





## TCS is unfairly oversold

### Recommendation: BUY

Current price	USD 3.19
Target price	USD 5.40
Upside	70.2%

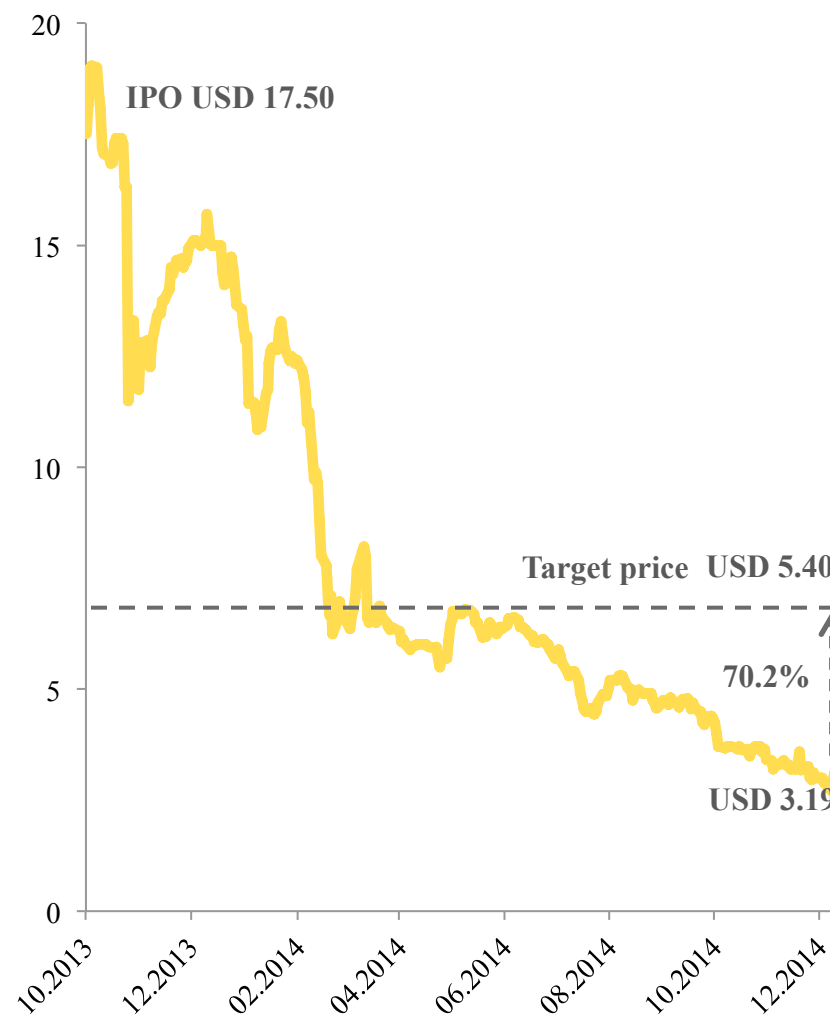
### Implied multiples 2014E

	P/E	P/BV	PEG
Regional Universal	10.3	1.7	1.2
Consumer Finance	13.2	3.5	1.7
Payment Networks	15.6	5.1	2.3
Russian High-Growth	13.4	4.0	1.9
TCS	13.1	3.5	1.7

### Trading statistics

52-week share price range	USD 2.25 – 17.02
Market capitalization	USD 582.6 mln
30 day average daily volume	136,681
#Shares outstanding	182.6 mln

### TCS Group Holding PLC stock price performance





## Buy recommendation is underpinned by six main factors

### TCS runs a strong business that has been growing and deals with current conditions

- ✓ TCS has a strong market position
- ✓ TCS is exposed to the fastest growing segment of the retail loan market, credit cards
- ✓ TCS provides high quality service on the back of an advanced technological platform

### Investors overvalue risks and undervalue fundamental factors

- ✓ TCS quality of the credit portfolio is high, and it has strong financial standing
- ✓ TCS has an asset-light model with a flexible cost base
- ✓ High quality risk management enables TCS to mitigate most of risks

**TCS stock price has high growth potential towards our fundamental value**



**TCS specializes in credit cards and has a branchless model, focused on Internet, and effective risk management. TCS is #1 online and #3 credit-card lender in Russia**

### Focus on retail banking, credit cards in particular

#### Retail banking products

#### Lending products

- Credit cards
- E-commerce lending
- Cash loans

#### Savings products

- Debit cards
- Retail deposits
- E-wallets

#### Insurance products

- Property
- Travel
- Accident
- Health
- Life
- Savings

**96% of TCS revenue (9M'2014)**

**3% of TCS revenue**

### Effective risk management

Credit bureaus and other data bases

Customer submitted data

Information from courier

Customer behavioral data

Acquisition channel data mining

Data verification

**Scoring and NPV models enable to manage risk effectively**

### Branchless structure and a high-tech platform

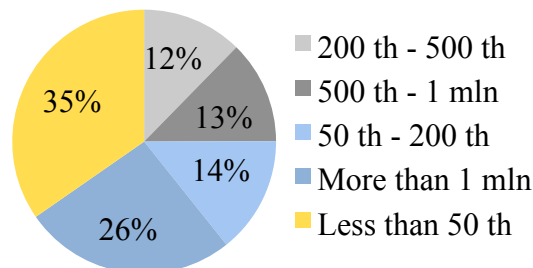
#### Pros for TCS:

- Low fixed costs
- Wide geographical coverage

#### Pros for customers:

- 24/7 accessibility due to high-tech platform
- Time saving
- Availability in small towns

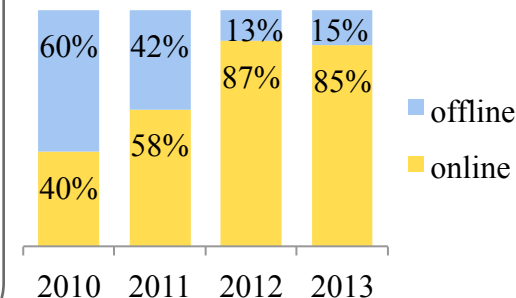
Customer distribution by city population in July 2014 (%)



### Technologically advanced target customers

- Underbanked
- Underserved
- Young
- Uses Internet
- Can be reached by mail
- Comes mainly from online channels

Applications received by channel in 2010 – 2013 (%)

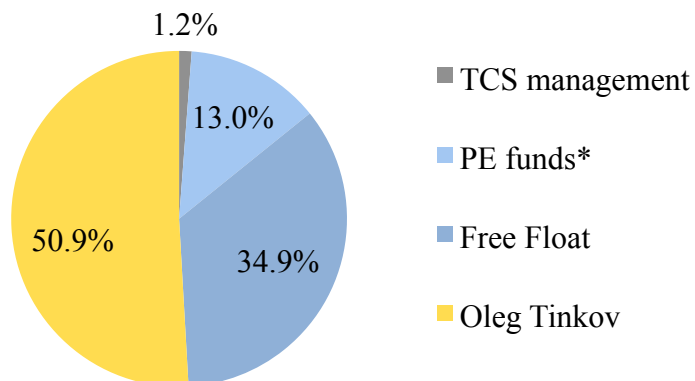




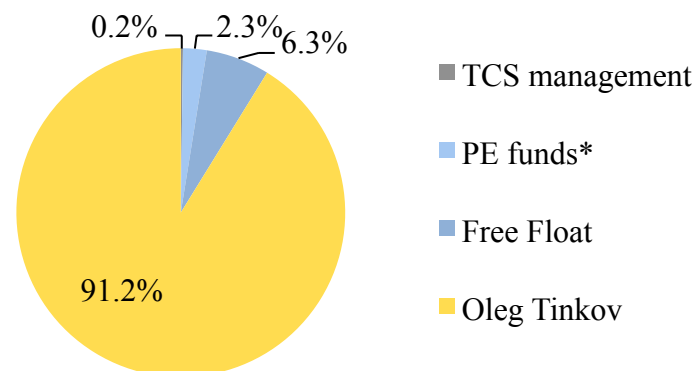
## Transparent corporate governance and skillful management enable TCS to grow

### Shareholder and voting power structure

Shareholder structure as of 31 December 2013 (%)



Voting power structure as of 31 December 2013 (%)



**TCS founder Mr Tinkov owns 50.9% of shares and 91.2% of votes, but there is a shareholders' agreement protecting the rights of minority shareholders with at least 10% of shares**

### Dividend policy

TCS pays dividends only if:

- The bank makes profits and has excess cash
- N1 capital adequacy ratio after payment of dividends and for the period between dividend payments remains at or above 14%

**TCS will comply with its dividend policy as the bank has excess cash**

### Board of directors and management team

- High-calibre BoD members
- Strong independent representation on the board
- Timely disclosure of reliable information
- Delivery of stated strategy and targets
- Skillful management team

**TCS complies with corporate governance standards for non-UK companies listed on LSE**



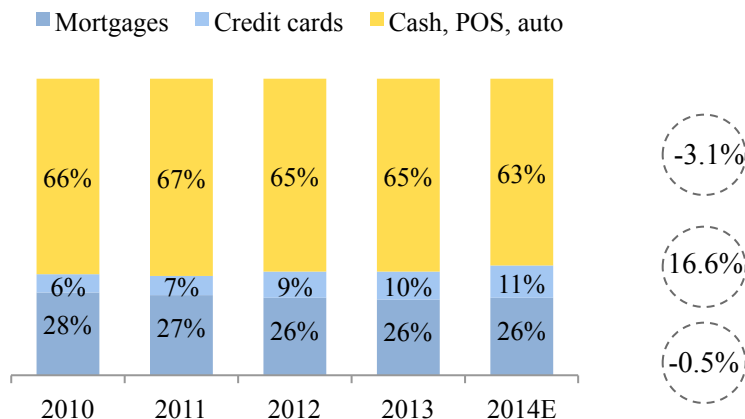
## TCS business growth drivers are fastest growing segment of the retail loan market, credit cards, and growing Internet penetration

TCS concentrates on:

- ✓ **banking** that has a high CAGR of 17% from 2010 to 2013 compared to other developed and developing countries
- ✓ **retail banking** that is growing fast
- ✓ **credit cards** that have been the fastest growing segment with a CAGR of 16.6% from 2010 to 2013
- ✓ **Internet** which penetration in Russia has a CAGR 12.6% from 2010 to 2013

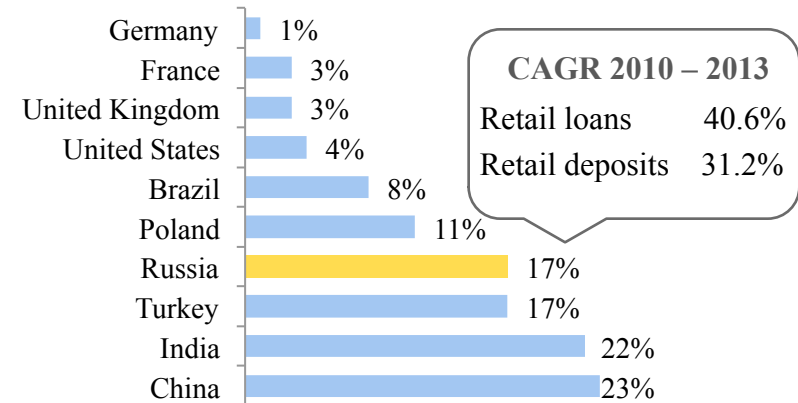
TCS is exposed to the fastest growing segment of the retail loan market, credit cards

Retail loans split by category (%) CAGR 2010 – 2013



## TCS functions in the fast growing banking segment

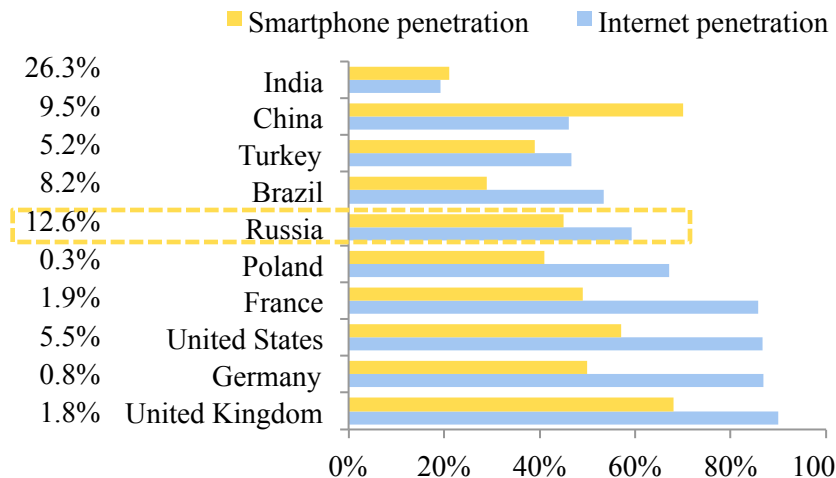
Growth of banks' assets, CAGR 2011 – 2013 (%)



TCS has a branchless model focused on Internet that has high growth of penetration

Internet penetration  
CAGR 2010 – 2013

Internet and smartphone penetration  
in population in 2014E (%)

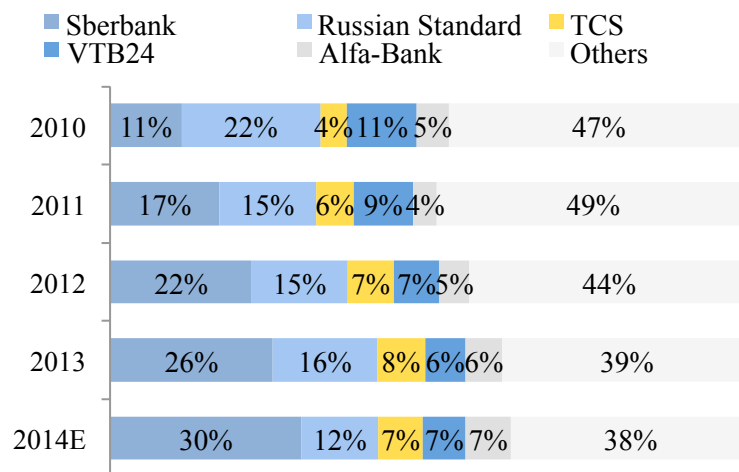




## TCS is well positioned to benefit from the credit card market growth

TCS is the third key player and increases its market share,  
while VTB24 and Russian Standard lose it to Sberbank

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



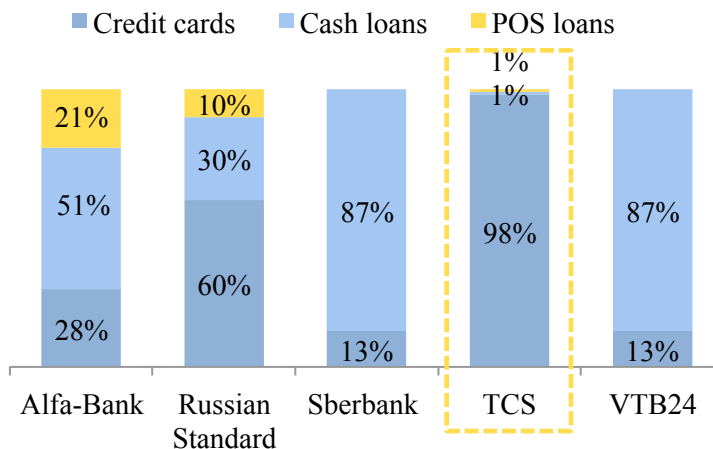
Transaction  
Value  
(bln RUB)



- ✓ Credit card market transaction value has increased from 228 bln rubles in 2010 to 1,200 bln in 2014
- ✓ CAGR of the market is 44% from 2010 to 2013
- ✓ CAGR of TCS share on the credit card market is 68% from 2010 to 2013

### TCS concentrates on credit cards

Unsecured consumer loans split in 2013 (%)



- ✓ TCS has the highest share of credit card loans in its portfolio among peers (98%)
- ✓ Credit card segment is the riskiest one, because in Russia the percentage of non-performing loans is the highest 18% compared to other segments
- ✓ However, effective risk management and the target customer mitigate risks for TCS



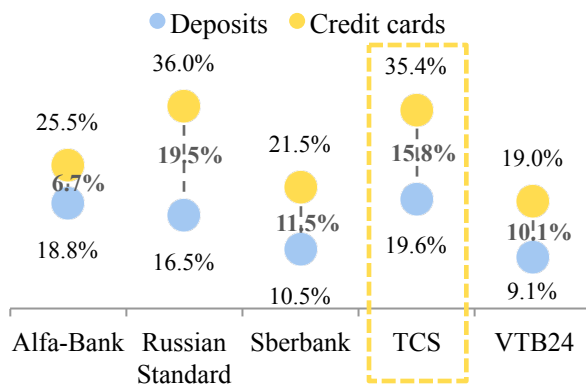
## TCS has strong financial standing

### TCS has strong financial performance:

- ✓ Flexible costs
- ✓ Effective risk management
- ✓ High capital adequacy ratio
- ✓ Liquidity cushion
- ✓ High spread between loans and deposits interest rates

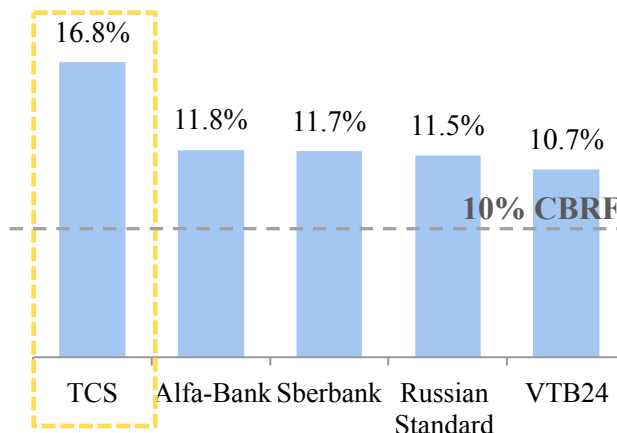
### TCS spread in interest rates is higher than competitors

Interest rates spread and average interest rates in December 2014 (%)



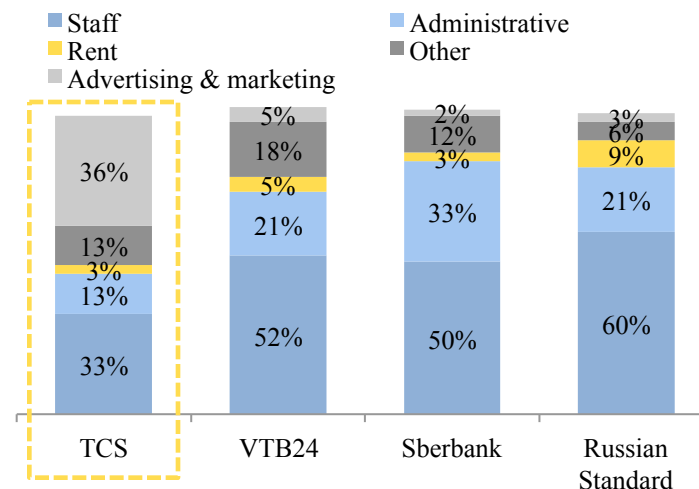
### TCS capital adequacy ratio ensures the stability

Capital adequacy (N1.0) in December 2014 (%)



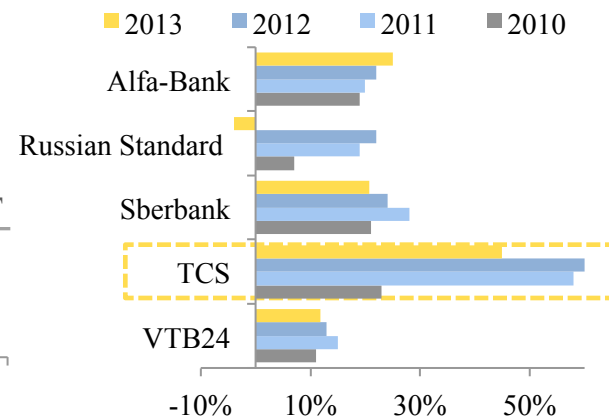
### TCS has an asset-light model with a flexible cost base

Operational costs breakdown in 2013 (%)



### TCS ROE exceeds its peers'

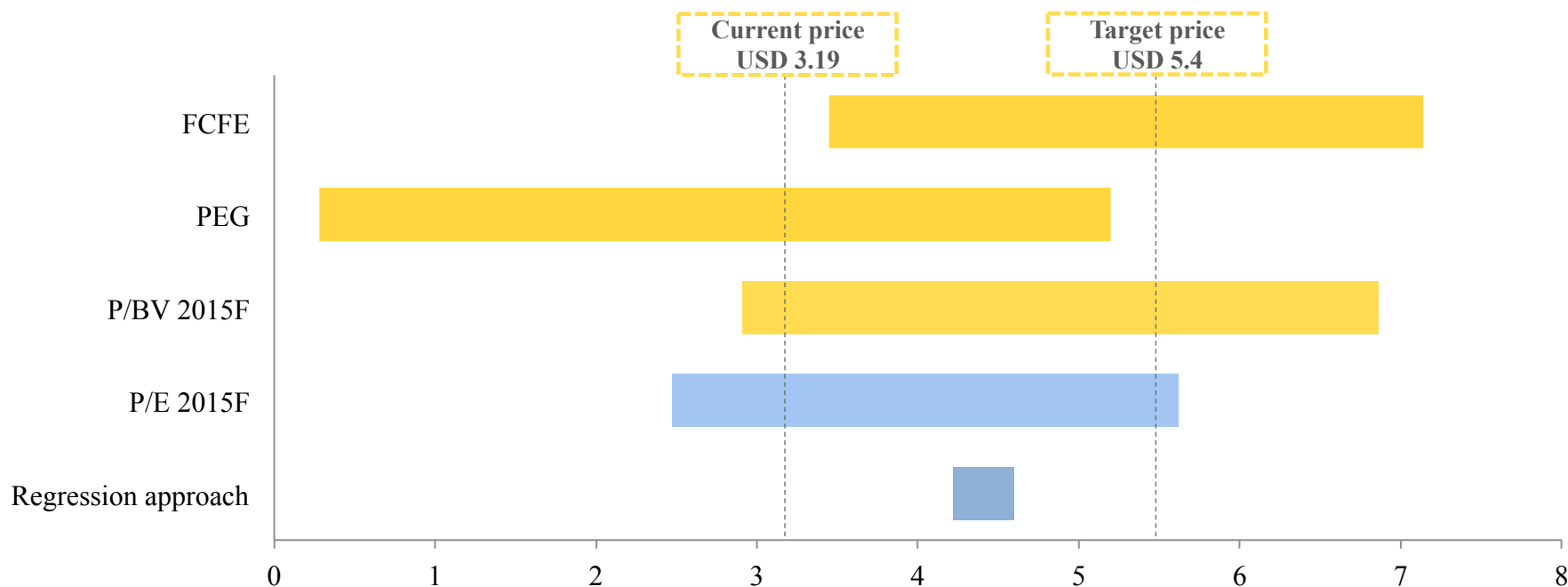
ROE in 2010 – 2013 (%)







Target price of USD 5.40 implies a 70.2% upside to the current price of USD 3.19



### Reasoning for the choice of the major valuation method

- Interest expense/income are operating activity for banks
- TCS has paid dividends only once
- Opportunity to take into account the expected business development
- No other banks in Russia with branchless business model

### Major valuation method:

✓ Free Cash Flow to Equity

### Sanity check:

✓ Relative valuation

✓ Regression analysis

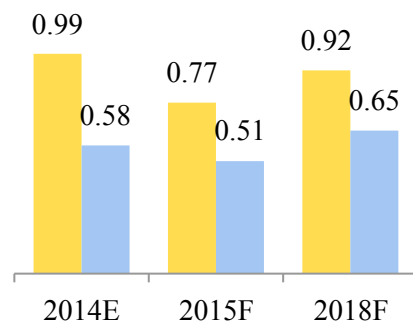


## Free Cash Flow to Equity approach

### Revenue projection

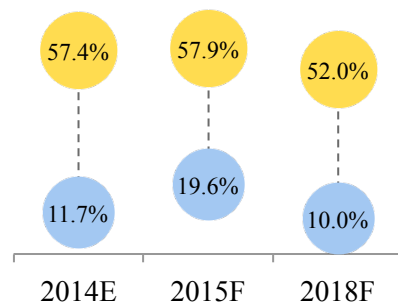
#### Average loan and deposit dynamics (USD th)

- Average loan per card
- Average deposit per card

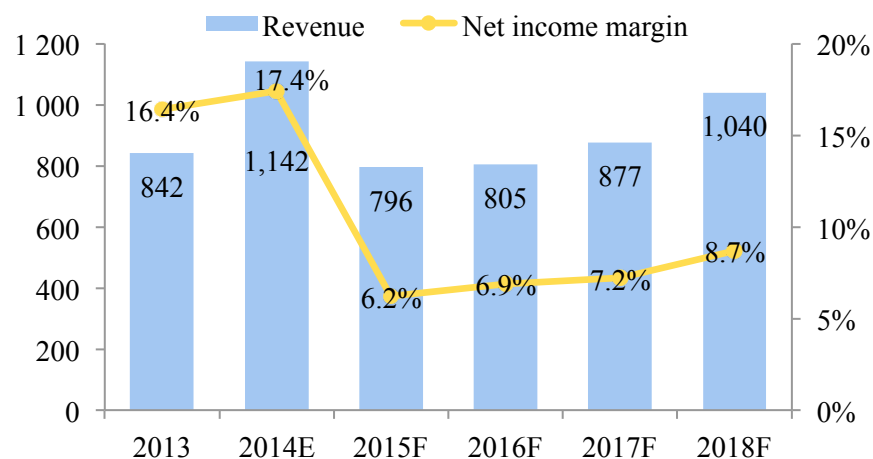


#### Interest rates on loans and deposits dynamics (%)

- Interest rate on loans
- Interest rate on deposits



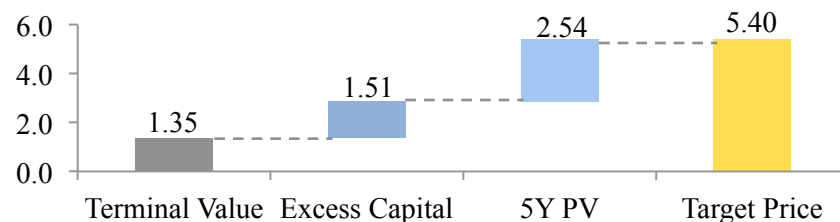
### Revenue projection (USD bln)



### Cost of equity calculation

✓ US 10-y T-Bond	2.7%
✓ Beta	1.3x
✓ MRP	7.5%
✓ Country Risk Premium	7.0%
✓ Cost of Equity	19.5%
✓ Terminal growth rate	7.9%

### Target price breakdown (USD)



### Sensitivity analysis

		Cost of Equity				
		17.5%	18.5%	19.5%	20.5%	21.5%
Terminal Growth Rate	5.9%	5.60	5.30	5.20	5.00	4.90
	6.9%	5.70	5.50	5.30	5.10	4.90
	7.9%	5.90	5.70	5.40	5.20	5.10
	8.9%	6.20	5.80	5.60	5.30	5.20
	9.9%	6.50	6.10	5.80	5.50	5.30

**TCS is undervalued with 70.2% upside**

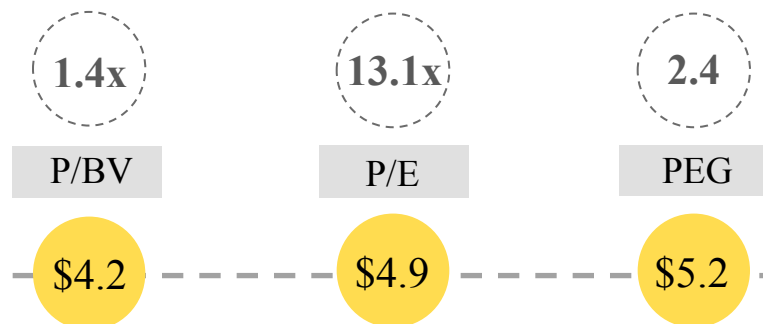


## Relative valuation is used as a cross-check to FCFE approach

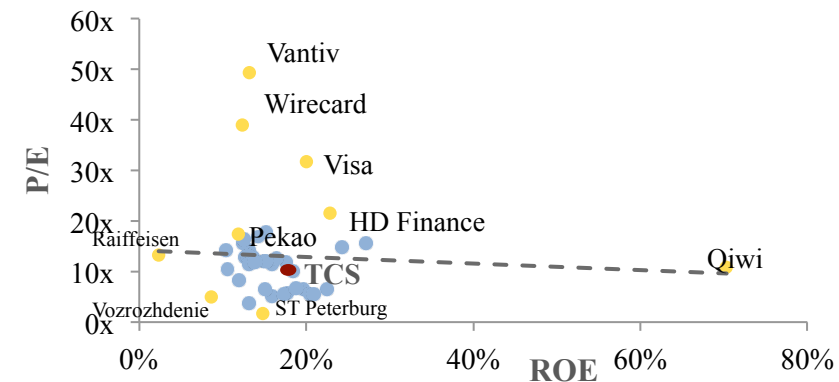
No direct peer companies due to the uniqueness of TCS business model

Name	Country	Mkt Cap, Mln USD	Price per Share, USD	2013A	P/E 2014E	2013A	P/BV 2014E	PEG 2014E
<b>Regional Universal Banks</b>								
BANK HANDLOWY W WARSZAWIE SA	Poland	4,034	30.9	13.9 x	15.8 x	1.7 x	0.9 x	n/a
BANK OTKRITIE FINANCIAL CORP	Russia	3,313	23.0	10.5 x	12.5 x	0.8 x	0.4 x	n/a
BANK OF GEORGIA HOLDINGS PLC	Georgia	1,255	31.8	10.4 x	10.2 x	1.7 x	0.5 x	0.5
BANK ST PETERSBURG	Russia	203	0.5	1.0 x	1.6 x	0.1 x	0.5 x	n/a
BANK VOZROZHDENIE	Russia	178	7.5	3.2 x	5.0 x	0.3 x	0.2 x	n/a
<b>Consumer Finance Companies</b>								
GRUPO FIN SANTANDER-B	Mexico	14,176	2.1	11.6 x	11.6 x	1.8 x	1.8 x	2.9
NEDBANK GROUP LTD	South Africa	10,798	21.0	12.0 x	12.0 x	1.7 x	1.0 x	1.3
GRUPO BTG PACTUAL-UNIT	Brazil	9,600	10.6	6.6 x	6.6 x	1.3 x	1.3 x	0.3
<b>Card Providers and Payment Networks</b>								
VISA INC-CLASS A SHARES	United States	163,421	264.2	31.7 x	31.7 x	7.3 x	7.3 x	1.4
WIRECARD AG	Germany	5,472	44.5	39.0 x	39.0 x	4.2 x	4.2 x	1.2
VANTIV INC - CL A	United States	5,050	34.6	49.4 x	49.4 x	7.7 x	7.7 x	1.4
<b>Russian High-Growth Companies</b>								
YANDEX NV-A	Netherlands	5,730	18.0	15.7 x	15.7 x	4.5 x	4.5 x	1.1
QIWI PLC-SPONSORED ADR	Cyprus	1,111	20.5	10.8 x	10.8 x	3.5 x	3.5 x	0.8

### Multiples based TCS Price per Share: USD 4.9

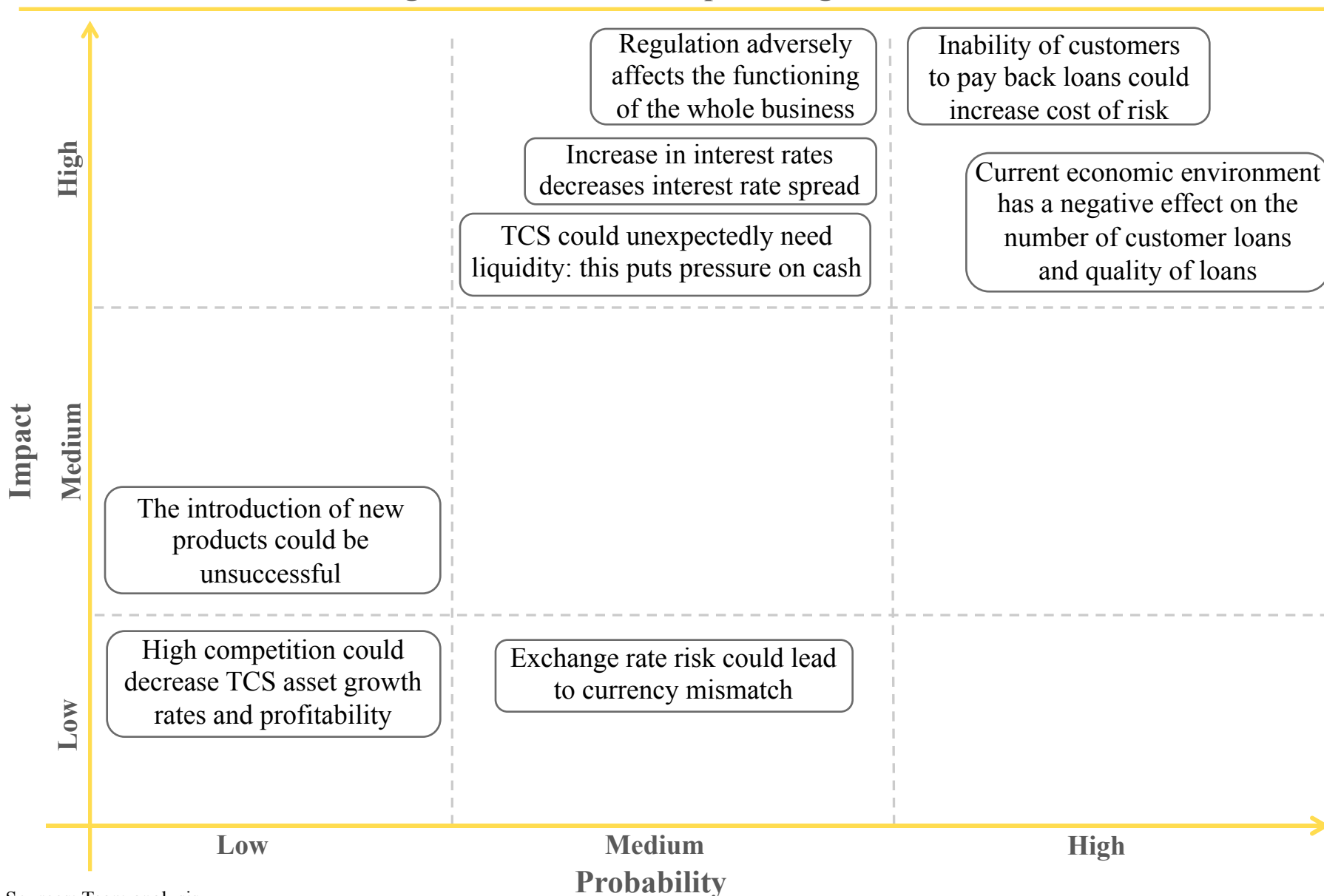


### Regression analysis Price per Share: USD 4.5





**TCS shares general risks of banking sector in Russia. However, TCS has high quality risk management, which will help to mitigate most of them**



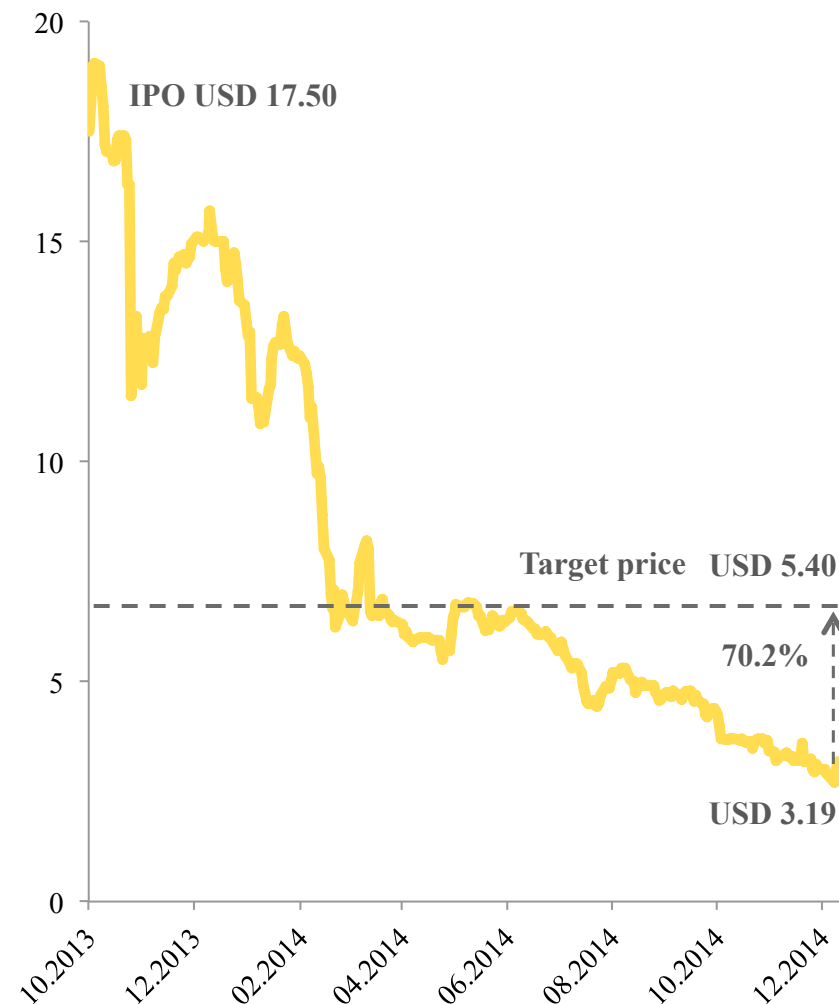


## Stock price has high growth potential towards our fundamental value

**Recommendation: BUY**  
**Current price (USD): 3.19**  
**Target price (USD): 5.4**  
**Upside: 70.2%**

✓ TCS is a good business that has been growing and runs a strong business in current conditions

✓ Investors overvalue risks and undervalue fundamental factors





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О банке

Контакты

Eng

Кредитные карты

Вклады

Дебетовая карта

Страхование

Интернет-банк

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## Financial Statements (1/4)

### Balance Sheet

In thousands of USD, except per share data

	Actual			Predicted				
	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
<b>Assets</b>								
Cash and cash equivalents	163 191	457 382	575 204	312 458	183 254	116 750	189 820	156 026
Due from banks	2 236	--	--	--	--	--	--	--
Loans to customers	663 413	1 573 266	2 259 806	2 470 566	1 923 538	2 100 453	2 335 089	2 590 319
Financial derivatives	15 271	826	17 851	19 516	15 195	16 592	18 446	20 462
Property, plant and equipment	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
<b>Total assets</b>	<b>915 123</b>	<b>2 173 471</b>	<b>3 024 637</b>	<b>2 975 389</b>	<b>2 295 971</b>	<b>2 408 977</b>	<b>2 719 803</b>	<b>2 944 593</b>
<b>Liabilities and equity</b>								
Customer deposits	361 664	878 146	1 320 125	1 443 246	1 123 685	1 301 291	1 566 043	1 855 665
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
<b>Total liabilities</b>	<b>798 033</b>	<b>1 875 204</b>	<b>2 396 726</b>	<b>2 199 906</b>	<b>1 549 616</b>	<b>1 633 280</b>	<b>1 885 204</b>	<b>2 038 289</b>
Equity	117 090	298 267	627 911	775 484	746 355	775 698	834 599	906 304
<b>Total equity</b>	<b>117 090</b>	<b>298 267</b>	<b>627 911</b>	<b>775 484</b>	<b>746 355</b>	<b>775 698</b>	<b>834 599</b>	<b>906 304</b>
<b>Total liabilities and equity</b>	<b>915 123</b>	<b>2 173 471</b>	<b>3 024 637</b>	<b>2 975 389</b>	<b>2 295 971</b>	<b>2 408 977</b>	<b>2 719 803</b>	<b>2 944 593</b>
<b>BS Check</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>



## Financial Statements (2/4)

### Income Statement

In thousands of USD, except per share data

	Actual			Predicted				
	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Interest income	331 935	657 836	1 100 150	1 118 721	681 742	744 376	827 446	917 808
Interest expense	(78 246)	(157 601)	(256 755)	(250 513)	(278 647)	(233 591)	(224 428)	(253 224)
<b>Net interest income</b>	<b>253 689</b>	<b>500 235</b>	<b>843 395</b>	<b>868 208</b>	<b>403 095</b>	<b>510 785</b>	<b>603 018</b>	<b>664 583</b>
<i>Gross margin, %</i>	<i>76.4%</i>	<i>76.0%</i>	<i>76.7%</i>	<i>77.6%</i>	<i>59.1%</i>	<i>68.6%</i>	<i>72.9%</i>	<i>72.4%</i>
Fee and commission income	--	--	2 250	2 316	1 075	1 363	1 609	1 773
Fee and comission expense	(6 328)	(7 417)	(14 823)	(15 259)	(7 085)	(8 977)	(10 598)	(11 680)
Net F&C income	(6 328)	(7 417)	(12 573)	(12 943)	(6 009)	(7 615)	(8 990)	(9 907)
Other operating income	248	335	11 278	703	428	468	520	577
<b>Total revenues</b>	<b>247 609</b>	<b>493 153</b>	<b>842 100</b>	<b>855 968</b>	<b>397 514</b>	<b>503 638</b>	<b>594 548</b>	<b>655 252</b>
SG&A	(80 200)	(122 527)	(186 448)	(193 376)	(115 666)	(126 055)	(140 122)	(155 424)
Customer acquisition expense	(43 970)	(85 258)	(115 649)	(131 724)	(131 724)	(135 676)	(143 816)	(152 445)
Total operating expenses	(124 170)	(207 785)	(302 097)	(325 100)	(247 390)	(261 731)	(283 938)	(307 870)
<b>Operating income</b>	<b>123 439</b>	<b>285 368</b>	<b>540 003</b>	<b>530 868</b>	<b>150 124</b>	<b>241 908</b>	<b>310 610</b>	<b>347 383</b>
Provision for loan impairment	(41 924)	(124 378)	(307 737)	(286 586)	(203 895)	(212 146)	(228 839)	(246 080)
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	8 654	9 621	10 673
Release of provision for liabilities and charges	4 923	--	--	--	--	--	--	--
Gains/(losses) on repurchases of debt securities in issue	(182)	--	--	--	--	--	--	--
<b>Profit before tax</b>	<b>88 898</b>	<b>158 078</b>	<b>236 136</b>	<b>261 432</b>	<b>(37 830)</b>	<b>47 634</b>	<b>101 993</b>	<b>124 166</b>
Income tax expense	(20 322)	(36 164)	(55 438)	(60 129)	8 701	(10 956)	(23 458)	(28 558)
<b>Profit for the year</b>	<b>68 576</b>	<b>121 914</b>	<b>180 698</b>	<b>201 303</b>	<b>(29 129)</b>	<b>36 679</b>	<b>78 534</b>	<b>95 608</b>
<i>Net Income margin, %</i>	<i>20.7%</i>	<i>18.5%</i>	<i>16.4%</i>	<i>18.0%</i>	<i>-4.3%</i>	<i>4.9%</i>	<i>9.5%</i>	<i>10.4%</i>
Number of shares outstanding	6 370 536	6 777 173	181 189 075	182 638 825	182 638 825	182 638 825	182 638 825	182 638 825
EPS	10.76	17.99	1.00	1.10	-0.16	0.20	0.43	0.52
<i>Dividend payout ratio</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>27.3%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>25.0%</i>	<i>25.0%</i>
<i>Dividend yield</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>9.4%</i>	<i>0.0%</i>	<i>1.3%</i>	<i>3.4%</i>	<i>4.1%</i>

Sources: Team analysis, Company data



## Financial Statements (3/4)

### Cash Flow Statement

In thousands of USD, except per share data								
	Actual			Predicted				
	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
<b>Cash flow from operating activities</b>								
Net income	100 455	236 991	517 091	201 303	(29 129)	36 679	78 534	95 608
Change in operating assets	(434 941)	(932 977)	(1 110 928)	(212 425)	551 349	(178 312)	(236 489)	(257 247)
Change in operating liabilities	200 576	549 449	478 744	123 121	(319 561)	177 606	264 752	289 622
<b>Cash flow from operating activities</b>	<b>(133 910)</b>	<b>(146 537)</b>	<b>(115 093)</b>	<b>111 999</b>	<b>202 660</b>	<b>35 972</b>	<b>106 797</b>	<b>127 983</b>
<b>Cash flow from investing activities</b>								
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)	--	--	--	--	--
<b>Cash flow from investing activities</b>	<b>(8 602)</b>	<b>(26 478)</b>	<b>(18 718)</b>	<b>(1 074)</b>	<b>(1 134)</b>	<b>(1 198)</b>	<b>(1 266)</b>	<b>(1 338)</b>
<b>Cash flow from financing activities</b>								
Dividends paid	--	--	--	(55 000)	--	(7 336)	(19 634)	(23 902)
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	--	--	--	--
<b>Cash flow from financing activities</b>	<b>249 876</b>	<b>479 343</b>	<b>290 543</b>	<b>(373 672)</b>	<b>(330 729)</b>	<b>(101 278)</b>	<b>(32 461)</b>	<b>(160 440)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>4 935</b>	<b>(12 137)</b>	<b>(38 910)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Change in cash for the year</b>	<b>112 299</b>	<b>294 191</b>	<b>117 822</b>	<b>(262 746)</b>	<b>(129 203)</b>	<b>(66 504)</b>	<b>73 070</b>	<b>(33 795)</b>
<b>Cash at the beginning of the year</b>	<b>50 892</b>	<b>163 191</b>	<b>457 382</b>	<b>575 204</b>	<b>312 458</b>	<b>183 254</b>	<b>116 750</b>	<b>189 820</b>
<b>Cash at the end of the year</b>	<b>163 191</b>	<b>457 382</b>	<b>575 204</b>	<b>312 458</b>	<b>183 254</b>	<b>116 750</b>	<b>189 820</b>	<b>156 026</b>



## Financial Statements (4/4)

### Interest Income and Interest Expense breakdown

In thousands of USD, except per share data								
	Actual			Predicted				
	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Interest income breakdown								
Loans and advances to customers	330 573	656 115	1 099 320	1 117 891	680 932	743 560	826 621	916 973
Placements with other banks	1 362	1 721	830	830	809	816	825	835
Total interest income	331 935	657 836	1 100 150	1 118 721	681 742	744 376	827 446	917 808
Interest expense breakdown								
Customer accounts	29 202	74 050	126 311	158 757	219 793	211 850	203 586	241 236
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	8 016	8 016	--
Due to banks	234	776	2 302	--	--	--	--	--
Other loans	1 713	--	--	--	--	--	--	--
Total interest expense	78 246	157 601	256 755	250 513	278 647	233 591	224 428	253 224
Net interest income	253 689	500 235	843 395	868 208	403 095	510 785	603 018	664 583

### 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, thousands of USD	0.99	0.77	0.77	0.83	0.92
TCS Average deposit per card, thousands of USD	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
Oil price, Urals (USD/barrel)	98	60	60	60	60



## Capital and Risk-Weighted Assets (1/2)

### Estimated Tier 1, 2 and RWA

In thousands of USD, except per share data								
	Actual			Predicted				
	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
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	502 185	473 056	502 399	561 300	633 006
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	775 484	746 355	775 698	834 599	906 304
Subordinated debt	--	1 165	26 623	26 623	26 623	26 623	26 623	26 623
Tier 1 capital	117 090	287 277	613 314	759 617	730 488	759 831	818 732	890 438
Tier 2 capital	--	12 155	41 220	42 490	42 490	42 490	42 490	42 490
Total capital	117 090	299 432	654 534	802 107	772 978	802 321	861 222	932 927
RWA		3 399 133	4 766 450	8 682 514	6 913 165	7 380 559	8 161 398	8 897 456
Tier 1 capital ratio		8.5%	12.9%	8.7%	10.6%	10.3%	10.0%	10.0%
Total capital ratio		8.8%	13.7%	9.2%	11.2%	10.9%	10.6%	10.5%



## Capital and Risk-Weighted Assets (2/2)

### Basel III capital requirements

Increased quantity of capital:

- Minimum 4.5% Tier 1 capital up from 2% under Basel II
- Plus capital conversion buffer of 2.5%
- Total minimum capital increases from 8% to 10.5%, including capital conversion buffer
- Banks can draw on the conversion buffer during periods of stress but this comes with constraints on their earnings distribution
- The conservation buffer increases during periods of excessive credit growth (counter-cyclical capital buffer)

### 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

### 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	--	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	--	1.0x	1.0x
Other assets	>60%	2.0x	6.0x

- 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



# Debt Repayment

## 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								
<i>Coupon payments</i>			(8 178)	(7 643)	(7 143)	(6 675)	(6 239)	(5 830)	(5 449)	
<i>Principal repayment</i>									77 844	
Issued 18 February 2013	14.0%	75 000								
<i>Yield</i>	7.0%									
<i>Coupon payments</i>				(9 813)	(9 171)	(8 571)	(8 010)	(7 486)	(6 997)	(6 539)
<i>Principal repayment</i>										46 706

## 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	42 265	10.8%	7.0%	250 000		(25 117)	(23 474)	(226 012)	
RR denominated bonds issued in 2013	42 514	10.3%	7.0%	95 800			(9 177)	(8 577)	(86 217)
RR denominated bonds issued in 2012	42 199	13.9%	7.0%	61 200		(7 950)	(7 430)	(56 902)	
RR denominated bonds issued in 2012	42 110	13.3%	7.0%	50 600		(6 266)	(5 856)	46 778	
Euro-Commercial paper issued in 2013	41 829	6.6%	7.0%	4 000			(3 986)		
Euro-Commercial paper issued in 2014	42 061	6.6%	7.0%	20 000				(19 928)	
Euro-Commercial paper issued in 2013	41 649	6.6%	7.0%	75 000			(74 742)		
Euro-Commercial paper issued in 2013	41 724	6.6%	7.0%	50 000			(49 796)		
RR denominated bonds issued in 2011	41 688	14.0%	7.0%	50 000	(6 542)	(6 114)	(46 529)		
USD denominated bonds issued in 2011	41 750	11.5%	7.0%	175 000	(18 808)	(17 578)	(159 280)		



## Free Cash Flow to Equity Model

### Free Cash Flow to Equity Calculation

In thousands of USD	2014E	2015F	2016F	2017F	2018F
<b>RWA</b>	<b>8 727 534</b>	<b>7 200 479</b>	<b>7 157 747</b>	<b>7 998 271</b>	<b>9 003 394</b>
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
FCFE	(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%
FCFE	323 260	144 874	78 749	40 417	65 653
Discount Factor	83.7%	70.1%	58.6%	49.1%	41.1%
<b>Present Value of FCFE</b>	<b>318 483</b>	<b>270 579</b>	<b>101 502</b>	<b>46 181</b>	<b>19 839</b>

### Cost of Equity Calculation

<b>Cost of Equity</b>	<b>19.5%</b>
Perpetual Growth Rate	7.9%
Terminal Value, thousands of USD	251 564
PV of FCFE, thousands of USD	465 076
PV of Terminal Value, thousands of USD	251 564
<i>TV as % of Equity Value before Excess Capital adj.</i>	<i>35.1%</i>
Excess Capital, thousands of USD	274 992
Implied Equity Value, thousands of USD	991 632
<b>Implied Price per Share, USD</b>	<b>5.4</b>
<b>Current Price per Share, USD</b>	<b>3.2</b>
<b>Upside</b>	<b>70.2%</b>

### 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





## Free Cash Flow to Equity Model Assumptions

### Cost of Equity

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

### Capital Asset Pricing Model

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

#### 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)

### 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

### 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

#### 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

#### 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



## Relative Valuation

#	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			
<b>Regional Universal Banks</b>												
1	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%
2	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%
3	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%
4	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%
5	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%
6	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%
7	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%
8	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%
9	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%
10	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%
11	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%
12	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%
13	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%
14	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%
15	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%
16	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%
17	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%
18	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%
19	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%
20	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%
21	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%
22	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%
23	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%
24	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%
25	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%
26	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%
27	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%
28	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%
29	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%
<b>Consumer Finance and Insurance Companies</b>												
1	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%
2	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%
3	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%
4	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%
5	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%
6	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%
<b>Card Providers and Payment Networks</b>												
1	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%
2	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%
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%
<b>Russian High-Growth Companies</b>												
1	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%
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%



## 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%

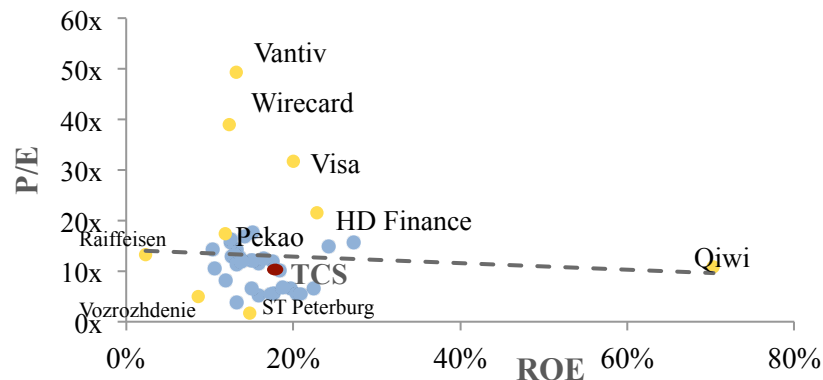


# Regression analysis

## Regression Statistics

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

## P/E – ROE relation



## 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			

## Regression Estimates

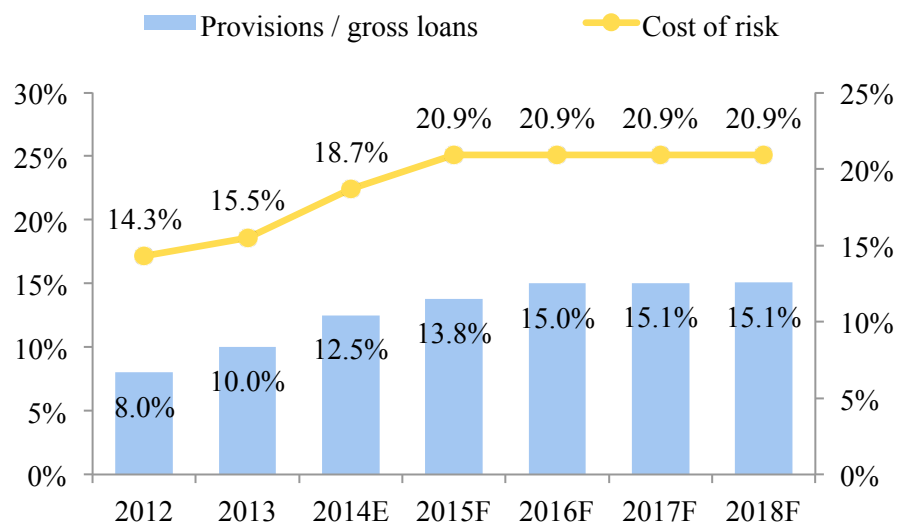
	Coefficient	Standard error	Lower bound of the confidence interval	Upper bound of the confidence interval	t-statistic	P-value	Is $H_0$ rejected? (2%)
Intercept	14.204	2.995	6.922	21.487	4.742	0.000	Yes
ROE	-6.455	15.374	-43.837	30.927	-0.419	0.677	No



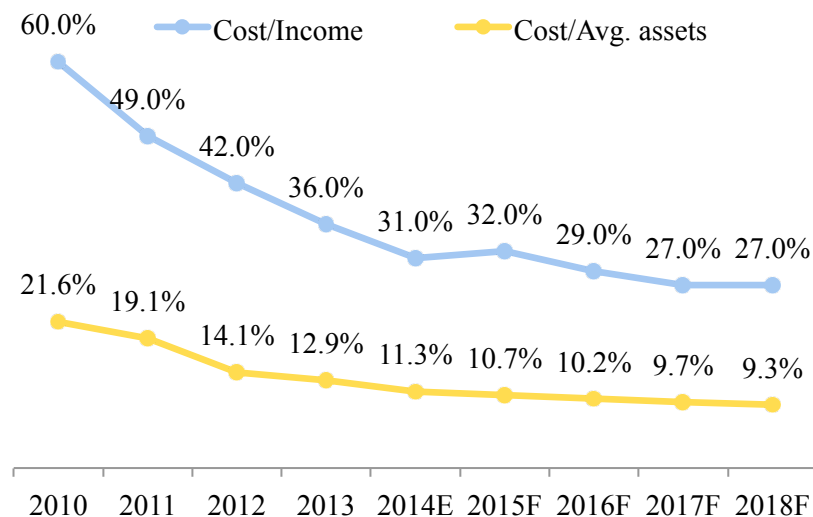


## Loan quality and profitability ratios

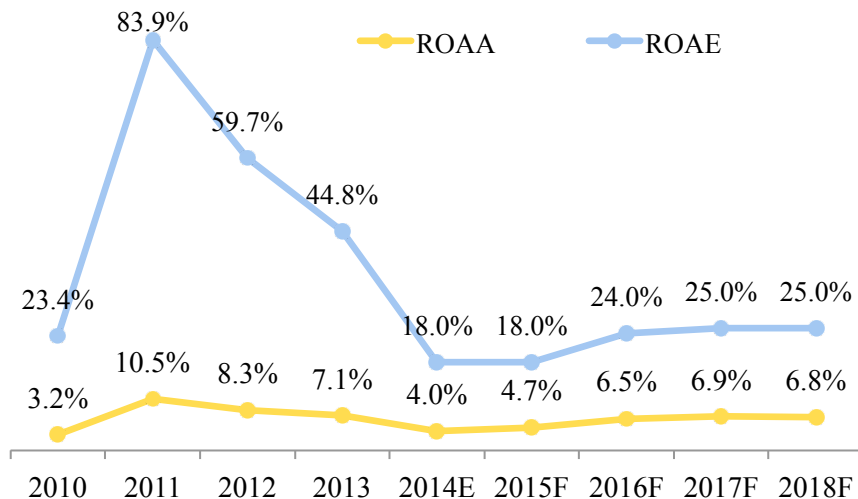
### Loan quality in 2012 – 2018F (%)



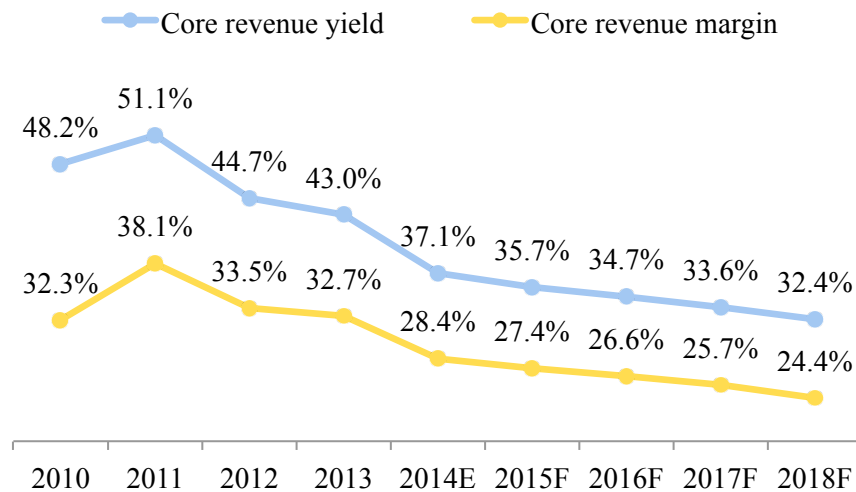
### Cost efficiency in 2010 – 2018F (%)



### Annual profitability in 2010 – 2018F (%)



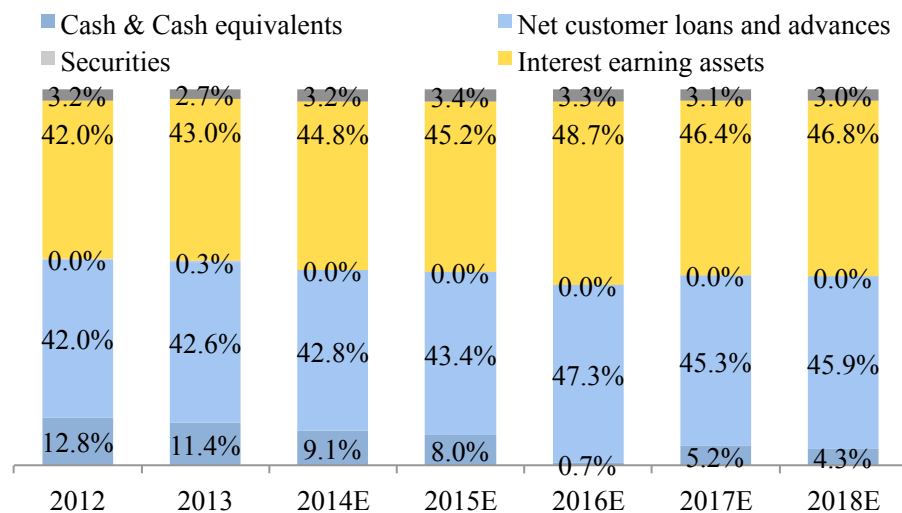
### Core revenue ratios in 2010 – 2018F (%)



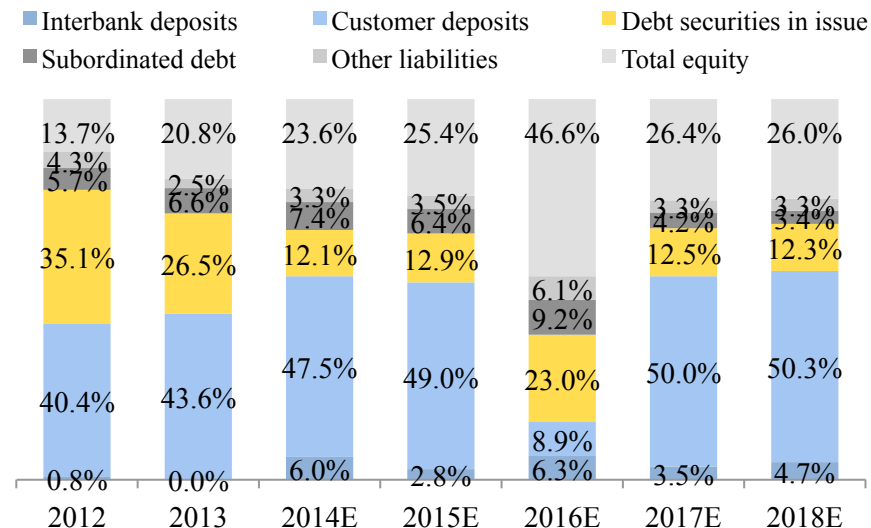


## Assets and Funding

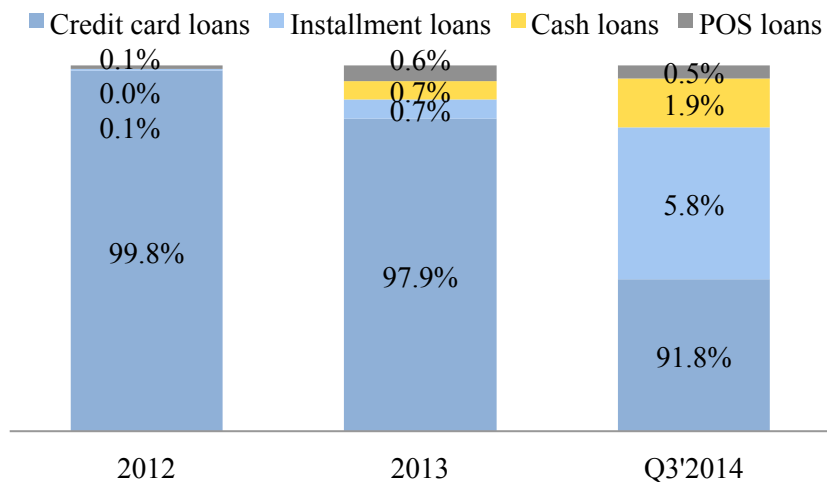
Assets breakdown in 2012 – 2018F (%)



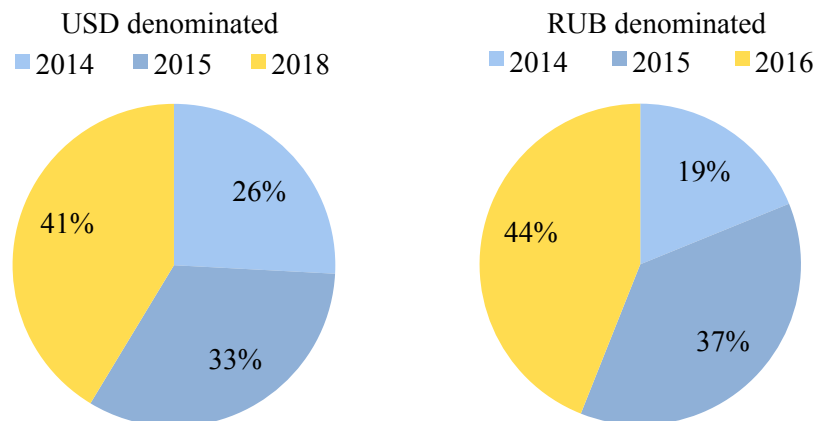
Funding breakdown in 2012 – 2018F (%)



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



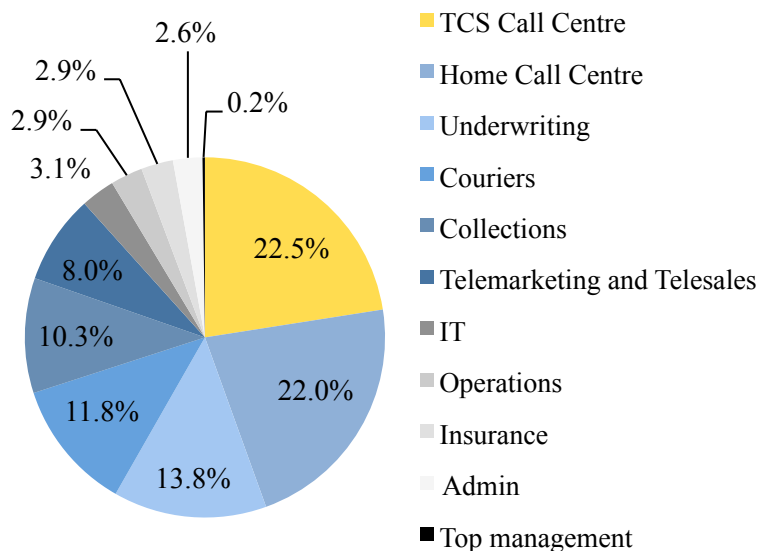
Percentage of TCS bonds expiration by year (%)



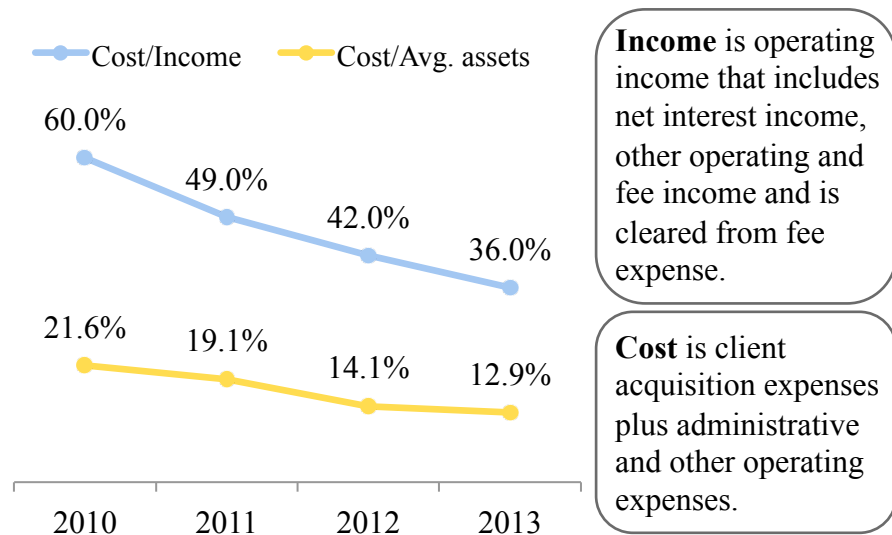


# TCS flexible cost base and smart cost management

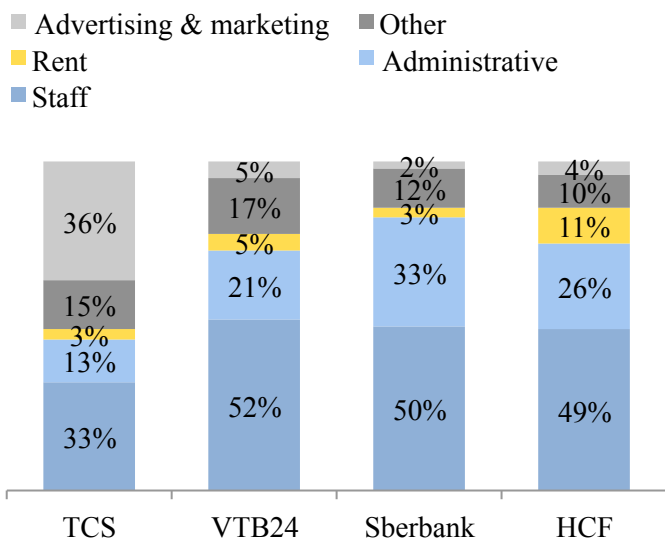
TCS staff breakdown in 2013 (%)



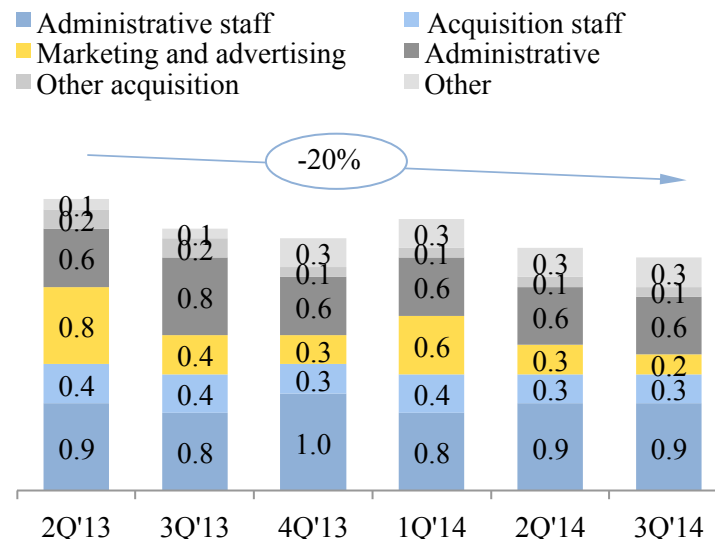
TCS cost efficiency in 2010 – 2013 (%)



Operational costs breakdown in 2013 (%)



TCS operating costs in 2013 - 2014 (RUB bln)

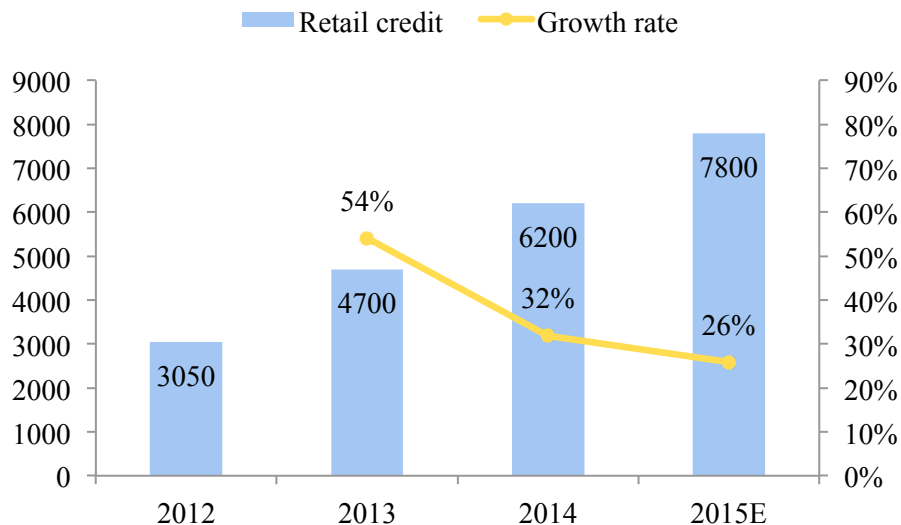






## Retail credit card market and interest rates

Retail credit market volume in 2012 – 2015E (RUB bln)

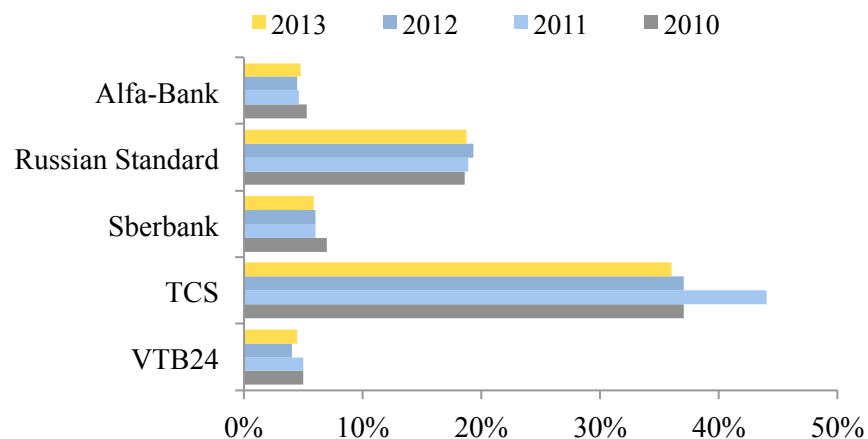


Interest rates on credit cards as of December 2014 (%)

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%

Dividend yield (%)

Net interest margin in 2010 – 2013 (%)

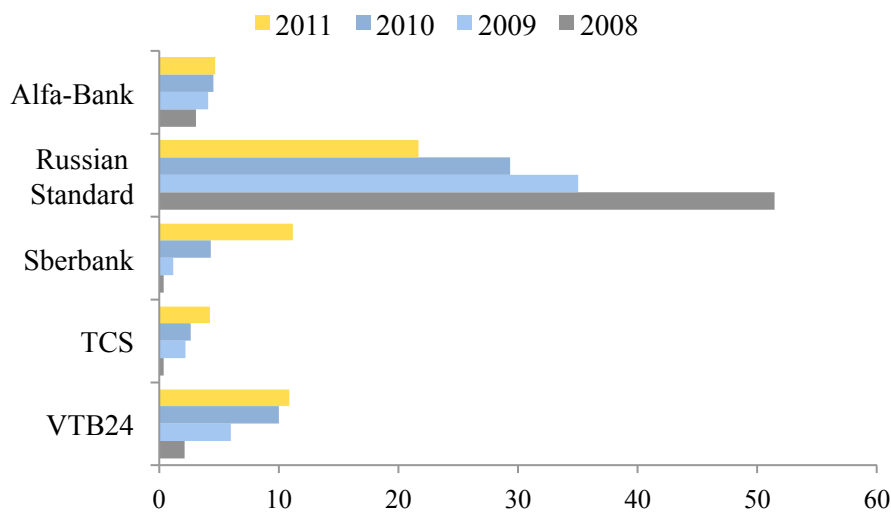


$$DPR = 1 - \frac{g}{ROE} = 1 - \frac{0.079}{0.117} = 0.32 \Rightarrow 32\%$$

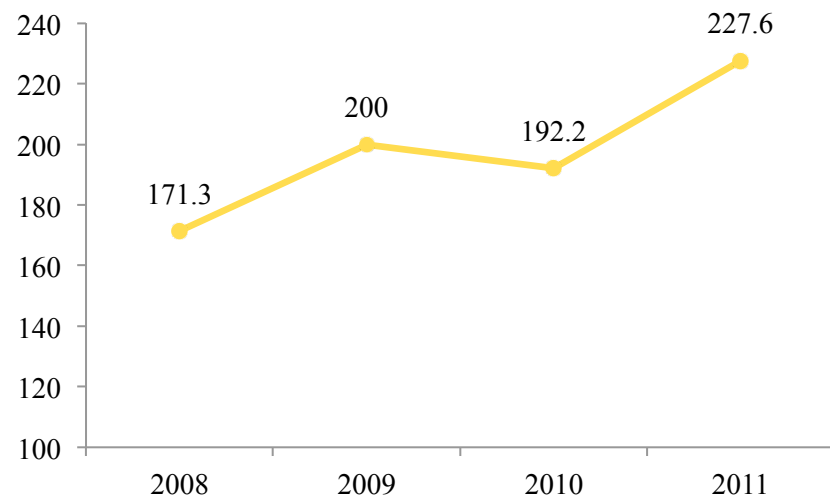


## Crisis of 2008

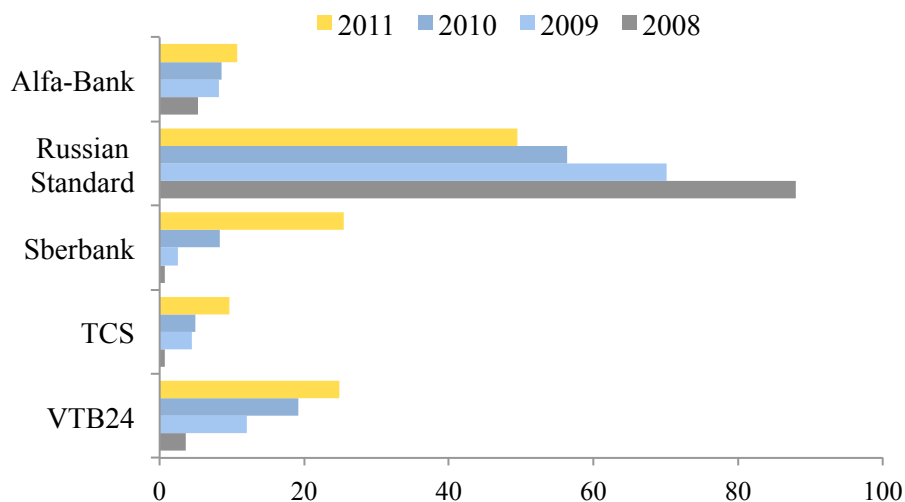
Market share in 2008 – 2011 (%)



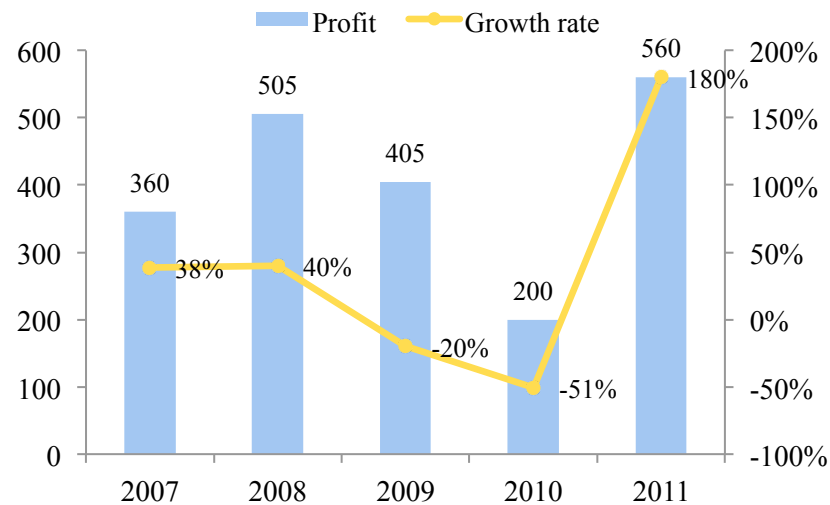
Portfolio value of banking industry in 2008 – 2011 (RUB bln)



Portfolio value in 2008 – 2011 (RUB bln)



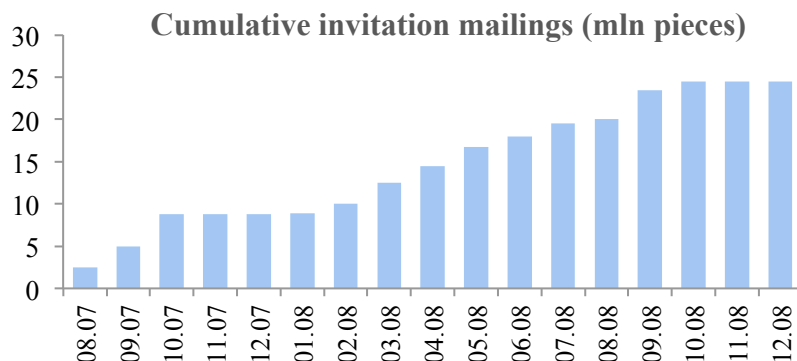
Profit of the banking industry in 2007 – 2010 (RUB bln)



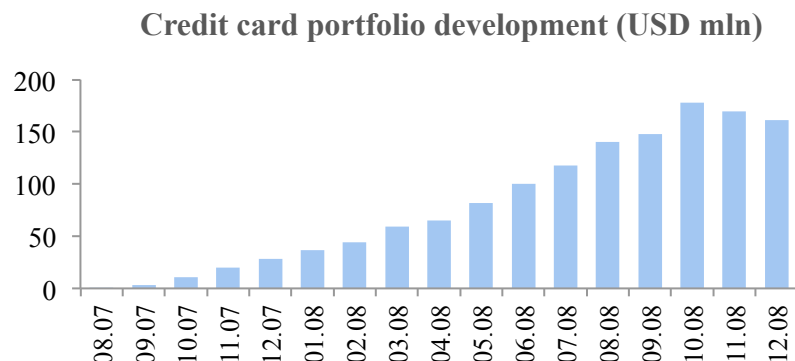


## Tinkoff Credit Systems in Crisis of 2008 (1/2)

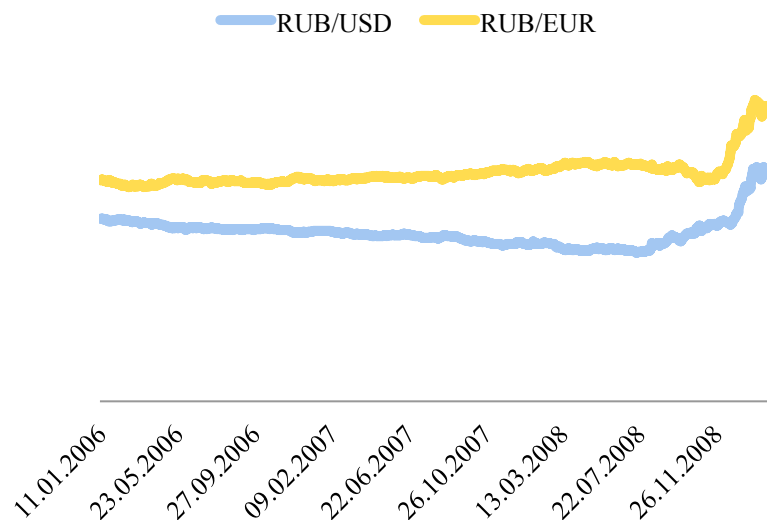
Due to fall in liquidity on financial markets and shutdown of capital markets, TCS decided to decrease the volume of mailings temporarily



As a result of Russian Ruble devaluation, the portfolio decreased in dollar terms in the fourth quarter 2008. Normal hedging strategies such as currency swaps were not available from Summer 2008 due to tightening of credit quality



### Foreign exchange dynamics



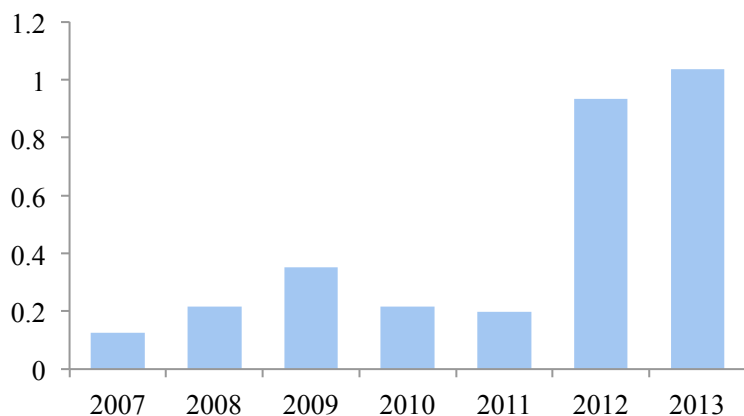
- In October 2008 the group repaid 95% of the outstanding Russian Ruble bond placed in October 2007 with proceeds from the Vostok Nafta USD 30 mln equity investment
- In December 2008, TCS's EUR 70 mln Eurobond issued in June 2008 was successfully listed on the Swedish Stock Exchange
- In Summer 2008 TCS started to attract deposits from individuals, than making it the priority source of funding

In thousands of USD if not otherwise	2007	2008
Credits and advances to customers	69383	163622
Loan portfolio growth	976.40%	135.82%
Net profit/Interest income	-55.00%	-48.94%
Net debt	-25044	-8987
Equity ratio	26.00%	13.10%
Return on equity	-8.60%	-134.04%
Number of employees	211	423

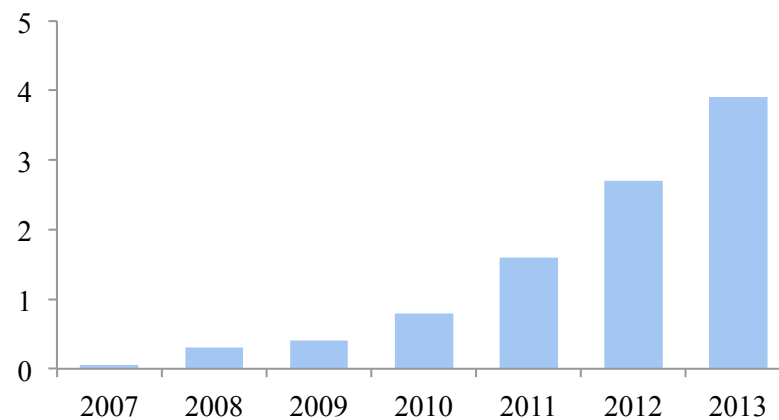


## Tinkoff Credit Systems in Crisis of 2008 (2/2)

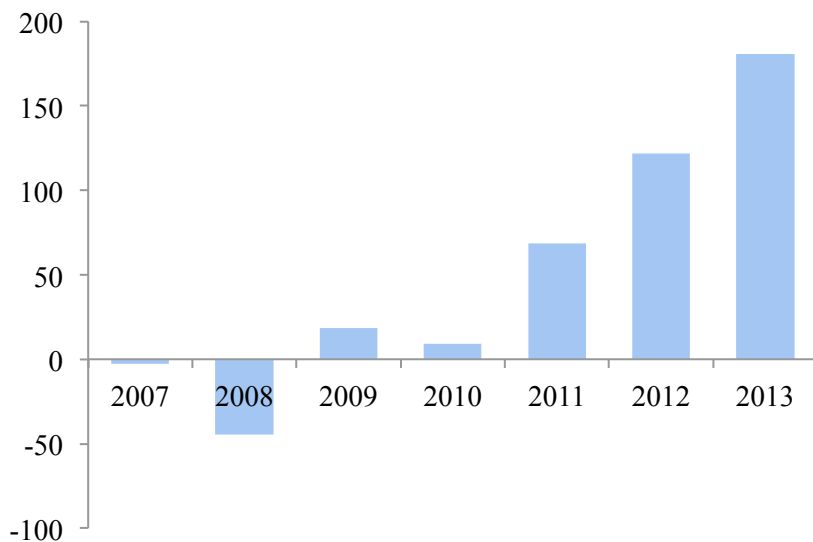
Average loan per card (USD th)



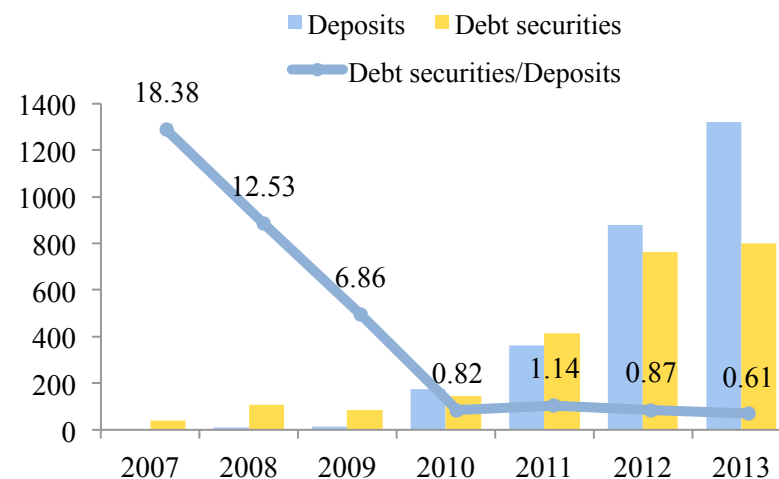
Number of cards issued (pieces)



Net Income (USD mln)



Sources of funding (USD mln) and Bonds/Deposits ratio (x)

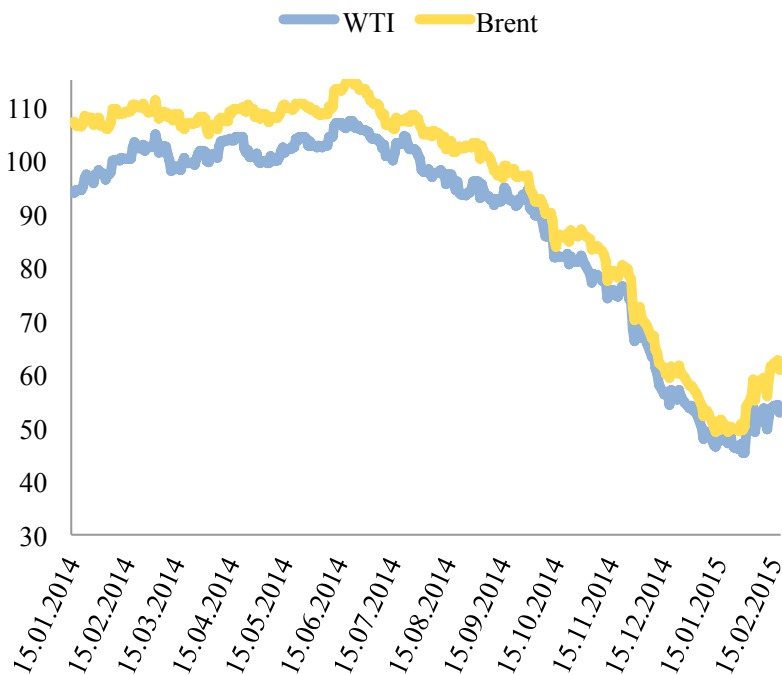




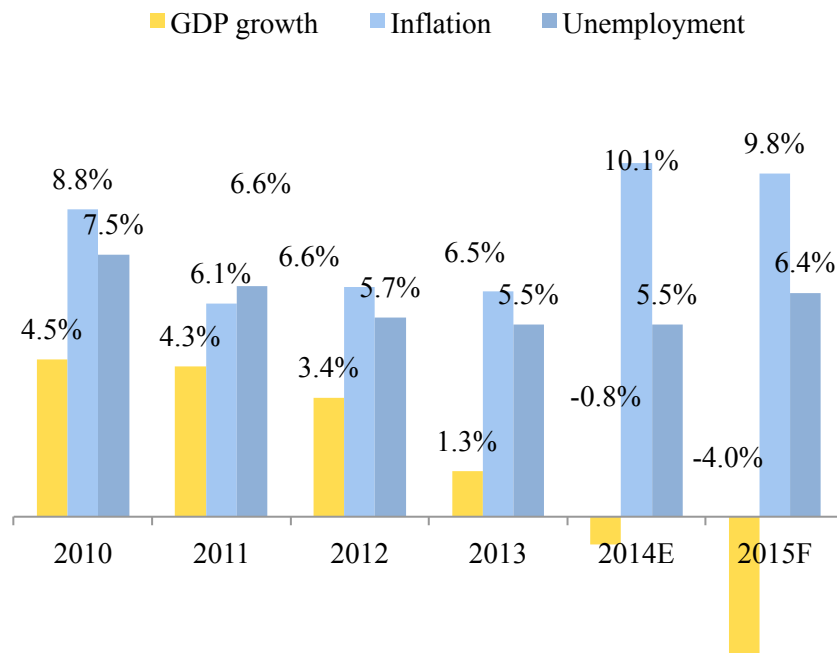


## Macroeconomic environment is quite unfavorable

Macroeconomic indicators in Russia 2010 – 2015F (%)



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

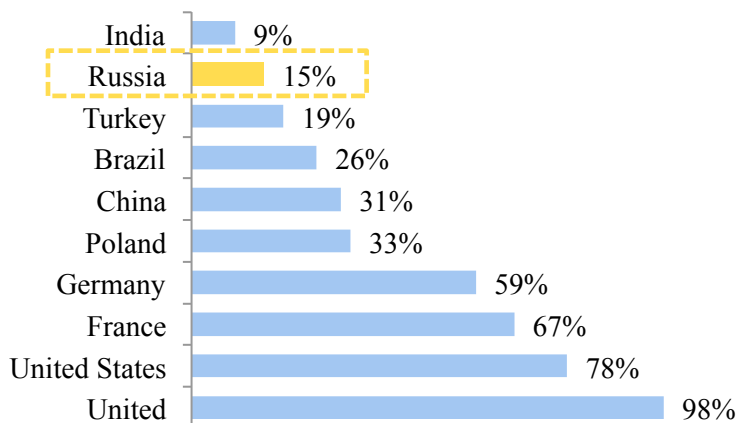




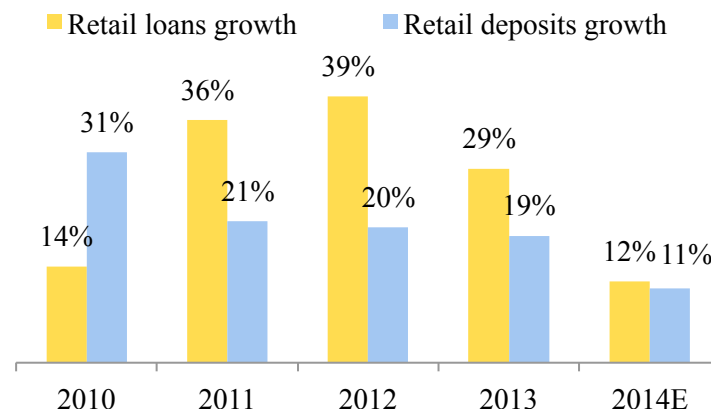
## Retail banking in Russia

### Retail loans in Russia have high growth potential ...

Retail loans as % of GDP in 2013

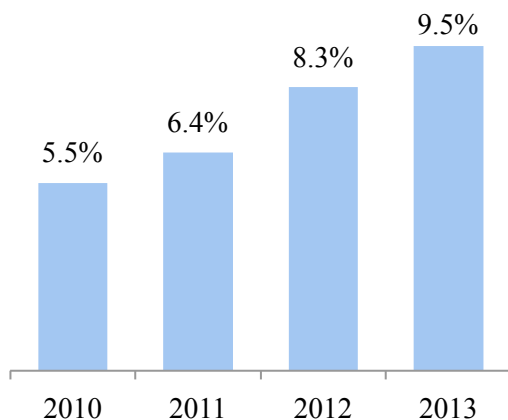


Retail loans and deposits growth in Russia in 2010 – 2014 (%)

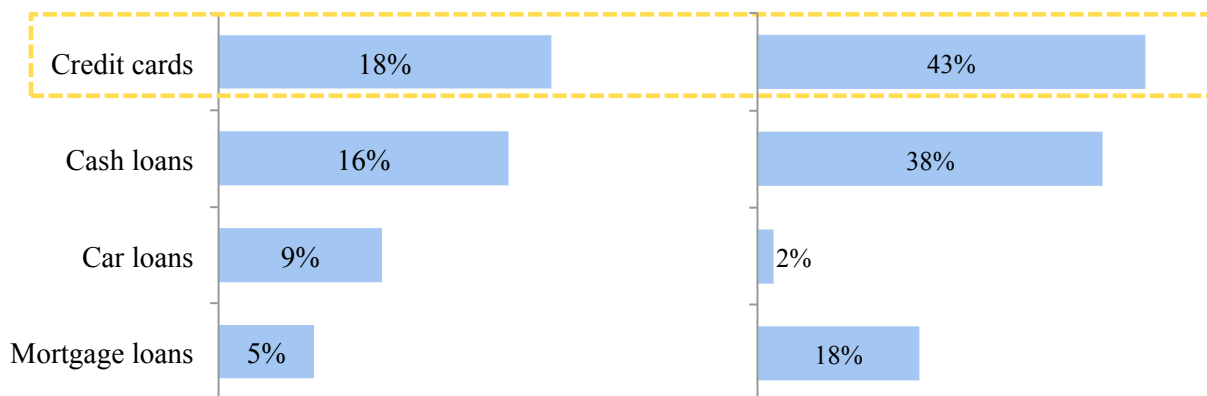


... though debt burden is growing, and share of non-performing loans is the highest for credit cards

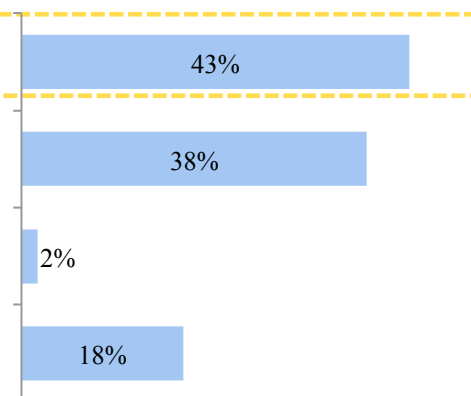
Retail debt service payments in Russia in 2010 – 2013 (% of nominal wage)



Share of non-performing loans split by type of loan in 2014 (%)



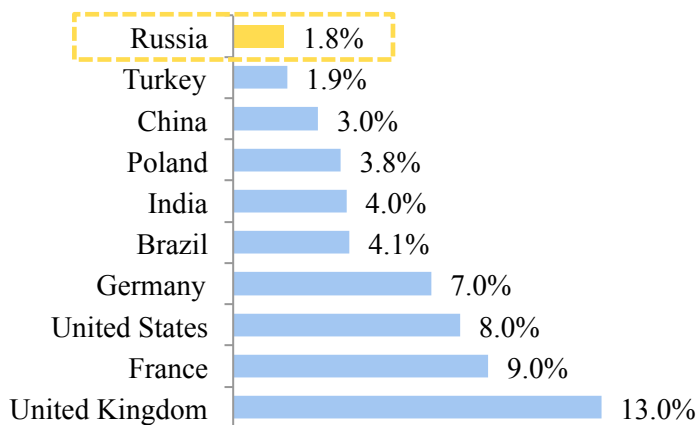
Penetration of loans split by type in 2014 (%)



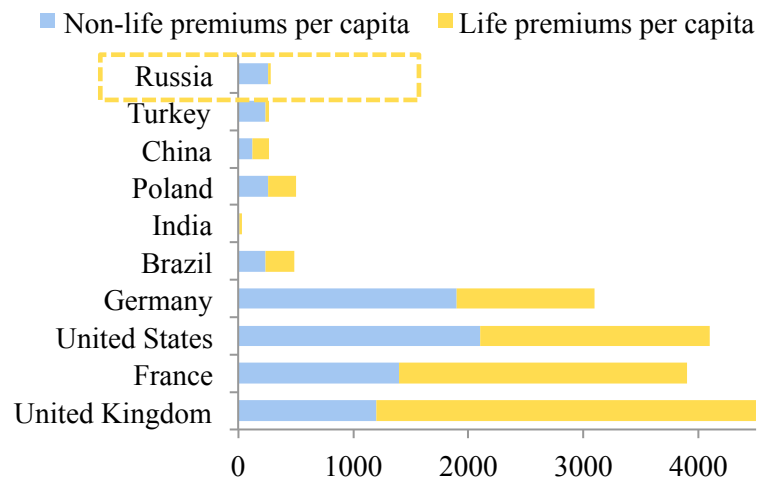


# Insurance

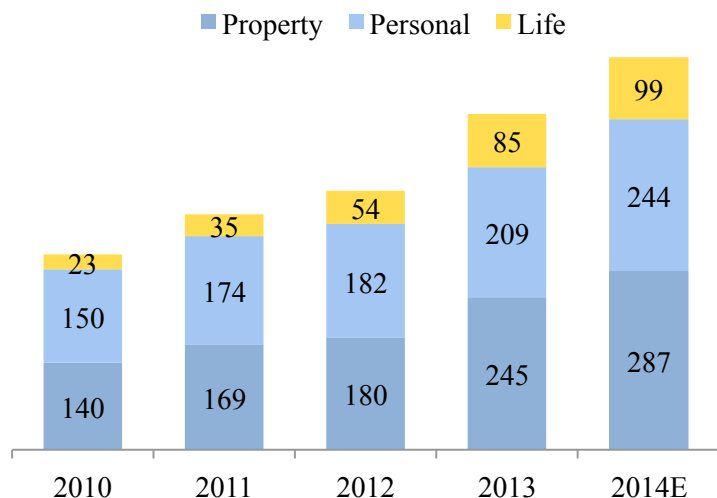
Insurance premiums as % of GDP in 2013



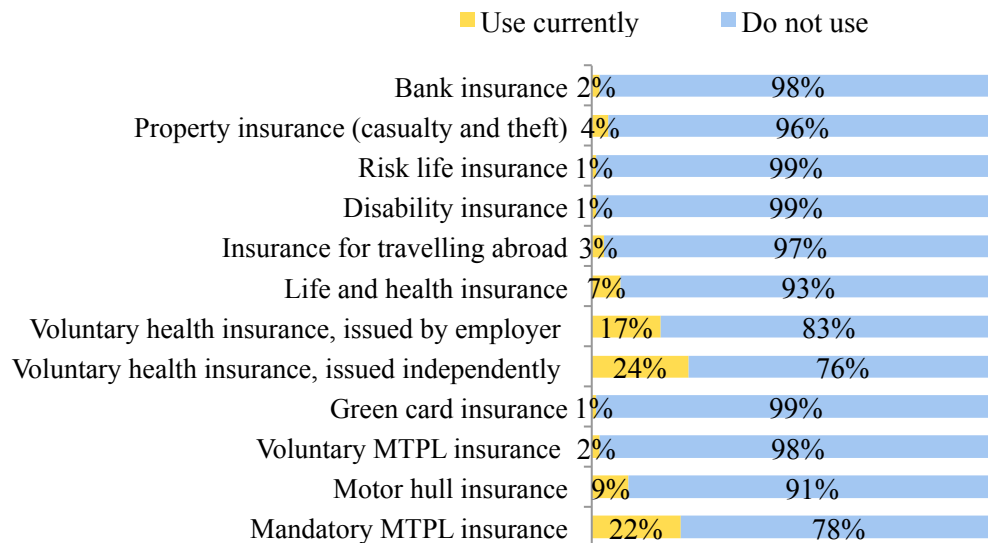
Insurance premiums per capita in 2013 (USD)



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



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

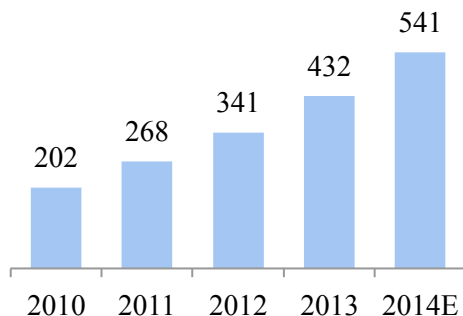




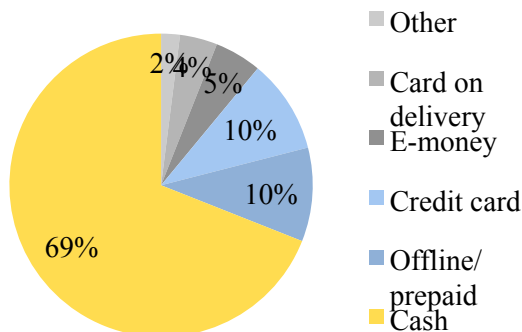


## Online preferences

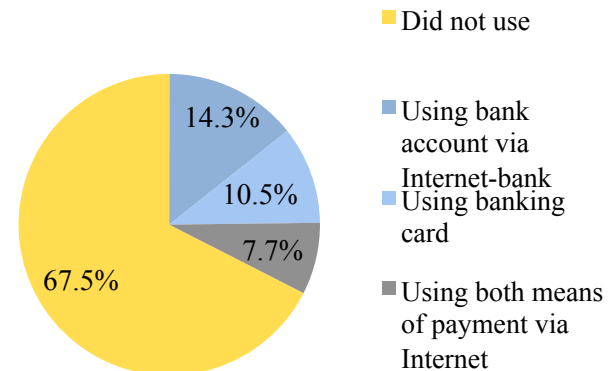
**E-commerce in Russia in 2010 – 2014E (RUB bln)**



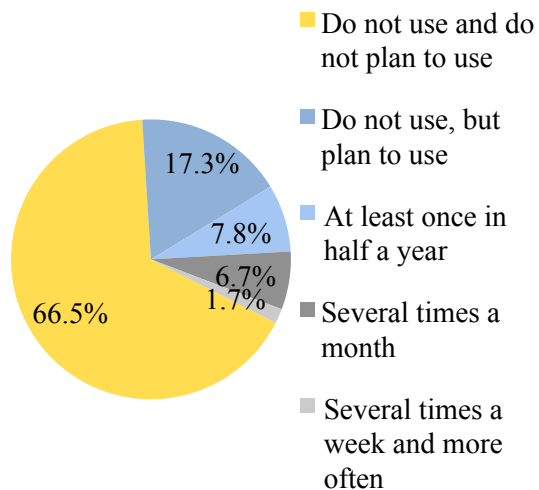
**Online payment preferences in 2013 in Russia (%)**



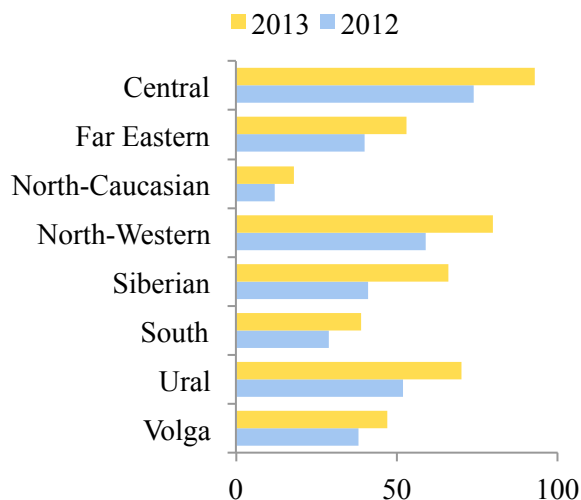
**Payments and transfers via Internet by holders of bank cards in 2014 (n=1984, %)**



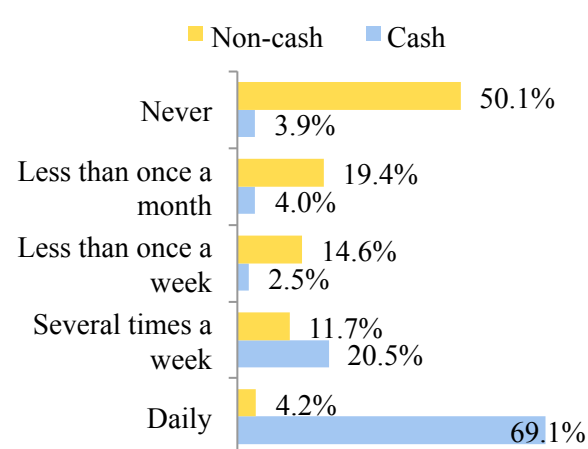
**The use of E-money in 2014 (n=3209, %)**



**Clearings per person in federal regions in 2012 – 2013 (units)**



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

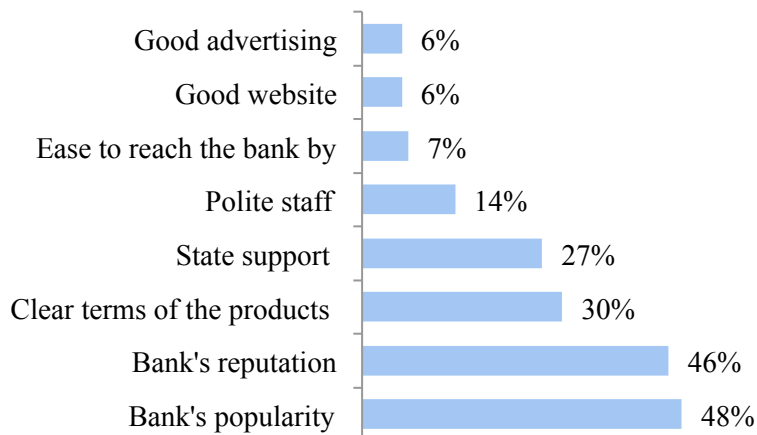




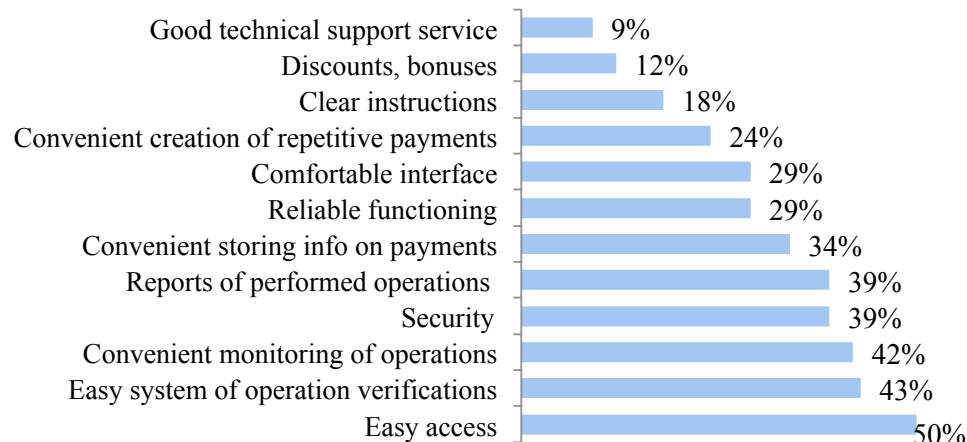
## TCS is a bank of choice for consumers

### TCS is chosen because it satisfies key criteria required for ...

#### ... being a bank in 2014 (%)



#### ... and for being an Internet-bank in 2014 (%)

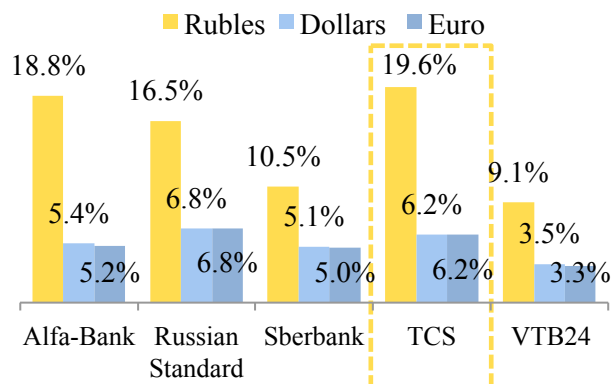


### TCS provides customers with services that are successful because of ...

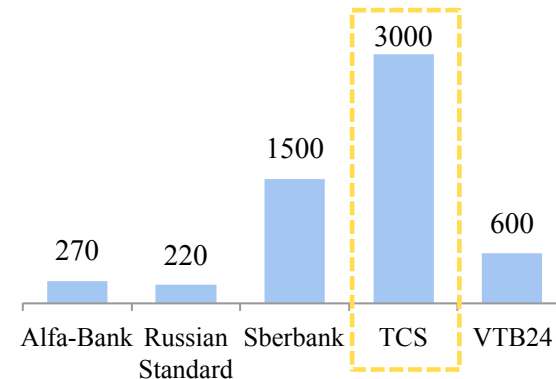
#### ... inline interest rates on credit cards (%)

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%

#### ... more attractive annual deposits interest rates (%)



#### ... a greater number of payment partners of mobile banking application





## TCS products are competitive

### Credit cards comparison



#### TCS

Initial credit limit (RUB)	30,000
Max credit limit (RUB)	300,000
Grace period (days)	55
Min payment (% of balance)	6, min RUB 600
Interest on purchases (%)	24.9 – 45.9
Interest on cash (%)	32.9 – 45.9
Annual Service ( RUB)	590
Cash withdrawal commission (%)	2.9 plus RUB 290
Fees for SMS-services (RUB)	59



#### Sberbank

By case	By case
200,000	300,000
50	50
5	5, accrued interest
19 – 24	19
19 – 24	19
750, then 450	750
3 – 4	4.9
Free	200



#### VTB24

By case	By case
300,000	10,800
50	150,000
5, accrued interest	60
19	5
19	19 – 32
750	19 – 32
4.9	875
200	3.9
	50



#### Alfa-Bank

10,800	100,000
150,000	450,000
60	55
5	5
19 – 32	36
19 – 32	36
875	600
3.9	4.9
50	50



#### Russian Standard

100,000	100,000
450,000	450,000
55	55
5	5
36	36
36	36
600	600
4.9	4.9
50	50

### Insurance products comparison



#### TCS

Property insurance	+
Life and health insurance	+
Trip insurance	+
Loans insurance	+
Accidents insurance	+
Savings insurance	–
Total premiums in 2013 (RUB th)	135,867



#### Sberbank

+	+
+	+
+	+
+	+
+	+
+	+
9,025,309	9,025,309



#### VTB24

+	+
+	+
+	+
+	+
+	+
+	+
11,305,134	11,305,134



#### Alfa-Bank

+	+
+	+
+	+
+	+
+	+
+	+
53,841,000	53,841,000








#### Russian Standard

+	+
+	+
+	+
+	+
+	+
+	+
6,473,817	6,473,817







# Mobile banking

## Mobile application comparison

	 <b>TCS</b>	 <b>Sberbank</b>	 <b>VTB24</b>	 <b>Alfa-Bank</b>	 <b>Russian Standard</b>
Account summary	+	+	+	+	+
Transfers to bank customers	+	+	+	+	+
Transfers to other banks	+	-	+	+	+
Transfer options	Bank card number Accounts details Mobile number	Bank card number Accounts details Mobile number	Bank card number Accounts details	Bank card number Accounts details Mobile number	Bank card number Accounts details Mobile number
Payments	+	+	+	+	+
# of payment partners	> 3,000	> 1,500	> 600	270	220
ATM/branch locator	+	+	+	+	+

## Leaders of mobile banking for iOS

	<b>1</b>  <b>TCS</b>	<b>2</b>  <b>Alfa-Bank</b>	<b>3</b>  <b>VTB24</b>	<b>8</b>  <b>Sberbank</b>
General information	5	5	3	4
Convenience of usage	5	4	3	5
Payments and transfers	4	5	4	4
Deposits and debit cards	4	5	3	4
Loans and credit cards	5	3	4	3
Additional services	5	5	3	3
Security	2	3	5	3
Characteristics	Convenient interface, finance management	The best deposits, debit cards	High functionality	Convenient planning finance management



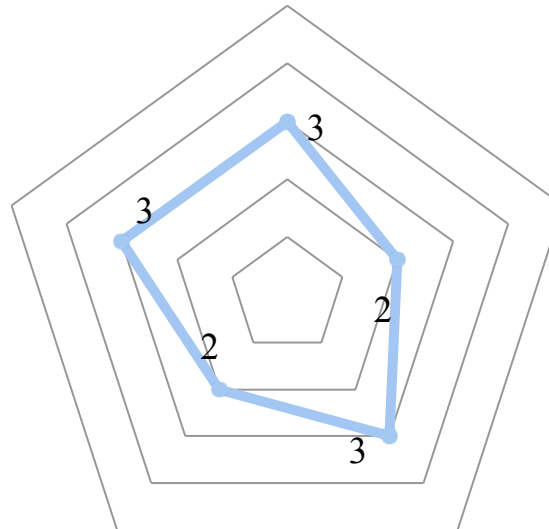
## TCS 5 forces analysis

### Competition in the industry is quite high as ...

- ✓ there are five main players on the market: Sberbank, VTB24, TCS, Alfa-Bank and Russian Standard Bank
- ✓ banks compete in rates, terms and ethics

### Threat of substitute products is moderate as ...

- ✓ other banks and non banking organizations offer similar services that could act as substitutes, though not the best ones
- ✓ but banks are still considered to be the most reliable



### Threat of new entrants is low as an entrant has to ...

- ✓ gain trust
- ✓ possess a lot of capital so to provide a wide range of services
- ✓ satisfy highly regulation
- ✓ have expertise of the segment
- ✓ have relevant risk management system
- ✓ and there are unfavourable conditions to enter right now

### Bargaining power of customers is low because ...

- ✓ there are high switching costs, so only attractive terms can attract customers
- ✓ the Internet greatly increased the ease and reduced the cost for consumers to compare the prices at various banks

### Bargaining power of suppliers is moderate as ...

- ✓ major suppliers are depositors and financial institutions
- ✓ customers make choice based on interest rates, services, access to the account and network system



## Regulation in the banking segment is becoming stricter

### New laws can adversely affect TCS, decreasing the profitability

New laws:	Does it have a positive impact?	Effect
<ul style="list-style-type: none"><li>• higher provisioning requirements</li></ul>	X	<ul style="list-style-type: none"><li>• Less funds available for giving out loans, and the deterioration of clients' base</li><li>• Decrease of the spread between interest rates on loans and deposits</li><li>• The personal bankruptcy law concerns loans of more than 500,000 rubles, but TCS credit cards max limit is 300,000 rubles, so it has no direct effect on TCS</li></ul>
<ul style="list-style-type: none"><li>• increased risk weightings for capital adequacy ratios</li></ul>	X	
<ul style="list-style-type: none"><li>• increased deposit insurance fees</li></ul>	X	
<ul style="list-style-type: none"><li>• interest rate caps on consumer lending</li></ul>	X	
<ul style="list-style-type: none"><li>• key rate increase, 17%, then 15%</li></ul>	X	
<ul style="list-style-type: none"><li>• personal bankruptcy</li></ul>	—	

### However, 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
- ✓ CBRF introduced temporary moratorium on negative revaluation of foreign exchange and securities



# Synergies between banking and insurance

## Synergies

- ✓ Revenue and costs synergies, stability of earnings, lower distribution costs with more channels
- ✓ Less volatility of earnings when insurer and bank are about the same size, because of risk diversification and link of clients
- ✓ Capital efficiency as internal flows are cheaper, providing regulatory and tax efficiency
- ✓ Banks usually have a mismatched position respect to interest rates: long-term assets (loans), short-term liabilities (demand deposits), while insurance companies issue long-term liabilities (life insurance) and assets are short, this provides hedging
- ✓ Similarities of business lead to the economy of scale: powerful brand, wider ranger services, technology, corporate control, accounting, payroll, information, client base and data
- ✓ Differences of the businesses lead to a better integrated risk management

## Combining bank and insurance company

Customer demands	Bank	Insurance company	Bank and insurance company combined
Protection against personal risks		✓	✓
Safekeeping of assets	✓	✓	✓
Informed, trustworthy advice	✓	✓	✓
Financial solutions for reducing taxes		✓	✓
Funding for monetary needs	✓		✓
Convenient financial transactions	✓		✓







## TCS history

- TCS Group IPO on the London Stock Exchange
- Tinkoff Online Insurance started offering personal accident insurance to TCS Bank's clients
- Launch of cash loans 2013
- Tinkoff All Airlines loyalty programme launched
- Launch of Tinkoff Mobile Wallet, a mobile payments solution
- Over 3.9m credit cards issued since inception

2013

- Minority stakes sold to Baring Vostok and Horizon
- Launch of online POS loan programme
- The number of TCS Bank "smart couriers" reached 500

2012

- Launch of mobile banking
- Launch of the mobile and telesales sub-channels of TCS Bank online customer acquisition platform
- The online channel became the largest customer acquisition channel for TCS Bank

2011

- Launch of online acquisition channel for credit cards
- Launch of "smart courier" service
- Expansion of the retail deposit programme to all other regions of Russia

2010

- Launch of the retail deposit programme in four regions of Russia and a debit card product

2009

- Minority stake sold to Vostok Nafta
- Launch of Internet bank

2008

- Minority stake sold to Goldman Sachs
- First credit card issued
- Launch of TCS Bank's credit card lending programme using direct mail as the primary customer acquisition channel

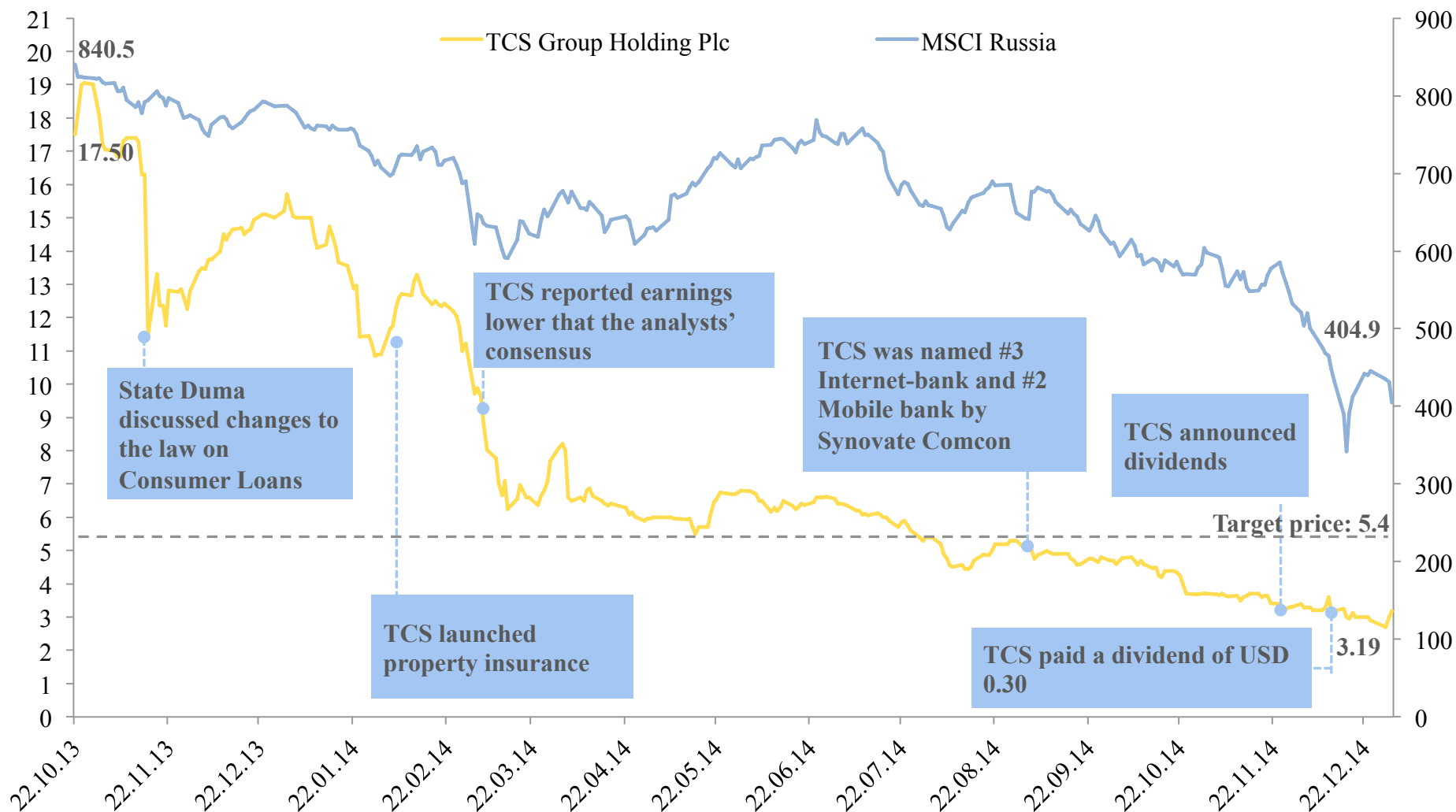
2007

- Tinkoff Credit Systems Bank was created by Oleg Tinkov

2006









## TCS Group Holding PLC stock price performance (USD)





## TCS credit cards description (1/2)

	 <b>Tinkoff Platinum</b>	 <b>All Airlines</b>	 <b>Kanobu</b>	 <b>Afimall Citi</b>	 <b>eBay</b>	 <b>OneTwoTrip</b>
<b>Annual fee (RUB)</b>	590	1890	990			1890
<b>Credit limit (RUB)</b>	300,000	700,000				
<b>Interest on purchases (%)</b>	24.9—45.9	23.9—39.9				
<b>Interest on cash (%)</b>	32.9—45.9	29.9—39.9				
<b>Grace period (days)</b>	55					
<b>Minimum repayment</b>	6% of debt (minimum RUB 600)					
<b>Commission on cash withdrawal</b>	2.9% plus RUB 290					
<b>SMS-bank (RUB per month)</b>	59					
<b>Other features</b>	<ul style="list-style-type: none"><li>• More than 300,000 top up locations</li><li>• 0% commission on transfer of loan from other banks</li><li>• 90-day grace period for loans transferred from other banks</li></ul>	Travel insurance covered by TCS	—			Travel insurance covered by TCS



## TCS credit cards description (2/2)



**Tinkoff  
Platinum**



**All  
Airlines**



**Kanobu**



**Afimall  
Citi**



**eBay**



**OneTwoTrip**

**Bonus  
equality**

1 point = 1 RUB

1 mile = 1 RUB

1 point = 1 RUB

1 point = 1 RUB  
(for purchases  
> 2,000 RUB)

1 point = 1 RUB  
(for purchases  
> 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 purchases 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



## TCS retail deposit policy description

	<div>₽ RUB account</div>	<div>\$ USD account</div>	<div>€ EUR account</div>
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
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
Minimum sum of withdrawal	RUB 15,000	USD 500	EUR 500
Rates including capitalisation	13 – 24 months 17.23%	12 – 24 months 6.168%	
	6 – 12 months 19.56%	6 – 11 months 4.074%	
	3 – 5 months 17.23%	3 – 5 months 2.529%	
Maximum number of accounts in each currency	6 accounts opened via Internet		
Withdrawal date	60 days after the opening of the account		



## TCS debit card and mobile wallet terms

### 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

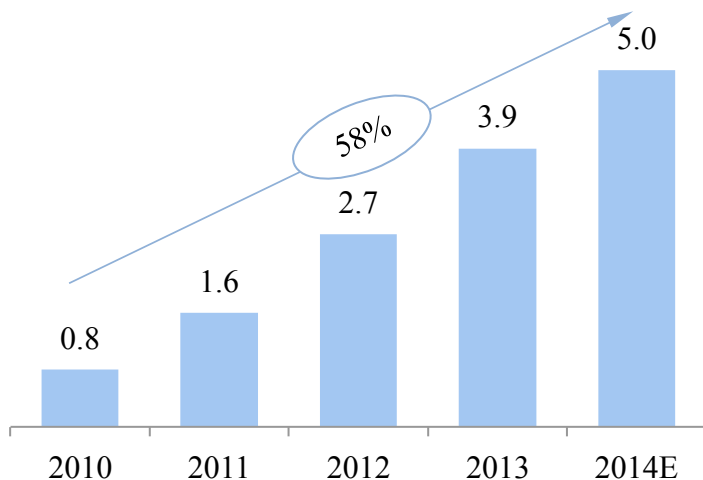




# TCS smart courier service and Internet penetration

## TCS smart couriers enable to widen geographical coverage attracting new customers

Number of cards issued by TCS in 2010 – 2014E (mln)



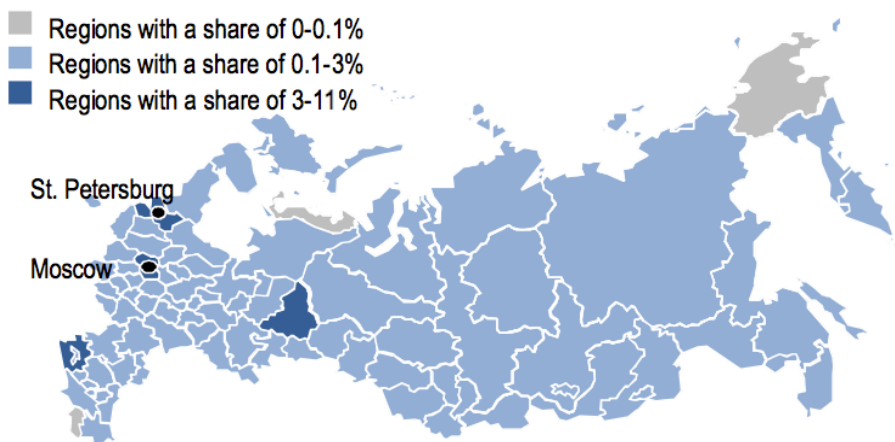
TCS smart courier service



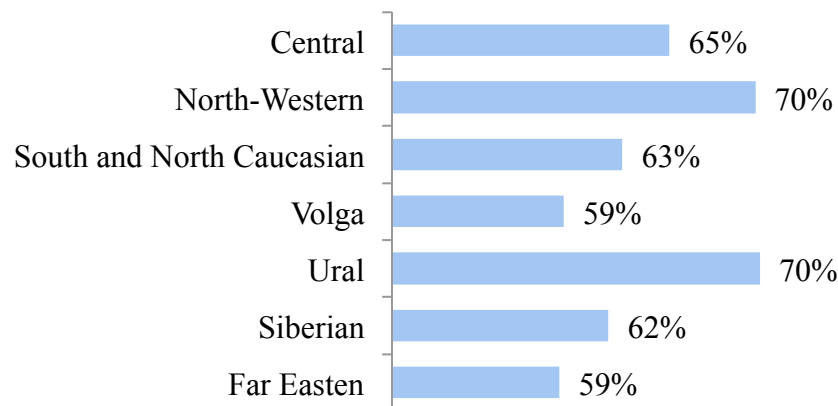
TCS smart courier service is successful:

- ✓ 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

TCS customer distribution by region in 2013  
(% of customer base)



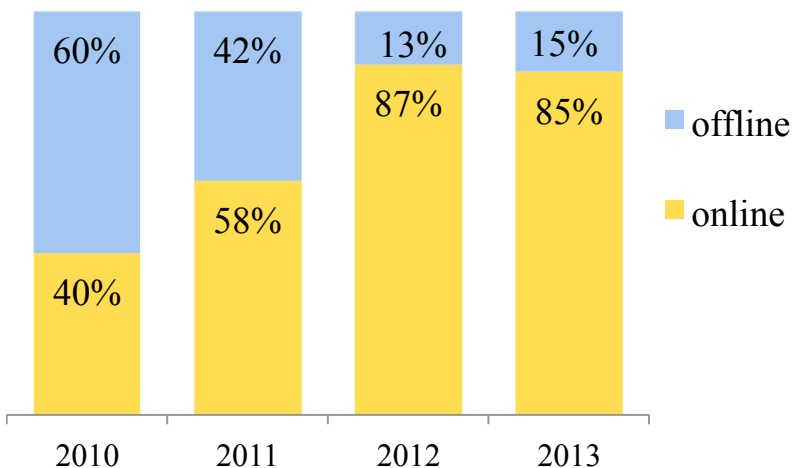
Internet penetration by federal region in Russia in 2014E (%)





## TCS distribution channels and customers' characteristics (1/2)

Applications received by channel in 2010 – 2013 (%)



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

### Bring a friend

The policy that encourages current customers to recommend TCS to their friends and relatives

### Direct mail

Attracting consumers via mail. Potential customers are chosen with the help of information from telecommunication companies, retailers, credit bureaus and others

### 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

### Internet

In order to make people aware of TCS services, the bank has advertisements on websites such as banners and search engines with the help of real-time bidding

### Mobile services and telesales

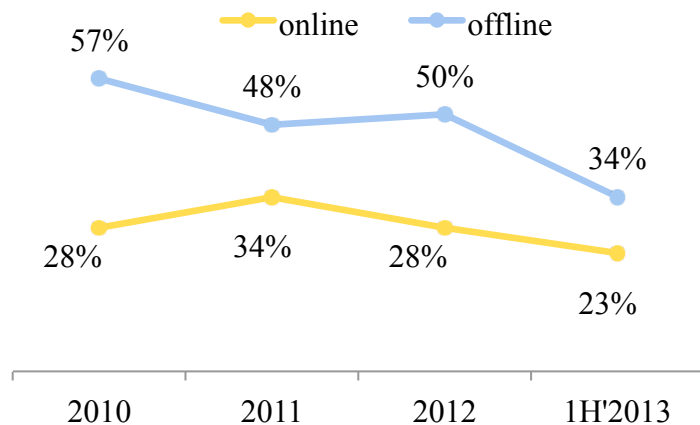
These are the applications that are received through two types of TCS Call Centres



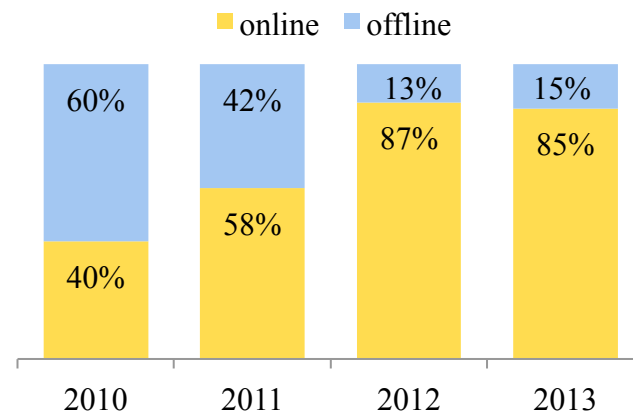


## TCS distribution channels and customers' characteristics (2/2)

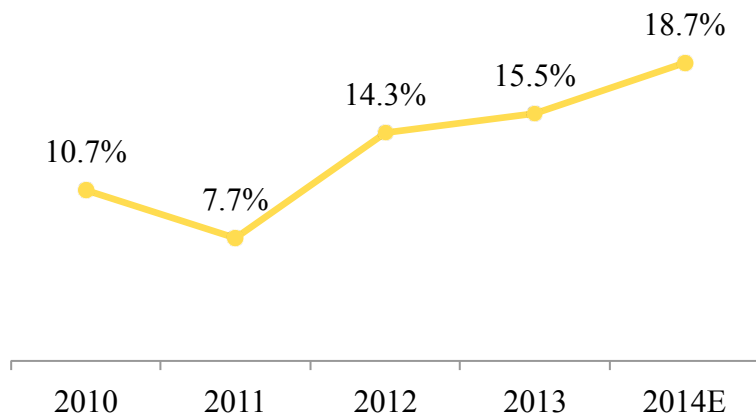
Card approval rate by channel (%)



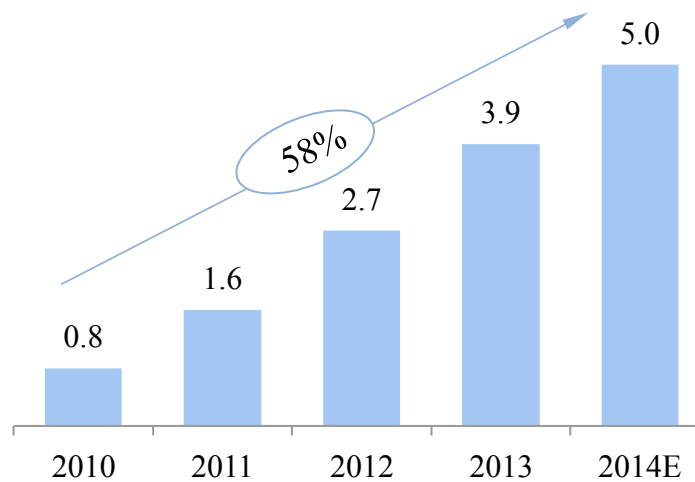
Applications received by channel in 2010 – 2013 (%)



Cost of risk



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



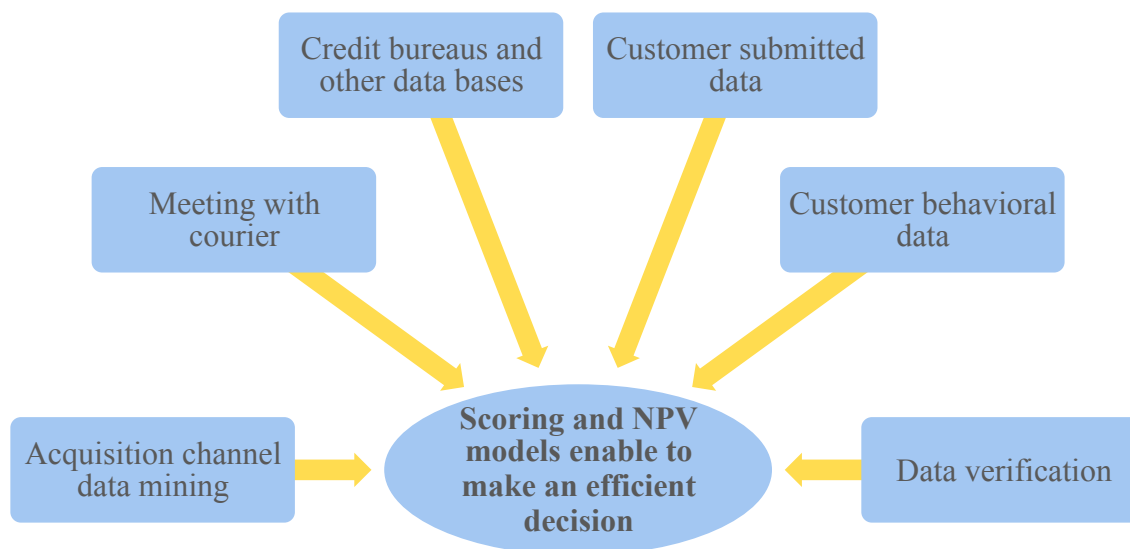


# TCS risk management and decision making

## TCS risk management

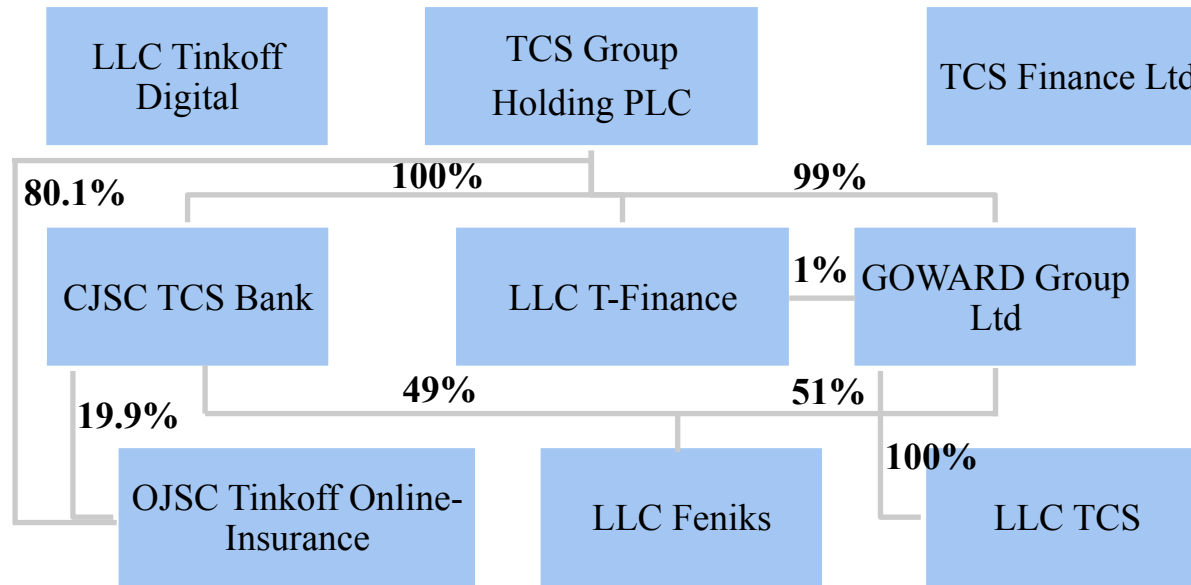
	<u>Marketing</u> Quantity vs Quality	<u>Underwriting</u> Risk vs Approval	<u>Credit Line Increase</u> Volume vs Customer Base	<u>Collections</u> Revenue vs Cost
<b>Scoring Models Data Driven Approach</b>	<ul style="list-style-type: none"><li>Extensive data mining at marketing stage</li><li>Data driven acquisition campaigns</li></ul>	<ul style="list-style-type: none"><li>Data verification</li><li>Channel specific scoring</li><li>Use of 3d party data</li></ul>	<ul style="list-style-type: none"><li>Customer monitoring</li><li>Cross-sell</li><li>Credit line increases</li></ul>	<ul style="list-style-type: none"><li>Active pre-collection</li><li>Broad use of social networks</li><li>Proactive collection</li></ul>
<b>NPV Model Credit Decision Making</b>	<ul style="list-style-type: none"><li>Managing customer funnel</li><li>NPV model factors in acquisition cost</li></ul>	<ul style="list-style-type: none"><li>Risk score and NPV to set initial limit</li><li>“Challenger” tests of underwriting criteria</li></ul>	<ul style="list-style-type: none"><li>Focus on retention of good customers</li><li>Predictive models over lifecycle</li></ul>	<ul style="list-style-type: none"><li>Installment program</li><li>Outsourcing of collections and sale of loans</li><li>Legal collections</li></ul>
<b>Highlights</b>	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

## TCS decision making





## TCS organizational structure



- **TCS Group Holding PLC** is a public limited company based in Cyprus (former Egidaco Investments Plc)
- **CJSC TCS Bank** is a commercial bank, former CJSC Khimmashbank
- **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 bank passed its start-up phase TCS Group took control over GOWARD
- **LLC TCS** handles customer acquisition and partner programs
- **LLC T-Finance** holds certain hardware applied in the operations of TCS bank
- **OJSC Tinkoff Online-Insurance** provides insurance services (former OJSC SK Moskva)
- **TCS Finance Ltd** is a special purpose entity based in the Ireland that enables TCS Group to issue debt
- **LLC Feniks** is a collection agency that provides debt collection services
- **LLC Tinkoff Digital** develops IT projects for the bank. It is owned by Mr Tinkov, Mr Yamanov and Goldman Sachs



## TCS corporate governance

Criterion	Characteristics	TCS complies?	Comments
Capital structure	Single class shares	-	Dual-type share as in Internet companies
Disclosure	<ul style="list-style-type: none"> <li>Quality corporate reporting transparency (IFRS)</li> <li>Inclusion of non-financial information</li> <li>Transparency of ownership structures</li> </ul>	+ + +	Clear, timely and reliable reports on corporate governance, structure and board practices
Board practice	<ul style="list-style-type: none"> <li>High-calibre directors</li> <li>Independent board committees</li> <li>Effective board chairing</li> <li>Prevention of the concentration of power in one individual</li> <li>An independent chairman</li> <li>Strong independent representation on the board</li> </ul>	+ + + - - +	Directors are experts in the sphere of audit, ex-top managers with international experience and former members of the Boards. Mr Tinkov (chairman) has high voting power, but there are 2 board committees of 3 members each (2 members in each are independent)
Strategic decisions	<ul style="list-style-type: none"> <li>Effective independent board</li> <li>Oversight of significant and related-party transactions</li> <li>Special powers for independent directors to block transactions</li> </ul>	+ + +	Out of 7 members of the board 2 are independent. There is an agreement requiring the approval of minority shareholders on vital issues
Dilution	<ul style="list-style-type: none"> <li>Pre-emption rights</li> <li>Shareholder approval of non-preemptive issues</li> </ul>	+ +	Ensures that holdings will not be diluted through non-pre-emptive issues
Remuneration	Appropriate and clearly-stated executive remuneration practices	+	Main tasks of Remuneration Committee
Engagement	<ul style="list-style-type: none"> <li>Commitment to shareholder dialogue from the board and management</li> <li>Commitment to build a better market understanding of the management and its strategy</li> </ul>	+ +	The board takes decisions in the interests of all investors without favouring insiders and the controlling shareholder



### **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”

### **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.

### **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



### **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

### **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.

### **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

### **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



### **Oliver Hughes (43)**

*Position:* Chief Executive Officer (CEO), 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

### **Ilya Pisemsky (38)**

*Position:* Chief Financial Officer (CFO), 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

### **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

### **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

### **Stanislav Bliznyuk (33)**

*Position:* Chief Operating Officer (COO), Deputy Chairman of the Management Board of TCS Bank

*Experience:* Worked as a project manager at Raiffeisen Bank



### **Dmitry Kobzar (34)**

*Position:* Chief Legal Counsel (CLC), 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

### **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

### **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

### **Viacheslav Tsyganov (38)**

*Position:* Chief Information Officer (CIO)

*Experience:* Served as Head of Systems Analysis at Unimils

### **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

### **Tatiana Kouznetsova (45)**

*Position:* Head of Human Resources (HR), Vice President

*Experience:* Served as Head of Human Resources of “MODUL Group” and in the Audit-consulting Group at the Royal Bank of Scotland





## TCS management incentive programs

### Employee share option plan (ESOP)

The senior management (7 people) are entitled to These shares give neither voting power, nor direct execution of shareholder rights, except for dividends.

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.

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)

The middle management (29 people) is entitled to cash payment, calculated under their individual packages, defined as a percentage of shares.

On a fully diluted basis, this program accounts for maximum of 1% of the total share capital.

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.

The liquidity event is the earliest of the IPO, or change of control.