



# **NON FINANCIAL INFORMATION AND DIVERSITY STATEMENT 2018**

**DISCLOSURE OF NON-FINANCIAL  
INFORMATION AND DIVERSITY  
STATEMENT BY TCS GROUP HOLDING PLC  
AS A PUBLIC INTEREST ENTITY**

**TCS GROUP HOLDING PLC**



# Introduction

TCS Group Holding PLC is the holding company of the Tinkoff financial supermarket in Russia. The Company was incorporated in Cyprus in late 1999, under company number HE107963.

The Company's Home State is Cyprus.

The Company issued GDRs in 2013 which are listed on the Main Market of the London Stock Exchange. The Company is required to comply with the UK's corporate governance regime to the extent it applies to foreign issuers of GDRs. In addition the Company is required to comply with the laws of Cyprus applicable to a Cyprus public limited company.

The Company and its management are committed to providing information about how we manage and conduct our business. One way we do this is through the publication of our annual Non-financial information and diversity statement now in its second year, in compliance with Companies Law (Amendment)(No.3) of 2017 which in turn aligns Cyprus law with European Directive 2014/95/EU as regards disclosure on non-financial information by certain large undertakings and groups.

While information about our approach to environmental, social and employee matters, human rights, anti-corruption and bribery and diversity is widely available through a variety of channels-including financial statements, annual reports, regulatory filings and disclosures, press releases and meetings with investors and other stakeholders-this report brings together and summarizes some of the more salient aspects, as well as indicating where additional information can be accessed.

Effective management of environmental, social and governance issues involves having sound governance, risk management and controls: delivering high-quality customer service for Tinkoff customers; dealing with our customers in fair, responsible and transparent ways; investing in our employees' development within an inclusive work environment; supporting the communities in which we operate; and considering environmental and social issues in our business.

Over time this approach should make the Company (and the Company's partners) more resilient and perform better, lead to more robust growth, stronger performance and increased trust among our stakeholders including investors and customers.

This Non-financial information and diversity statement covers FY 2018 and is intended to be read in conjunction with the Group's 2018 consolidated and stand alone financial statements and AR2018, all of which, together with much more information about the Company and its activities over the past twenty years, are publicly available on the Group's websites.

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# Contacts

Detailed below are contacts and address stakeholders including investors and investment professionals may find useful.

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More up to date information can be found at the TCS Group Holding corporate website [at www.tcsgh.com.cy](http://www.tcsgh.com.cy) and [www.tinkoff.ru/eng](http://www.tinkoff.ru/eng)

# Methodology and materiality

This Non-financial statement is significantly influenced by, but does not claim to be in conformity with, the Communication from the Commission-Guidelines on non-financial reporting (methodology for reporting non-financial information)(2017/C 215/01). The Company has not formally applied or referenced any international or EU-based frameworks.

A number of factors are taken into account by the Company in assessing the materiality of non-financial information, and the Company applies these same factors in assessing materiality in relation to all seven elements to the disclosures stipulated in the EU Directive on non-financial and diversity disclosure.

These include:

1. The Company's business model, the Tinkoff Business Model;
2. The principal risks identified for the Tinkoff Group and published under 'Risk Factors' in the most recent Listing Particulars issued by the Group on 13th June, 2017;
3. Management's thorough understanding of the key components of the Company's value chain;
4. The main sectoral issues identified by companies operating in the same sector, online financial services in the Russian Federation, while taking into account only issues that are specific to the Company's circumstances;
5. The information needs of relevant stakeholders as a collective group;
6. The impact of the Company's activities (their actual and potential severity and frequency) in the spheres of environmental matters, social and employee matters, respect for human rights, anti-corruption and bribery matters and diversity;
7. Public policy and regulatory drivers;
8. The test of financial materiality for a socially responsible business applied by the Company's external auditors and set out in the most recently published audited consolidated financial statements and prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

The Company reviews its materiality criteria and assessments at regular intervals taking into account the Company is a dynamic and innovative business and operating in a rapidly developing market place, to ensure that matters reported continue to be material and that all material matters are reported.

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# Disclaimer and forward-looking statements

Any financial information referred to in this Non-financial statement is derived from the consolidated financial statements of TCS Group Holding PLC and has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap 113, which are for the year ended 31 December 2018.

Market data used in this Non-financial statement have been extracted from official and industry sources TCS Group Holding PLC believes to be reliable and is sourced where it appears. Such information, data and statistics may be approximations or estimates. Some of the market data contained in this Non-financial statement has been derived from the official data of Russian government agencies, including the CBR, Rosstat and the FSFM. Data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries.

Certain statements and/or other information included in this Non-financial statement may not be historical facts and may constitute 'forward looking statements'. The words 'believe', 'expect', 'anticipate', 'intend', 'estimate', 'plan', 'forecast', 'project', 'will', 'may', 'should' and similar expressions may identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, operations or performance, capital expenditures, financing needs, our plans or intentions relating to the expansion or contraction of our business as well as specific acquisitions and dispositions, our competitive strengths and weaknesses, our plans or goals relating to forecasted operations, reserves, financial position and future operations and development, our business strategy and the trends we anticipate in the industry and the political, economic, social and legal environment in which we operate, together with the assumptions underlying these forward looking statements. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved.

Nothing in this Non-financial statement constitutes an invitation to invest in securities of any member of TCS Group.

## Our company's business model at a glance

- The Group is an innovative provider of online financial and lifestyle services operating in Russia through a high-tech low cost platform. In this Non-financial statement, we refer to this as the 'Tinkoff Business Model'.

The Group is the second largest credit card issuer in the Russian market. While credit cards constitute the Group's core business, the Group is diversifying the scope of its non-credit products and services made available to customers on both a proprietary and broker-service basis through its one-stop online customer service destination, the Tinkoff.ru platform (also referred to as the Financial Supermarket). Such additional non-credit product lines typically require limited capital investment but provide a valuable opportunity to diversify the Group's sources of revenue, attract new customer segments and drive customer traffic, thereby generating further opportunities for cross-selling.

The Group's business operations are carried on almost entirely in Russia though the Group does have two offices in Cyprus where the holding company is headquartered and operates home call centre and software development businesses. The Group also has subsidiaries in Latvia and Kazakhstan.

The Tinkoff Business Model is focused on its online platform, Tinkoff.ru, an advanced high-tech financial and lifestyle services platform with on average by late 2018 more than 3.7 million monthly users and 1.1 million daily active users and over 14 million visits a month. The Tinkoff.ru website acts as a centralised customer acquisition platform through which the Group's wide range of credit and non-credit products and services are made available to customers. The platform is characterised by advanced functionality and is supported by the Group's award-winning Internet bank and mobile banking services and its high-volume call centres. The Group's primary customer acquisition channels are Internet and Mobile but it also uses direct sales agents and partnerships (co-brands) to acquire customers. These customer acquisition models, combined with the Group's virtual network, afford it a geographic reach across all of Russia's regions, resulting in a highly diversified portfolio.

The Group's main marketing and distribution channels are its online channels (Internet, mobile and telesales), which, the

Group's management believes, optimise the scope of its coverage and allow it to access otherwise underserved parts of the country. The Group's "smart courier" delivery network enables it to deliver cards and other products and services to consumers throughout Russia within one or two days. This infrastructure-light operating structure provides a low fixed cost base and high degree of flexibility to ramp the business up or slow the business down according to the external environment.

The Tinkoff Business Model involves extensive outsourcing of various customer service and operating functions which helps it to retain its focus on and develop its core competences, to limit capital expenditures and increase the flexibility of its cost base. These include co-operation with the Russian Federal Post Office. The Group also outsources various business functions such as data centre management and some collections of overdue loans.

The Group's operations are supported by its advanced IT capabilities, which underpin the operational efficiency of its Tinkoff.ru platform and its online/remote service business model. Further, the Group's focus on data analysis enable it to target its marketing and product offerings effectively and responsibly and give it an advantage in its underwriting, risk analysis and collection processes. The Group's management believes that the relatively low level of retail financial services penetration, relatively high margins and regulatory and technology barriers to entry for the Group's competitors make the Tinkoff Business Model attractive in terms of growth potential and competitive edge.

The Group's management believe that the Group is one of the most recognisable and popular brands in Russian financial services. The Group's brand recognition is very strong due to the high profile persona of its founding shareholder Mr Oleg Tinkov, from whose last name the brand originates. The name "Tinkoff" is associated with Mr Tinkov's well-known entrepreneurial activity that has launched a number of successful businesses and brands in Russia. The Group's marketing and public relations divisions are highly attuned to the latest consumer and online trends and use a variety of communication channels, including its online platform, Tinkoff.ru, and social networks (Instagram, Twitter.com, Facebook.com, YouTube, Odnoklassniki.ru and Vkontakte.ru) to further enhance the Group's brand recognition.

Based on research data commissioned by the Group, management believe that 'Tinkoff Bank' is one of the four most recognizable brands in the Russian financial sector.

The Group's strategic goal is to become an integrated financial and lifestyle services provider serving customers through a high-tech online platform that offers premium-quality service and convenience, while maintaining profitability and effective data-driven risk management.

- Since its launch in April 2016, the Group's online platform, Tinkoff.ru, has become central to its flexible Business Model, creating a high-quality, scalable platform through which consumers can access both proprietary and broker-based products and services. Averaging 3.7 million monthly active users and 62 million sessions per month by late 2018, the Tinkoff.ru platform attracts high-volume internet traffic, making it a key tool for customer acquisitions and marketing.
- The Group intends to continue to develop the functionality of Tinkoff.ru, and its other mobile and online presence, in order to provide a convenient, one-stop destination which consumers can use to satisfy the full range of their daily financial and lifestyle needs, thereby growing both the total number of the Group customers and increasing the amount of products and services used by each customer. The Group's management believes that by enhancing the Group's online presence in this manner it will improve access to customers in regions underserved by physical bank branches and to customers from more affluent and tech-savvy demographics that spend more time online and tend to utilise more financial services. Further, it is expected that, as traffic on its Tinkoff.ru platform increases, the Group will gain access to additional data on Russian consumer trends and preferences which it can use to further refine its marketing and credit analysis and underwriting processes.

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# Stakeholder engagement

Our programme of ongoing and proactive engagement with stakeholders helps keep the Company well informed of developments in its market place, helps us develop a better understanding of stakeholders' interests and concerns, allows us to develop products and services that reflect and anticipate our customers' needs and as a two-way process, is an integral part of keeping our stakeholders informed of the Company's strategy, practices and performance.

The Company has a diverse range of stakeholders, the more important of which are:

1. Our customers,
2. Our shareholders and potential investors,
3. Our employees,
4. Regulators, policy makers, rating agencies
5. Outsourcing partners and other counterparties.

We engage with these stakeholders, on a continuing basis, in many different ways and through various channels.

## Our Customers

Our customers, our most important asset. We have a variety of formal and informal means of soliciting customer feedback including through our call centres which on average in 2018 handled over 3 million inbound calls and around 15 million outbound calls per month. This gives us feedback on a massive scale about our products and services and about the Tinkoff Group as a whole to which we respond with interest and enthusiasm, as well as on the products and services of other financial services providers in Russia.

In order to develop better products the Group regularly applies a 'test and learn' approach, by running small scale tests to gauge customer interest ahead of rolling out, refining or shelving innovations or new products, based on the feedback.

The Group's marketing and public relations divisions are highly attuned to the latest consumer and online trends and use a variety of communication channels, including its online platform, Tinkoff.ru, and social networks (such as Instagram, Twitter.com, Facebook.com, YouTube, Odnoklassniki.ru and Vkontakte.ru) to monitor these as well as further enhance the Group's brand recognition.

## Our shareholders and potential investors

We interact and communicate with our shareholders and potential investors in a number of ways. The Company's Investor Relations and PR teams attend many investor related seminars and conferences arranged by third parties, and from time to time the Company itself organizes events to which investors, the financial press, members of the investment community and others are invited.

In addition the Investor Relations and PR teams answer specific information requests and general inquiries from those interested in the Company's activities in calls and meetings and distribute a wide range of materials, presentations and reports relating to the Company to members of the investment community such as analysts and researchers. In 2018 meetings with investors were arranged worldwide, including all the main financial centres.

The Company hosts an Investor Day on an annual basis: in 2018 it was held on 7 June at the offices of the London Stock Exchange.

The Company is listed on the main market of the London Stock Exchange, and reports its financial results quarterly. The Company also issues public statements from time to time on acquisitions, new products, major hirings and other notable events in the Company's life.

Our shareholders particularly around the time of the annual general meeting give us useful feedback on what guided their voting: this feedback is considered in the processes that set the framework for the Company's corporate governance



## Our employees

We receive regular feedback from our employees on a wide range of topics, ranging from conditions of employment, the Group's charitable and community activities to lifestyle choices and as most employees are also customers on the Group's products and services.

In mid-2018 the Company launched its widest ever employee engagement survey (this was in addition to our regular feedback gathering across the Company). The survey was externally managed and targeted around 30 groups of employees in different units and departments, in total over 6,000 people. It also picked up some areas where we could do things differently, better reflecting the impressive growth in the number the Group's employees in recent years. These are included into our action plan and have resulted in two main innovations-regular digests and 'Tinkoff Kitchen'. The digests are updates on a weekly basis about developments within the Group, news, and items felt to be of interest to employees, helping to keep them up to date. A second innovation is 'Tinkoff Kitchen', a rolling programme of live interviews on a fortnightly basis with senior managers who discuss the work of their departments, answer questions (submitted by email or live) from anyone in the Group who wants to ask anything about anything; these are recorded and made accessible to all. The survey also picked up a great number of strengths of the Group and its unique culture.

In June 2019 the Company launched a new engagement survey and expects the process to be repeated on an annual basis. The results will feed into a new action plan.

## Regulators and policymakers

The Company operates in a highly regulated environment. All banking and various related operations in Russia require licenses from the Central Bank of Russia (CBR) and the Group necessarily has daily contact with the CBR on many levels across the businesses and control functions.

We aim to maintain a good relationship with the CBR. Management of the Bank are in regular dialogue with senior officials within the CBR on its initiatives and consultations and with other policy makers and banking associations in Russia. This allows the Company to get a fuller understanding of the regulator's priorities and areas of concern, while allowing the Company to keep them up to date on developments in the Company's business and trends in the consumer lending markets.

Other regulators in the consumer lending space include the Consumer Protection Agency of the Russian Federation (Rospotrebnadzor) and the Federal Anti-Monopoly Service (FAS) with which the Group has regular dealings and whose views on consumer lending and anti-competitive practices are taken into account when the Company reviews or changes its standard documentation, practices and procedures.

In addition Tinkoff is a member of the Russian FinTech Association.

All stakeholders and interested parties are encouraged to share their interests and concerns with the Company, at [stakeholderengagement@tcsgh.com.cy](mailto:stakeholderengagement@tcsgh.com.cy)

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**PART 1.**

# Environmental matters

## Environment

As the Group is an online only financial institution, the management of the Group believe none of Company's business relationships, products or services are likely to have any actual or potential significant environmental impacts, no severe environmental impacts have already materialised and the management believe its operations are not exposed to any material environmental risks.

Management, in reaching this view, have taken into account the risk of actual or potential adverse impacts that may stem from the Company's own activities as well as its business relationships including its supply and subcontracting chains. This belief is based on continuous scrutiny of the business.

As part of the Group's risk management process regard is had to many indices, surveys and models. By way of example the MSCI ESG rating model has three core pillars, environment pillar, social pillar and governance pillar. Overlaying these against management data points and the specifics of the Group, operating in the Russian context, would tend to put the greater weight on the second two pillars.

The Group fully complies with the laws applicable to its business activities wherever carried on and subscribes to international norms which prohibit the provision of credit for any activities which might materially adversely impact the environment, be morally repugnant or infringe human rights. In particular the Group has in place procedures which regulate/prohibit involvement with exploitative forms of forced or child labour, trade in weapons and munitions, gambling, casinos, prostitution, trade in regulated wildlife or wildlife products (CITES rules) and production or trade in radioactive materials or significant volumes of hazardous chemicals.

Strict monitoring processes are in place which require customer contact staff to certify that any business we write conforms to these norms.

To benchmark the Group's aspirations to reduce its environmental impact, if in the future actual or potential risks of environmental impacts become material, the Group constantly upgrades its capabilities to track resource usage.

## Environmental protection

In March 2018, Tinkoff Bank launched a joint payroll programme with the Russian branch of the World Wildlife Fund (WWF) which provides an opportunity for the Russian business community to show greater commitment to corporate social responsibility and help the environment.

Employees joining the Tinkoff Bank – WWF payroll project will enjoy a number of financial benefits, while making a meaningful contribution to saving the environment by simply using the card in daily shopping.

Each participating employee can choose one of two products – a Tinkoff Black or a Tinkoff WWF card. 1% of each transaction carried out with these cards will be automatically transferred to support the WWF's conservation programmes, while the cost of purchased items will remain unchanged. In addition, the Tinkoff WWF card is manufactured from a corn-based biodegradable material which can be easily processed and does not pollute the environment.

## Environmental Performance Indicators

The Group occupies one newly-constructed office block in Moscow and other premises of members of the Group as well as ATM sites and marketing kiosks, and two call centres, and has launched 11 development hubs across Russia. The first was in St Petersburg.

In addition the Group has two offices in Limassol, Cyprus and has a presence in Skolkovo where it uses facilities of the Skolkovo Foundation.

In relation to the office premises the Group occupies in Russia and in Cyprus, the Group is generally subject to non-negotiable tenant or tenant-like covenants which greatly restrict its ability to exercise control over or even influence heat, power, water supply and water discharge arrangements. These legal and practical constraints, coupled with the centralized nature of utility provision in Russia, are major limiting factors on the Group's ability to ameliorate any environmental impacts.

All offices of the Group are intentionally sited very close to major public transport hubs, to encourage staff and visitors to use public transport.

# Managing our operations

The Group is always looking to enhance its capabilities to track resource usage (materials, waste, energy, use of renewable energy, land use, air pollution) and some basic early stage results should be available in the medium term to benchmark future performance, even though the Group's ability to exercise day to day control over these aspects of its operations is extremely limited.

The Group is also looking into identifying for individual products a methodology for a life cycle assessment of the most relevant impacts.

There is no perceived risk of any of the Company's products having possible effects on consumers' health or safety.

For the three years 2016 to 2018, Tinkoff has a very good office safety record, with no workforce accidents and no fatalities. This is reflected in a lost time incident rate and total recordable incident rate of nil for the period.

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**PART 2.**

## **Social and employee matters**

Our brand, the Tinkoff brand, and brand strategy are of fundamental importance.

Management of the Group recognise that treating fairly and responsibly customers, employees, suppliers and other business partners, as well as those on whom the Company's activities might have positive or indeed adverse impacts is a fundamental part of the Company's success. This has many strands and these are discussed in different Parts of this statement.

Management recognise as principal risks any factors that might have a severe impact on the brand and undertake a wide range of initiatives some disclosed some confidential to prevent the materialization of principal risks of severe impacts on the brand.

## **Leadership in customer service and brand awareness**

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

The Group maintains a focus on ensuring customer satisfaction through a well-developed complaints resolution programme and by extensively training its call centre staff to offer friendly and helpful service.

The Group's brand recognition is very strong due to the high profile persona of its founding shareholder Mr Oleg Tinkov, from whose last name the brand originates. The name "Tinkoff" is associated with Mr Tinkov's well-known entrepreneurial activity that has given birth to a number of successful businesses and brands in Russia, including beer, restaurants and frozen foods. The Group's marketing and public relations divisions are highly attuned to the latest consumer and online trends and use a variety of communication channels, including its online platform, Tinkoff.ru, and social networks to further enhance the Group's brand recognition.

## **Supporting our communities**

Management of the Group firmly believe in making a difference for the society in which the Group operates and for its sustainable development. We encourage our employees, customers and business partners to contribute to the quality of life of vulnerable and disadvantaged groups, and others, in Russia.

We also strive to increase awareness about different charity foundations amongst our customers who can donate easily using the Group's online financial services: internet bank or mobile app.

# Providing skills and expertise/giving back through skilled volunteerism

We are committed to supporting sustainable social development, and encourage our employees and customers to contribute to improving the quality of life of vulnerable groups in Russia.

These values underpin the development of our products and services. According to the DisQuestion inclusivity research conducted by Everland in the summer of 2018, Tinkoff Bank was named the most convenient Russian bank for the disabled. The research team (27 people representing various foundations, including individuals with various forms of disabilities) assessed the availability of remote and specialised services, the maturity and consistency of the approach applied to servicing this category of clients, the availability of special and customised tariffs and offers, corporate policies and personnel training.

We seek to promote various charitable foundations among our customers, who can donate money to 168 charities via Tinkoff.ru or our mobile app, both as regular payments effected throughout the year or a one-time fixed contribution. In 2018, Tinkoff customers made more than 34,000 cash transfers to charitable foundations.

Tinkoff and its employees provide not only financial support but also practical assistance to several non-profit entities, including assisted-care facilities and orphanages, as well as projects for homeless people and those in need of medical care. Acting as volunteers, our employees raised funds that were spent on repair and maintenance of facilities and purchase of food, essentials and medications: one such project was a charity fair arranged in partnership with the Connection Foundation to assist deaf-blind people.

The Group also supports a number of other foundations. Among them are the Zhuravlik Foundation that protects children from abuse and violence in orphanages and homes, and helps promote equal educational opportunities for children with special needs; the Joy of Old Age that helps the elderly, supervises over 150 assisted-care facilities and arranges the work of services that help the elderly at home; the Mercy Foundation that specialises in rehabilitation and adaptation of children with neuromuscular diseases and provides palliative aid to terminally ill children at home; and the Curative Education Centre that helps children with various developmental challenges, including autism spectrum disorders, epilepsy, genetic syndromes, mental disabilities, learning difficulties and other problems.

In 2018, the Group donated over 7 million roubles to charitable foundations.

## Financial inclusion

For over four years now the Group has produced an online educational journal called 'Tinkoff Journal' which primarily focuses on personal finance management, investments, interaction with banks and other consumer issues (such as loans, saving, markets, luxury purchases, taxes, careers, retirement small business finance and real estate). Its expert content is partly sourced in-house with over 50 external contributors.

The Tinkoff Journal is one example of Tinkoff's significant efforts to increase levels of financial understanding amongst groups which traditionally had fewer dealings with or trust in financial institutions in Russia; other initiatives are described later on.

Management believe that increasing the familiarity of the Group's customer base, and society in general, with financial products, many of whom have limited experience of financial services, is important, as the Group's growth depends on increasing consumer adoption of financial services. At the same time the fact that customers will become more sophisticated with financial products in the future is likely to negatively impact the Group's yields and margins.

And of course mobile money can have a significant positive impact on people's lives, freeing them from the need to always carry cash with its associated disadvantages, especially those who don't have access to traditional banks or financial services, or don't have a bank account, but do have a mobile phone.

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# Financial inclusion (Continued)

We are always looking for ways to make our offering more inclusive.

In October 2018, we launched Tinkoff Junior, a mobile app enabling children and teenagers to use banking services while giving parents control of their accounts. Tens of thousands of children and teenagers have already downloaded the app. Tinkoff Junior's audience growth has been very fast and organic, without any promotion on our part. For now, thirteen-year-olds constitute the core of the teenager's mobile app audience.

As part of the efforts to enhance our Tinkoff Investments brokerage platform, we launched Tinkoff Investments Premium offering access to a global catalogue of over 10,000 securities.

In 2018, we released an iOS and Android enabled Tinkoff Mortgage mobile app, an easy-to-use way for our customers to apply for a mortgage right from their smartphones and for Tinkoff Mortgage partners (real estate agents, brokers and developers) to submit a mortgage application on behalf of their customers and choose the best mortgage offer with the help of a mortgage calculator.

Tinkoff is always looking to innovate: these innovations save time, enhance the customer experience and in most cases reduce the environmental impact of the business.

In October 2018, the Group launched a nationwide biometric data collection initiative and became an official vendor for the Unified Biometric System (UBS) offering voice recognition technology. The voice biometrics algorithm used in the UBS is Tinkoff's proprietary technological solution. We have been using our voice biometric data in our call centre since 2017 and achieved a 4-fold reduction in the customer identification time, from 60 to just 15 seconds. To achieve integration with the UBS, we re-trained the biometric algorithm and improved its performance.

In February 2019, Tinkoff Bank was among the first Russian banks to connect its customers to the Faster Payment System (FPS). The system was developed with support from the Central Bank of Russia to enable instant transfers between individuals across Russia using only a mobile phone number. Just a month after the FPS was launched, Tinkoff Bank's share in FPS transfers reached 70%.

In 2018, Tinkoff Bank and the National Payment Card System (NSPK) developed a unique solution unmatched in the Russian payment services market. It allows Tinkoff customers to view cash receipts in their user accounts at Tinkoff.ru and in the Tinkoff mobile app. This joint project of Tinkoff Bank and NSPK has improved user experience. To access the receipt information in the user account, card holders no longer need to give the merchant their phone number, e-mail, or make a photo of the receipt as it is processed automatically.

The Group is also making rapid progress in machine learning development and artificial intelligence. From March 2018 we have been steadily reducing the number of outgoing operator calls and launched our own call bot which makes automatic calls and talks with customers using pre-recorded phrases. During the testing of the technology, not a single person noticed they were speaking with a bot.

Tinkoff uses chat bots in all of its customer communications. No operator at all is involved in 30% of all dialogues, and only one question is answered by humans in 35% of dialogues. These responses are personalized as we do not use scripts and respond based on the customer data we have. In the remaining cases, bots forward the call to an operator.

In December 2018, Tinkoff announced the beta-testing of its voice assistant 'Oleg' in the Tinkoff mobile app, with launch planned for H1 2019. The voice assistant helps customers in everyday finance and lifestyle banking tasks. As of today, communication scenarios available to customers include cash transfers (between Tinkoff customer accounts), booking a table at a restaurant, making an appointment with a beauty salon, buying a cinema ticket, booking a taxi, as well as small talk.

The voice assistant accomplishes 90% of user tasks automatically using a dialogue system technology. The remaining 10% of calls are forwarded by the assistant to Tinkoff's remote call centre. The voice assistant is not just another customer communication channel within Tinkoff's ecosystem, but also an effective tool to streamline business processes. It will improve our capabilities in this field and minimise the time needed to accomplish user tasks, while offering ever more personalised solutions.

# Expanded customer base in under-served parts and smaller cities of russia

The Group's high-tech branchless platform gives it universal coverage of the entire country and the ability to address under-served parts of Russia, in which competition and supply of quality financial services are lower and unsatisfied demand and response rates are higher than in Moscow and St. Petersburg, the two largest markets in the country.

# Serving low and moderate income customers

Although the Group is increasingly attracting significant numbers of customers in the more affluent segments, still it serves very significant volumes of customers across Russia with monthly incomes below the equivalent of USD500.

# Supporting our employees

## Working environment, health and safety

Tinkoff is a fintech entity which embraces innovation, cutting-edge technologies, empowerment and creativity, and is committed to creating a working environment where our best-in-class professionals can most comfortably work on their ideas for the benefit of our customers.

# Seeking diverse candidates/extending the applicant pool

## Attracting the best

We follow an unconventional recruitment approach. We do not hire stereotypes. A lack of work experience in banking or finance does not necessarily put applicants at a disadvantage. On the contrary, a lack of such experience can often be a plus.

We hire people who are willing to change the financial services landscape, and no prior experience in this segment means the applicant does not have any preconceptions about how things 'should' be done or how things 'should' work.

We prefer people with analytical mindsets, those who can handle large amounts of data and figures. They would be graduates of technical departments at Russia's top universities, and we would inject Tinkoff DNA into them and keep fostering them within the Tinkoff culture.

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

- bringing together numerically minded people with analytical backgrounds;
- flat structure with no bureaucracy and minimum hierarchy;
- creating an intellectually challenging work environment;
- creating an effective and fast learning environment;
- fostering a culture of generating ideas and assuming responsibility;
- embracing open dialogue, cooperation and creativity;
- demonstrating efficiency with minimum bureaucracy;
- promoting team spirit and an entrepreneurial culture;
- empowering employees and delegating responsibilities;
- creating an environment when employees can experiment, make mistakes and draw the right conclusions;
- promoting 'test and learn' approach.

Our core HR principles are also elaborated in Part 5.

In line with our 'test and learn' approach, we test many concepts and models and implement the most successful. Our employees are not afraid of making mistakes and failures; in our quest for the most successful models we support many experiments and promote open communication between colleagues. Concepts and models rejected at one point may be revived in changed circumstances. We welcome innovative ideas to solve challenges in many different ways and we believe in the idea of a work environment granting talented people far-reaching authority. Greater rights and opportunities for our people are a crucial element of our success. To deliver on the Group's objectives, we use various channels to establish communication between employees: email, online chats, meetings, etc. Any employee can address anyone in the Company regardless of their position.

To attract the best, we cast our net wide. We do not wait for applicants to come to us, we actively search for potential applicants and/or to project the Tinkoff brand into the widest range of talent pools. Some examples follow.

## Educational projects

### Tinkoff Generation – an educational project for teenagers

In August 2018, Tinkoff expanded its educational programme by launching a special Tinkoff Generation project intended for pupils of the 8th to 11th grades, who can receive free training in three areas: Algorithms and Data Structures, Machine and Deep Learning, and Olympiad Mathematics. Schoolchildren may study multiple areas simultaneously.



The Tinkoff Generation courses are free of charge. The lectures are delivered by Tinkoff Bank experts, students of the Moscow Institute of Physics and Technology and the Higher School of Economics. The 3–5 hour sessions are conducted 1–2 times per week at the Tinkoff Bank headquarters in Moscow and in development hubs in Nizhny Novgorod and Ryazan. Currently, there are more than 400 schoolchildren participating in the Tinkoff Generation project.

## Career opportunities for students and graduates

Analysts, developers and other IT experts, first to fifth-year students and recent graduates, are invited to enrol in the paid Tinkoff Summer Internship and work on real-life projects. The term of the programme is one to two months. During this period, students get familiarised with the industry and choose their future career path. In summer 2018, the programme was attended by 110 students in the Moscow office and more than 80 students in the regional development hubs in Saint Petersburg, Yekaterinburg, Novosibirsk, Nizhny Novgorod, Izhevsk, Ryazan and Innopolis.

## FinTech Youth Day at Finopolis Forum 2018

In October 2018, Tinkoff became an official partner of Finopolis 2018, a forum of innovative financial technologies, one of the nation's major platforms for discussing the use of modern digital technologies in the financial sector and analysing trends and opportunities of their application. This year, the event again gathered more than 1,500 attendees, including representatives of major Russian and foreign companies, IT experts and government officials.

During the FinTech Youth Day, Tinkoff conducted master classes and workshops for attendees of Finopolis 2018. Tinkoff employees discussed the skills a modern business analyst needs, described popular design patterns, delved into arrangement of data storage on mobile devices, designed an application interface and explained how to exchange messages in an offline mobile chat.

## Tinkoff Fintech School

Three times a year, we recruit students and graduates of top-ranking universities for our Tinkoff Fintech School (opened in 2016), where lectures and hands-on seminars are delivered by the Bank's senior management and other leading industry experts. They explain modern technology in the banking industry, mobile banking, social media, artificial intelligence, blockchain and cryptocurrencies.

Education at the Tinkoff Fintech School is provided free of charge. All applicants take online exams. The educational course including practical sessions is two to three months long. In 2018, the Tinkoff Fintech School launched some completely new programmes, such as Product Design, Java to Scala, Infrastructure Development and Building Analytics Platforms.

By year end 2018, around 1,200 people had completed the training. Currently the Fintech School is training 656 students across Russia (Moscow, Saint Petersburg, Nizhny Novgorod, Novosibirsk, Ryazan, Izhevsk, Yekaterinburg, and Rostov-on-Don). The most promising graduates are invited for a job interview at Tinkoff Bank. Since the opening of the Fintech School, over 120 graduates have joined the Tinkoff team.

## Financial Technology Laboratory in MIPT

In September 2018, Tinkoff launched a FinTech Lab at the Moscow Institute of Physics and Technology (MIPT). The laboratory focuses on artificial intelligence, including behavioural analysis, guidelines, chatbots and scoring models, training algorithms, and other applications.

Earlier, the Group had opened a basic Financial Technologies Department at MIPT. Tinkoff founder Oleg Tinkov and the Bank's top management donated RUB 100 million to the MIPT Endowment Fund. The fund supports AI and machine learning research and has become MIPT's largest specialised endowment.

The MIPT Master's programme is run through the basic Financial Technologies Department in the Phystech School of Applied Mathematics and Informatics at the Moscow Institute of Physics and Technology (MIPT). Key Tinkoff Bank employees hold professorial positions at the department. To be admitted to the Master's programme, an internal examination and an interview at Tinkoff Bank, together with MIPT admission exams, should be passed.

The department provides two years of education free of charge. Department graduates earn a state-recognized degree from MIPT. The course schedule allows students to combine work and studies. The lectures are delivered at Tinkoff offices. In 2018, the second round of admission took place. At the end of the last year the department had a total of 36 students.

# Seeking diverse candidates/extending the applicant pool (Continued)

## Educational projects (Continued)

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

In December 2017 Tinkoff began collaborating with the MSU Mech-Maths corporate Department of Mathematical and Computer Methods of Analysis. Tinkoff Bank's senior executives and analysts developed specialised courses for the university's curriculum incorporating real-life business cases from Tinkoff Bank.

The course curriculum allows students to receive advanced training in programming, machine learning, business analytics, big data fundamentals, and other related areas. In 2018, the first specialised course on Big Data Handling and hands-on training in Python basics were delivered. Currently, Tinkoff lecturers are leading a dedicated course on Data Operation in the Industry, which is attended by 120 people.

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

### Partnership Project with the Skolkovo Foundation

In 2017, Tinkoff became a partner of the Skolkovo Foundation. The collaboration includes research and development projects run at the Foundation's facilities by a Partnership Centre of Tinkoff Development Hub. Under the agreement, the Group's employees participate in research and development conferences and other public events held by the Skolkovo Foundation. Such events give the Foundation's resident start-ups an opportunity to receive feedback on their products and mentoring from Tinkoff's experts, and to partner with Tinkoff.

#### Online contests

We launch online projects on a regular basis: computer vision contests, mathematical games, programmer contests, analyst days, machine learning and other competitions.

## Keeping the best

### Recruitment and training

We aim to attract the best professionals in the market through a sophisticated recruitment process, as well as employ a set of tools for motivation and retention.

We recruit new employees through advertising and job sites, student forums, social networks and other online channels. IT specialists and other core personnel are hired through a highly selective head hunting process targeting top IT graduates and experienced professionals from various backgrounds. We also target the best students from top national and international universities, including winners of contests in mathematics, physics and programming.

We offer thorough career development and training for all levels.

The Group has grown impressively in recent years. At the end of 2013 the year of our IPO the Group had a total staff of 4,166. This had risen to over 11,600 by the end of 2016, to over 20,800 by the end of 2017, to over 24,500 by the end of 2018 and it is projected the total will be around, probably over, 29,500 by the end of 2019.

Tinkoff is a young company, with an average age at 31 December of 28. For staff based in the HQ the average age is 29, in Operations just 26.

Staff turnover is in line with market trends, reflecting a very competitive market for the top talent.

## Remuneration, motivation and promotion

The Group offers a clear far-reaching career path for its employees, an unique work environment and fair and transparent compensation.

All Group employees have written employment contracts in compliance with applicable law.

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

The Group offers above market average compensation with an attractive variable component; salary increases and bonuses are based on annual performance reviews; incentives are partially linked to KPI achievement and to the overall financial performance of the business.

Prior to its IPO in 2013, the Group set up share-based long-term incentive plans as retention and motivational tools for key and senior managers.

In March 2016, the Group announced a consolidated long-term management incentive and retention plan, covering initially 51 key, senior and middle managers. In February 2017, February 2018 and again in January 2019, the Group announced expansions of the plan reaching 91 in January 2019. Total target size of the MLTIP pool amounts to close to 5.6% of the Group's share capital (at 31 December 2018) and its profile is further discussed in Part 5.

The plan is designed to align more closely managers' interests with those of shareholders to grow the Group's value. The plan is awarded over four years, materially subject to the fulfilment of annual KPIs, with each such annual award vesting linearly over the subsequent three years. The Group believes that participation in its share capital is an effective motivation and retention tool. The new management incentive and retention plan now embraces more managers for two main reasons: firstly, internal promotions as some employees were promoted to key managerial positions, and secondly, as part of its expansion and transformation into a financial marketplace, the Group has hired a significant number of new managers to develop and manage new and growing business lines.

## Innovation helps us meet our customers needs, entrepreneurialism is embedded in the tinkoff dna

Tinkoff promotes a corporate culture of experimentation and open communication. We encourage our young employees to innovate and even make mistakes. To us, experimentation and innovation are not merely buzzwords. Each team member looks at problems from different angles and tests a range of possible solutions to find the best way to address the challenges.

At Tinkoff, we have a flat organizational culture. We practice delegation of decision making to the levels deep below the management team and we actively promote discussion and ideas generation and exchange.

We believe in creating a work environment where highly talented people are empowered. Empowerment is an important ingredient in the success of our organization. It is also about the work environment – having an open leadership style where information can flow freely – where ideas are constantly channelled up, down and laterally throughout the Company. We do not have 'a rule by committee' approach. We utilize all types of forums to promote continual dialogue – using email, various online chat rooms, flash meetings, as well as formalized meeting structures. Anyone can talk to anyone and transparency is encouraged.

Oleg Tinkov, 2018 Annual Report.

*"We can never onboard too many young, smart, aggressive, creative, dynamic people, to win, and provide the very best service to, the 20 million customers we aspire to have. Tinkoff has a very American approach-we are about results. We expect full commitment and focus. For an intelligent, enterprising, responsible person wanting to make a career today, Tinkoff is the best company in Russia".*

# Seeking diverse candidates/extending the applicant pool (Continued)

## Supporting employee health and wellness

We provide a safe and healthy environment for our employees in full compliance with the employment laws of Russia.

The Group offers regular annual medical check-ups, vaccinations, voluntary health insurance, free membership of our in-house fitness gym at Tinkoff Bank's headquarters and other healthcare initiatives. We promote a healthy lifestyle among our employees and regularly hold corporate competitions in football, volleyball, basketball, alpine skiing and chess.

Tinkoff encourages a healthy lifestyle and supports the cultural development of its employees and society as a whole. Tinkoff plays a part regularly in the biggest and most culturally important events in Russia, related to music, sports, science and education.

## Cycling parades and basketball tournaments

Tinkoff continues to actively support and promote the cycling culture across Russia. In 2018, Tinkoff became a title partner of cycling parades in 25 Russian cities that welcomed over 90,000 participants. On top of that, Tinkoff was a title sponsor of the Tinkoff Moscow Open, a basketball tournament attended by global elite players from the 3x3 League, as well as 16 best Russian and international teams. The event also saw the first female basketball tournament staged by Tinkoff.

## Sports, musical and other events

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

## Quiksilver New Star Camp

Tinkoff was a general partner of the Quiksilver New Star Camp held in March 2018, a sports and music festival held at the Rosa Khutor alpine resort in Sochi. This year, Tinkoff surprised participants with a modern high-tech lounge area at an altitude of 1,600 metres overlooking the largest snowpark in Russia and an impressive airplane-shaped jibbing zone. As part of the Quiksilver New Star Invitational by Tinkoff, viewers could witness stunts performed by the best Russian and international professional riders on a jump over 20 metres long.

At the festival, which annually brings together thousands of guests from all over the world, participants received special deals and offers from Tinkoff at all stages of the sports camp. In addition to snowboarding competitions, the festival hosted multiple workshops with reputable speakers from the action sport industry, performances by famous Russian and international musicians, yoga classes, film shows and parties.

## Tinkoff RosaFest

In January 2018, the Group arranged "Tinkoff RosaFest 2018 The Game", the first winter festival arranged as a game, which drew more than 5,000 people. The mountain quest took place at the Rosa Khutor resort in Sochi. A dedicated web app with 125 ingenious tasks was developed for the festival. Upon arrival at the hotel, each guest received a card with a secret code to enter the game and compete for points. The entire territory of the festival was the gaming zone, with points to be collected on the slope, in hotels at the mountain village, in a noisy après-ski zone and even at night in the midst of a party. Special hint codes were hidden throughout the resort, e.g. in a cabin of the cable car, on a headliner's business card and on a famous athlete's jacket. Holders of Tinkoff All Airlines credit cards received additional bonuses, while the main prizes were airline miles, snowboards, and money certificates.

## Afisha Picnic, Dikaya Myata, Nashestvie, Stereoletto and Present Perfect Festival

In July 2018, Tinkoff became the general sponsor of Afisha Picnic, a major summer open-air festival in Moscow. Thanks to Tinkoff, the main stage featured larger screens to enable even more people to see the performances in detail. In the run-up to the festival, Tinkoff launched a ticket raffle based on the Find the Cat interactive online game which attracted 60,000 people. At the Afisha Picnic site, Tinkoff Bank set up its own entertainment venue — the Stories Park with plenty of ideal photo spots. There the guests could enjoy refreshments and cool lemonade and “spin up” a cashback reward on a cycling machine. The total amount of cashback distributed amounted to several million roubles.

Among other headline national music events supported by Tinkoff were the 2018 Dikaya Myata (Wild Mint) indie festival and the Nashestvie rock festival. The latter brought together some 200,000 people who could enjoy a hot-air balloon flight and jumping on a giant trampoline, exercise at the Tinkoff climbing wall, and, on top of that, issue a dedicated Tinkoff Nashestvie co-branded card on the spot.

Summer 2018 saw more than 11,000 people visit the Tinkoff Stereoletto festival hosted by Saint Petersburg. The Bank also built a colourful garden on the Gulf of Finland quayside for the Present Perfect Festival dedicated to electronic music and contemporary art. Importantly, this was a completely cash-free event: Tinkoff technology allowed the visitors to make online-only cashless purchases using the special branded Tinkoff cards.

# Respect for human rights

## Ethics

The Company's business, and its success or failure, depend on the actions of everyone in the Group.

Management is committed to respecting human rights. Management believes it is important that every director, officer and employee follows the following standards of behaviour for which he/she will be held accountable:

1. To protect the Company's property and that of customers and others entrusted to the Company, including physical assets and proprietary, and/or confidential information against loss, theft, misuse and waste;
2. To act in the Company's best interests, act honestly, objectively and effectively, refraining from any activity that might represent or be perceived as representing a conflict of interest between personal interests and those of the Company;
3. To deal honestly, ethically and fairly with the Company's customers, employees and business partners, irrespective of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation;
4. To comply with all laws, rules and regulations applicable to the Group wherever it does business;
5. To refrain from giving, accepting or requesting improper gifts, gratuities or other favours;
6. To represent Tinkoff in a manner which enhances the Company's reputation, is law abiding and alert to the reasonable expectations of our customers, our shareholders, fellow employees, and local, national and international communities.

Management of the Group, after enquiry, have not identified any potential severe impacts on human rights to which the Tinkoff Business Model might be susceptible nor have any actual instances of human rights abuses been identified, reported or alleged.

The Group's business is dependent in part upon the strength of its 'Tinkoff Bank' brand and the reputation of its business. The Group operates in a consumer oriented industry where customer trust is important due to the need for public confidence in the quality of the Group's services and the security of its IT and communications systems. Management are aware that the Group could suffer damage to its reputation and brand as a result of adverse publicity from regulators, government officials or customers, though there is a high level of satisfaction among the Group's customers, or the press alleging human rights abuses.

The Tinkoff Business Model involves extensive outsourcing of various customer service and operating functions, which helps it to retain focus on and develop its core competences with respect to the Group's main operations, to limit capital expenditures and to increase the flexibility of its cost base. The Group also outsources various business functions such as data centre management and some collections of overdue loans.

This makes the Group dependent on its outsourcing partners. This in turn exposes the Group to the risk that existing partners might fail to perform these outsourcing services adequately, as well as the risk of being unable to find replacement outsourcing partners if any existing partners terminate their relationships with the Group. Treating our outsourcing partners fairly not only reduces the risk that they will terminate but also makes it easier to find replacement outsourcing partners should the need arise. Our outsourcing is almost exclusively carried on in Russia where our counterparties' employees fall under the umbrella of Russian employment law protections.

Our brand is one that a very significant number of service providers are keen to be associated with.

The Group's approach to its counterparties generally overlies a number of specific legal requirements under Russian law. These laws set the statutory framework within which the Group operates.

There is a clear trend in Russia towards increasing consumer protection. In recent years there has been a significant increase in consumer protection in Russia aimed at challenging certain terms of consumer loans (including among others a lender's right to charge various commissions for mobile banking services, the inclusion of the borrower in an insurance programme, cash withdrawals from automatic teller machines, a lender's right to charge interest on accrued interest, a lender's right to amend the terms of the consumer loan agreement and applicable tariffs without the specific consent of the borrower, a lender's right to assign loans to non-banking organisations including collection agencies, and the resolution of disputes only at the location of the lender). Rostrebnadzor the Consumer Protection Agency of the Russian Federation regularly initiates administrative proceedings against Russian banks for violating consumers' rights.

New regulations in Russia will soon be introduced; the CBR has introduced an additional metric which focuses on the overall debt burden of borrowers. This burden will be determined using a payment to income ratio (PTI) which will be calculated as the

ratio of the borrower's monthly debt payments under consumer loans to that borrower's average monthly income.

Management of the Group welcome these additional consumer protections and new regulatory initiatives such as possible payment to income ratio caps. This initiative is intended to have the effect of avoiding future consumer lending bubbles caused by irrational competition in the unsecured (and possibly in the future) secured lending space.

There is a risk changes in applicable consumer protection and banking legislation or their interpretation by the courts and regulators could impose greater compliance burdens on the Company.

Conceptually though we support such measures and as a responsible lender that issues low credit limits to customers, we believe this will make the market safer for Tinkoff to operate in as Russia goes into the next market-wide growth phase and should work to the advantage of those lenders like Tinkoff who are focused on building long-term relationships with their customers and a sustainable lending business.

In addition to the consumer protections and safeguards set by the retail finance regulatory regime, the Company goes further, trying to protect customers from harm even where the customers' activity does not harm the Company. These include some mentioned elsewhere in this Non-Financial statement such as borrower education and promoting financial literacy through our 'Tinkoff Journal', and the excellent support available through our highly trained call centre staff.

In addition 'Tinkoff Stories' includes a number of user tips to help customers manage their financial affairs more advantageously. Credit protection is optional and can be switched on/off any time in mobile app or through the call centre.

The Group has other tools available to it; these include:

proactive conversion to instalment repayment (if the customer is in a high risk category or utilized over 100% of his/her credit limit),

precollections,

SMS notifications, mobile app,

Additional limitations on the Group's lending activities are described in Part 1.

## Financial Consumer Protection

Financial consumer protection is generally based on Federal Law No. 2300-1 "On Consumer Protection Law" dated 7 February 1992, as amended (the "Consumer Protection Law") and Federal Law No. 353-FZ "Consumer Lending Law" dated 21 December 2013 (the "Consumer Lending Law"). The Consumer Lending Law regulating consumer lending in Russia came into force on 1 July 2014. The Consumer Lending Law is intended to provide more specific regulation of consumer protection in the Russian banking sector, in contrast to the Consumer Protection Law, which contains more general regulations.

The Consumer Lending Law sets requirements in relation to the terms of a consumer loan agreement. In particular, a consumer loan agreement must contain general terms and specific terms. General terms of the consumer loan agreement are based on the lender's template form, whilst the specific, key, terms are agreed in each case between the lender and the borrower.

In addition, the Consumer Lending Law sets out the limits of penalties payable under consumer loan agreement in case of the borrower's payment default.

Management welcome the trend of increasing statutory protections in Russia because it should raise standards across the industry, and ultimately favour more responsible lenders aiming for a long-term relationship with their customers and a more sustainable business. The risk of not being ahead of this trend is possible alienation of customers and disputes with customers and consumer protection and other regulatory bodies.

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**PART 4.**

# Anti corruption and bribery matters

## The Group operates in a very heavily regulated business environment

Management believes it is important every director, officer and employee follows the following standards of behaviour for which he/she will be held accountable:

1. To protect the Company's property and that of customers and others entrusted to the Company, including physical assets and proprietary, and/or confidential information against loss, theft, misuse and waste;
2. To act in the Company's best interests, act honestly, objectively and effectively, refraining from any activity that might represent or be perceived as representing a conflict of interest between personal interests and those of the Company;
3. To deal honestly, ethically and fairly with the Company's customers, employees and business partners, irrespective of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation;
4. To comply with all laws, rules and regulations applicable to the Group wherever it does business;
5. To refrain from giving, accepting or requesting improper gifts, gratuities or other favours;
6. To represent Tinkoff in a manner which enhances the Company's reputation, is law abiding and alert to the reasonable expectations of our customers, our shareholders, fellow employees, and local, national and international communities.

By adhering to these standards, the Company will only enhance its reputation.

The Group operates in a highly regulated environment; maintaining CBR licences and membership in the Russian retail deposit insurance system are essential.

In addition to the general standards of behaviour expected of every director, officer and employee of the Group, the Group has adopted certain specific policies in relation to countering corruption and bribery.

In addition, the Group has specific rules, policies and guidelines covering:

gifts and gratuities;

bribes and kickbacks;

prohibition of fraudulent conduct and misappropriation;

disciplinary procedures;

'whistleblowing' and reporting procedures;

insider trading;

conflicts of interest.

The Group does not have in place an external anonymous whistle-blower programme. Tinkoff takes extremely seriously the conduct of its employees, stakeholders and counterparties and is committed to rooting out activity that might be considered illegal, unethical, or not appropriate within the Group. And on the extremely rare occasions such activity does come to management's attention it is fully investigated and appropriate changes made to our processes, organization and training to prevent any recurrence. Then too the Group considers afresh this idea to introduce a formal whistle-blowing programme.

Such programmes are by no means market standard in Russia and management believe the package of measures in place is proportionate to the Company's risk profile and consistent with best practice in Russia.



# Anti-Money Laundering and Anti-Terrorist Financing Legislation

Russia, as a member of the Financial Action Task Force, has developed and enacted certain anti-money laundering legislation. The Anti-Money Laundering Law follows the FATF Forty Recommendations and the FATF Special Recommendations on Terrorist Financing and provides for measures to combat money laundering in Russia to be implemented by individuals and organisations, including Russian banking institutions, involved in transactions with money and certain property.

Under the Anti-Money Laundering Law, Russian banks are required to, among many obligations: (1) establish and maintain systems of internal control ensuring that the bank and its clients are in compliance with Russian anti-money laundering legislation; (2) monitor and record certain client transactions, as specified in the Anti-Money Laundering Law; and (3) report certain client transactions specified by the Anti-Money Laundering Law to the relevant Russian authorities. Furthermore, in certain cases Russian banks must suspend client transactions and inform the relevant Russian authorities. The current Anti-Money Laundering Law does not permit banks to suspend or freeze client transactions for longer than two business days (unless extended by the authorities).

The Federal Service on Financial Monitoring is the main governmental authority acting as its financial intelligence unit, and, together with the CBRF, exercises control over banks' compliance with the Anti-Money Laundering Law. Russian banks are obliged to report through the CBRF to the Federal Service on Financial Monitoring with respect to the types of transactions mentioned above.

Failure by Russian banks and/or their officers to comply with the requirements of the Anti-Money Laundering Law may result in the imposition of sanctions, including the revocation of a banking licence (with a subsequent liquidation of the bank) and criminal penalties for individuals. The minimum standards and duties set by the Anti Money Laundering Law are just that-a minimum which we aim to far exceed. Customer identification, record keeping, suspicious activity reporting, employee training, an audit function, internal control procedures that include a refusal policy whereby the Group may refuse to conduct business with suspicious entities or individuals and rules on counteracting money laundering and terrorist financing and the designation of a compliance officer are all long standing procedures within the Group, kept under constant review and upgraded frequently.

The Anti Money Laundering Law itself constantly evolves, becomes ever more sophisticated and far-reaching. In June 2013, several amendments to the Anti-Money Laundering Law came into force.

These amendments, among other things:

- introduced the definition of the "beneficial owner" to the Anti-Money Laundering Law to extend the scope of client identification procedures;
- compel clients to provide all necessary information on their beneficial owners to banks (for the banks to comply with the provisions of the Anti-Money Laundering Law);
- set out the obligation for banks to take reasonable steps for preliminary identification of their clients' reputation, financial position and objectives of their business activity;
- oblige banks to freeze monetary funds and other assets on individuals and legal entities under certain circumstances; and
- enact additional measures to counter financing terrorism.

Further amendments to the Anti-Money Laundering Law followed in late 2015. The law extended the definition of the "client" to include concept of a "foreign structure without incorporation of a legal entity" which means a structure (such as fund, trust or partnership) entitled by law to do business without being a body corporate. Another set of amendments to the Anti-Money Laundering Law imposes new obligations on Russian legal entities to keep information on their beneficial owners and disclose such information to state authorities on request.

We expect further changes in the future.

Full compliance is essential to maintain the confidence of customers in the Group and its products and of regulators and to protect the Group's brand and reputation.

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**PART 5.**

# Tcsgh bod and group management and supervisory bodies' diversity policy

## Attracting the very best

Tinkoff is an equal opportunity employer.

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

Recruitment, training and promotion are based exclusively on merit.

All Tinkoff employees involved in the recruitment and management of staff are responsible for ensuring the policy is fairly applied within their areas of responsibility.

The Group applies this approach throughout, at all levels. This includes its administrative, management and supervisory bodies.

As it grows, the Group's business requires the effective expansion and maintenance of the Group's financial, IT, and information management control systems, the continued training of its personnel, continued efforts to maintain or enhance the quality of its customer service operations and the recruitment of additional employees. This means the Group is constantly recruiting and in a very competitive environment; failure to recruit and integrate sufficient new talent would pose risks to the Group's business.

The Group operates in an extremely competitive recruitment market: it therefore needs to be and be seen to be one of the very best employers.

## Seeking diverse candidates/extending the applicant pool

We follow, and have always followed, an unconventional recruitment approach. It has proved highly successful.

A lack of work experience in banking or finance does not put applicants at a disadvantage. On the contrary, a lack of such experience is usually a plus. We hire people who are willing to change the financial services landscape, and no or little prior experience in this sphere usually means the applicant has no preconceptions about the traditional or conventional ways things are done or how things 'should' work.

We prefer people with analytical mindsets, those who can handle large amounts of data and figures, those willing to learn. They could be graduates of technical departments at Russia's top universities, and we would inject the 'Tinkoff DNA' into them and keep fostering them within the Tinkoff culture.

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

- bringing together numerically minded people with analytical backgrounds;
- flat management structure with no bureaucracy and minimal hierarchy;
- creating an intellectually challenging work environment;
- creating an effective and fast learning environment;
- fostering a culture of generating ideas and assuming responsibility;
- embracing open dialogue, cooperation and creativity;
- demonstrating efficiency with minimal bureaucracy;
- promoting team spirit and an entrepreneurial culture;
- empowering employees and delegating responsibilities;
- creating an environment when employees can experiment, make mistakes and reach the right conclusions;
- promoting the 'test and learn' approach.

## The Tinkoff development hubs

In autumn 2018, Tinkoff became the first Russian bank to open a virtual Development Hub, a cloud office bringing together employees from different locations for banking product development. To date, Tinkoff has 11 operating 'Tinkoff development hubs' (new TDH offices opened in Ryazan, Sochi, Kazan and Novosibirsk in 2018). The virtual Tinkoff Development Hub is the 12th. All cloud office employees have been integrated in mixed teams working with developers from the Moscow and regional development hubs.

The virtual Tinkoff Development Hub has helped the Group significantly expand the geography of personnel and reduce the time needed to find developers with relevant competencies. A special candidate interviewing procedure was created to address the specifics of remote working. At the first stage, candidates undergo preliminary technical screening followed by a designated soft skills test to assess their ability to work remotely, communicate, take initiative, and so forth. If this stage is successfully completed, the candidate is then invited for an interview on professional skills.

The Tinkoff Development Hub operates as a standalone business unit of the Bank with a dedicated head, HR team and other components integral to functional centres. Tinkoff sees cloud office developers as fully-fledged team members, planning for long-term collaboration and is committed to integrating the virtual Tinkoff Development Hub employees into its in-house team through corporate meetings and joint events at its Moscow headquarters and Sirius-based Development Hub in Sochi as well as the Bank's other regional hubs. Employees from the virtual development hub enjoy all social benefits of a regular developer at the Bank, including English language courses, free business trips to dedicated forums and conferences, and more.

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

## A workplace for everyone

### Diversity and Inclusion/flexible working regimes

The Tinkoff Business Model is based on a high-tech branchless platform gives us additional recruiting flexibility which means there are no barriers for differently abled people to join our company. This helps us widen and diversify the Group's employee base and hire people purely on their merits and professional skills.

In 2018, we continued to develop our home call centre, which gives employment opportunities to a number of groups unable or less able to work in standard office jobs: people with different disabilities, residents of remote regions with limited access to transport and those who can only work part-time (such as mothers on maternity leave or carers).

Our home call centre allows people to work anytime, anywhere, and the hours and workload are flexible. Future employees are trained online, with all the necessary tools cloud-based. As at the end of 2018, our home call centre employed almost 12,200 people across the entire country, which makes it one of the largest cloud-based call centres in Europe. From late 2017, our home call centre expanded to Cyprus.

All such employees are trained online, and all the necessary corporate tools and materials are stored in a special cloud environment.

The majority of the Group's employees are engaged in customer service (Call Centre, telemarketing and telesales, smart courier services, underwriting, collections, Home Call Centre, etc.).

# Tcsg h bod and group management and supervisory bodies' diversity policy

(Continued)

## **A workplace for everyone** (Continued)

### **Recruitment and training**

We aim to attract the best talent in the market through a sophisticated recruitment process, as well as employ a set of tools for motivation and retention.

We recruit new employees through advertising and job websites, student forums, social media and other online channels. IT specialists and other core personnel are hired through a highly selective head hunting process targeting top IT graduates and experienced professionals from various backgrounds. We also target the best students from top universities, including winners of mathematics, physics, and coding competitions. Some of the initiatives the Group has launched and/or sponsored are set out in Part 2.

We offer career development and training for all levels.

### **Remuneration, motivation, and promotion**

The Group gives its human capital management responsibilities the highest priority, offering a clear far-reaching career path for its employees, a unique work environment and fair and transparent compensation.

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

Prior to its IPO in 2013, the Group set up share-based long term incentive plans as retention and motivational tools for key and senior managers.

In March 2016, the Group announced a consolidated long-term management incentive and retention plan, covering in total 51 key, senior and middle managers. In February 2017, February 2018 and again in January 2019, the Group announced expansions of the plan to 67 participants, reaching 91 in January 2019.

The plan is designed to align more closely managers' interests with those of shareholders to grow the Group's value. The plan is awarded over four years, materially subject to the fulfilment of annual KPIs, with each such annual award vesting linearly over the subsequent three years. The Group believes that participation in its share capital is an effective motivation and retention tool. The current management incentive and retention plan MLTIP now embraces an increasing number of managers for two main reasons:

firstly, internal promotions as some employees were promoted to key managerial positions, and

secondly, as part of its expansion and transformation into a financial marketplace, the Group has hired a significant number of new managers to develop and manage new business lines.

Current (90-as of June 2019) participants by year of joining MLTIP-

MLTIP participants	Male	Female
2016	37	11
2017	14	3
2018	9	6
2019	9	1

## Composition of the Board of Directors of TCS Group Holding PLC, and of the Board of Directors and the Management Board of Tinkoff Bank

The composition of the governing bodies is as follows as at 31 December 2018:

Governing Body	Male	Female
Board of Directors TCS Group Holding PLC	5	1
Tinkoff Bank, Management Board	5	2
Tinkoff Bank Board of Directors	4	1

The Group does not discriminate in favour of or against applicants on the grounds of educational or professional background. Appointments are made on merit, against objective criteria. The Group is though subject to the requirements of regulators whose rules often prescribe particular skills, experience, independence and knowledge and/or qualifications for certain positions or bodies. The UK Corporate Governance Code for example provides that at least one member of the Audit Committee has recent and relevant financial experience and that the Audit Committee as a whole has competence relevant to the banking sector in which the Group operates.

The composition of the Board of Directors of the Company for the year ended and as at 31 December 2018 is set out below:

Name	Age	Male/Female	Educational/professional background
			ICAEW,
Constantinos Economides	43	Male	MSc in Management Sciences, experience in 'Big Four' professional services firms
			ICAEW, ICPAC,
Alexios Ioannides	42	Male	BSc in Business Administration, experience in 'Big Four' professional services firms
			ICPAC, FCCA,
Mary Trimithiotou	41	Female	Licensed insolvency practitioner, experience in 'Big Four' professional services firms
			ICAEW,
			BSc in Mathematics and Economics,
Martin Cocker	59	Male	experience in 'Big Four' professional services firms
			BSc in IT, Telecoms and Economics, senior executive experience in banking industry
Philippe Delpal	45	Male	
Jacques Der Megreditchian	59	Male	BSc in Business Administration and in Financial Analysis, banking and finance experience







**TCS GROUP HOLDING PLC**  
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