over a 10-year period less risk-free rate (Source: Yahoo!Finance US Department of the Treasury)

Table 35. Beta calculation

	Sberbank	Otkritie	Vozrozhdenie	Bank St Petersburg	Mbank (Poland)
Levered beta	1.18	0.68	0.58	0.87	1.07
D/E ratio	5.19	3.95	3.09	18.21	1.77
Tax rate (%)	20%	20%	20%	20%	19%
Unlevered beta	0.23	0.16	0.17	0.06	0.44

Average Unlevered beta	0.21
Average D/E	6.44
TCS Levered beta	1.30

Sources: Team estimates

- **Country Risk Premium**

We estimated Country Risk Premium (CRP) for Russian Federation as a difference between Russian Federation 10-year Eurobond yield and US 10-year T-bond yield.

Table 36. Russian Eurobond yield calculation, Russia-2023

Maturity date	16.09.2023
Face value (USD)	200 000
Close price on valuation date	200 472
Coupon annual rate (%)	4.88
Number of coupon payments per year	2
Number of coupon payments remaining	18
Russia 10-year Eurobond annual yield (USD)	9.72

Sources: Team estimates

Table 37. Country Risk Premium (Russia) calculation

RF 10-year Eurobond yield (%)	9.72
US 10-year T-bond yield (%)	2.72
Country Risk Premium (Russia) (%)	7.0

Sources: Team estimates

Appendix 13. Interest income and interest expense forecast assumptions

Table 38. Interest income and interest expense calculation

	2014E	2015F	2016F	2017F	2018F
Number of active credit cards	2 486 920	2 486 920	2 561 528	2 715 219	2 878 132
Unemployment growth, Russia (y-o-y)		9.0%	1.0%	0.5%	0.5%
Real disposable income growth, Russia (y-o-y)		-2.8%	4.0%	6.5%	6.5%
Credit card market growth, Russia (%)	13.9%	0.0%	3.0%	6.0%	6.0%
TCS Average loan per card (USD th)	0.99	0.77	0.77	0.83	0.92
TCS Average deposit per card (USD th)	0.58	0.51	0.51	0.58	0.65
CPI, Russia (y-o-y)	10.1%	9.8%	6.3%	5.2%	5.2%
USD/RUB	39	55	52	48	45

Sources: Team estimates, CBRF

Appendix 14. TCS multiples calculation

Table 39. Peer group multiples

Name	Country	Mkt Cap. (USD mln)	EV (USD mln)	Price per share (USD)	P/E		P/BV		NI Growth 2014E	PEG	ROE
					2013A	2014E	2013A	2014E			
Regional Universal Banks											
IND & COMM BK OF CHINA-H	China	252 323	70 509	0.7	5.5 x	5.5 x	1.1 x	1.1 x	8.5%	0.7	20.9%
CHINA CONSTRUCTION BANK-H	China	202 400	110 002	0.8	5.5 x	5.5 x	1.1 x	1.1 x	13.3%	0.4	20.4%
BANK OF CHINA LTD-H	China	162 743	199 750	0.6	5.6 x	5.6 x	0.9 x	1.0 x	11.2%	0.5	17.7%
BANK OF COMMUNICATIONS CO-H	China	70 574	152 369	0.9	6.5 x	6.5 x	0.9 x	0.9 x	n/a	n/a	15.1%
CHINA MERCHANTS BANK-H	China	60 800	145 959	2.4	6.5 x	6.5 x	1.3 x	1.3 x	9.9%	0.7	22.5%
CHINA CITIC BANK CORP LTD-H	China	47 684	95 332	0.8	5.6 x	5.6 x	0.9 x	0.9 x	17.4%	0.3	17.3%
STATE BANK OF INDIA	India	36 306	65 652	4.9	14.3 x	14.3 x	1.5 x	1.5 x	11.5%	1.2	10.4%
ICICI BANK LTD	India	32 294	62 249	5.7	17.7 x	17.7 x	2.6 x	2.6 x	15.4%	1.2	15.2%
BANCO DO BRASIL S.A.	Brazil	26 409	247 325	9.2	5.2 x	5.2 x	0.8 x	0.8 x	7.4%	0.7	15.9%
STANDARD BANK GROUP LTD	South Africa	19 837	25 374	12.3	12.3 x	13.1 x	1.6 x	1.7 x	9.0%	1.5	13.0%
FIRST GULF BANK	Arab Emirates	17 785	19 150	4.6	11.9 x	11.9 x	2.1 x	5.5 x	13.1%	0.9	17.6%
NATIONAL BANK OF ABU DHABI	Arab Emirates	17 278	16 793	3.7	12.0 x	12.0 x	1.8 x	6.0 x	9.4%	1.3	14.9%
TURKIYE GARANTI BANKASI	Turkey	17 030	29 226	4.1	10.8 x	11.8 x	1.6 x	4.7 x	17.4%	0.7	13.8%
AKBANK T.A.S.	Turkey	15 063	26 687	3.8	10.4 x	11.4 x	1.5 x	4.4 x	16.3%	0.7	13.2%
BANK PEKAO SA	Poland	13 641	17 790	52.0	15.3 x	17.4 x	1.8 x	0.6 x	8.9%	2.0	11.9%
PKO BANK POLSKI SA	Poland	12 639	20 730	10.1	11.2 x	12.7 x	1.5 x	1.9 x	13.3%	1.0	13.6%
TURKIYE IS BANKASI-C	Turkey	12 232	27 080	2.7	8.2 x	3.8 x	1.2 x	1.6 x	n/a	n/a	13.2%
BANK ZACHODNI WBK SA	Poland	10 696	13 048	107.8	15.5 x	16.8 x	2.2 x	0.3 x	12.6%	1.3	14.2%
YAPI VE KREDI BANKASI	Turkey	9 207	13 831	2.1	9.9 x	10.5 x	1.1 x	5.4 x	15.2%	0.7	10.6%
KOMERCNI BANKA AS	Czech Republic	8 041	8 227	211.6	12.8 x	14.3 x	1.7 x	0.1 x	n/a	n/a	13.1%
TURKIYE HALK BANKASI	Turkey	7 360	8 050	5.9	6.1 x	6.6 x	1.2 x	1.4 x	n/a	n/a	18.8%
MBANK	Poland	6 045	15 492	143.2	14.4 x	16.3 x	1.8 x	0.2 x	9.4%	1.7	12.5%
TURKIYE VAKIFLAR BANKASI T-D	Turkey	5 327	9 411	2.1	7.5 x	8.2 x	0.9 x	3.6 x	n/a	n/a	11.9%
RAIFFEISEN BANK INTERNATIONA	Austria	4 497	49 175	15.4	8.9 x	13.3 x	0.2 x	0.2 x	n/a	n/a	2.3%
BANK HANDLOWY W WARSZAWIE SA	Poland	4 034	6 485	30.9	13.9 x	15.8 x	1.7 x	0.9 x	n/a	n/a	12.5%
BANK OTKRITIE FINANCIAL CORP	Russia	3 313	14 613	23.0	10.5 x	12.5 x	0.8 x	0.4 x	n/a	n/a	16.4%
BANK OF GEORGIA HOLDINGS PLC	Georgia	1 255	648	31.8	10.4 x	10.2 x	1.7 x	0.5 x	19.2%	0.5	18.4%
BANK ST PETERSBURG	Russia	203	1 959	0.5	1.0 x	1.6 x	0.1 x	0.5 x	n/a	n/a	14.8%
BANK VOZROZHDENIE	Russia	178	(110)	7.5	3.2 x	5.0 x	0.3 x	0.2 x	n/a	n/a	8.7%
Consumer Finance and Insurance Companies											
HOUSING DEVELOPMENT FINANCE	India	27 931	59 332	18.1	21.6 x	21.6 x	4.5 x	4.5 x	n/a	n/a	22.9%
FIRSTRAND LTD	South Africa	24 448	19 859	4.3	13.5 x	14.7 x	3.3 x	11.3 x	12.4%	1.2	24.2%
GRUPO FINANCIERO BANORTE-O	Mexico	15 358	35 369	5.5	12.9 x	12.9 x	1.7 x	1.7 x	10.1%	1.3	12.7%
GRUPO FIN SANTANDER-B	Mexico	14 176	20 306	2.1	11.6 x	11.6 x	1.8 x	1.8 x	4.0%	2.9	15.9%
NEDBANK GROUP LTD	South Africa	10 798	11 597	21.0	12.0 x	12.0 x	1.7 x	1.0 x	9.2%	1.3	15.2%
GRUPO BTG PACTUAL-UNIT	Brazil	9 600	15 326	10.6	6.6 x	6.6 x	1.3 x	1.3 x	20.0%	0.3	19.7%
Card Providers and Payment Networks											
VISA INC-CLASS A SHARES	United States	163 421	161 450	264.2	31.7 x	31.7 x	7.3 x	7.3 x	22.8%	1.4	20.0%
WIRECARD AG	Germany	5 472	4 821	44.5	39.0 x	39.0 x	4.2 x	4.2 x	33.7%	1.2	12.3%
VANTIV INC - CL A	United States	5 050	8 126	34.6	49.4 x	49.4 x	7.7 x	7.7 x	36.3%	1.4	13.2%
Russian High-Growth Companies											
YANDEX NV-A	Netherlands	5 730	5 950	18.0	15.7 x	15.7 x	4.5 x	4.5 x	14.0%	1.1	27.2%
QIWI PLC-SPONSORED ADR	Cyprus	1 111	800	20.5	10.8 x	10.8 x	3.5 x	3.5 x	13.1%	0.8	70.3%

Sources: Bloomberg, Team estimates

Table 40. Implied valuation multiples

	P/E			P/BV			NI Growth	PEG		ROE
	2013A	2014E	2015F	2013A	2014E	2015F	2014E	2014E	2015F	2014E
Minimum	1.0 x	1.6 x	0.4 x	0.1 x	0.1 x	0.7 x	4.0%	0.3 x	0.3 x	2.3%
25th percentile	6.6 x	6.6 x	2.5 x	1.1 x	0.8 x	5.2 x	9.4%	0.7 x	1.3 x	12.8%
Mean	12.6 x	13.1 x	4.7 x	2.0 x	2.5 x	9.7 x	14.3%	1.1 x	2.0 x	16.9%
Median	11.0 x	12.0 x	4.1 x	1.6 x	1.4 x	7.8 x	13.1%	1.1 x	2.2 x	15.0%
75th percentile	14.4 x	15.4 x	5.4 x	2.0 x	4.4 x	9.9 x	16.8%	1.3 x	2.5 x	18.7%
Maximum	49.4 x	49.4 x	18.5 x	7.7 x	11.3 x	37.6 x	36.3%	2.9 x	5.6 x	70.3%

Sources: Bloomberg, Team estimates

Appendix 15. Regression analysis

Table 41. Regression statistics

R^2	0.005
Adjusted R^2	0.002
Standard error	9.405
Number of observations	39

Sources: Team estimates

Table 42. Variation analysis

	Degrees of freedom	ESS	ESS adjusted for degrees of freedom	F-statistic	P-value
Regression	1	15.591	15.591	0.176	0.677
Residual	37	3 272.577	88.448		
Total	38	3 288.168			

Sources: Team estimates

Table 43. Regression estimates

	Coefficient	Standard error	Lower bound of the confidence interval	Upper bound of the confidence interval	t-statistic	P-value	Is H_0 rejected? (2%)
Intercept	14.204	2.995	6.922	21.487	4.742	0.000	Yes
ROE	-6.455	15.374	-43.837	30.927	-0.419	0.677	No

Sources: Team estimates